HSBC Bank Canada

Third Quarter 2021 Interim Report

HSBC

HSBC Bank Canada third quarter 2021 performance

Quarter ended 30 September 2021

Total operating income		Profit before income tax expense		Profit attributable to the common shareholder	
$560m	↑ 19%	$234m	↑ 49%	$159m	↑ 57%
(2020: $472m)		(2020: $157m)		(2020: $101m)	

Nine months ended 30 September 2021

Total operating income		Profit before income tax expense		Profit attributable to the common shareholder	
$1,636m	↑ 7.6%	$725m	↑ 197%	$496m	↑ 237%
(2020: $1,520m)		(2020: $244m)		(2020: $147m)	

At 30 September 2021

Total assets		Common equity tier 1 ratio[1]	
$121.1bn	↑ 3.2%	14.0%	↑ 30 bps
(At 31 Dec 2020: $117.3bn)		(At 31 Dec 2020: 13.7%)	

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

"This quarter profits are up significantly over this time last year – which itself was a significant improvement over the first two quarters of 2020. Activity and revenues increased across all business lines – with notably higher volumes of bankers' acceptances, investment funds under management and advisory fees – and profit in Wealth and Personal Banking is at levels not seen since 2012.

"Our clients are so appreciative of all that our teams have done to support them, as am I. They are also interested in how we can help them through the transition to a low carbon future. This quarter we launched five new sustainable finance products for businesses of all sizes including Green Deposits – a market first – and financing for electric cars and home efficiency improvements for individuals. And we'll continue to innovate to support them with the digital services, global connections and sustainable finance products they need."

1. *Refer to the 'Use of non-GAAP financial measures' section of the Management's Discussion and Analysis ('MD&A') for a discussion of non-GAAP financial measures.*

Select award and recognition

Outstanding Client Experience in Wealth Management
Global Private Banking Innovation Awards (2021)

Interim report contents

Our global businesses[1]

Our operating model consists of three global businesses and a Corporate Centre, supported by a number of corporate functions and our Digital Business Services teams.

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')

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 2021

Total operating income

CMB		GBM		WPB	
$268m (2020: $223m)	↑ 20%	$78m (2020: $72m)	↑ 8.3%	$212m (2020: $188m)	↑ 13%

Profit/(loss) before income tax expense

CMB		GBM		WPB	
$169m (2020: $128m)	↑ 32%	$33m (2020: $47m)	↓ 30%	$52m (2020: $12m)	↑ 333%

Nine months ended 30 September 2021

Total operating income

CMB		GBM		WPB	
$761m (2020: $718m)	↑ 6.0%	$235m (2020: $249m)	↓ 5.6%	$628m (2020: $575m)	↑ 9.2%

Profit before income tax expense

CMB		GBM		WPB	
$511m (2020: $161m)	↑ 217%	$140m (2020: $93m)	↑ 51%	$143m (2020: $55m)	↑ 160%

At 30 September 2021

Customer assets[2]

CMB		GBM		WPB	
$30.5bn (At 31 Dec 2020: $28.3bn)	↑ 7.6%	$4.5bn (At 31 Dec 2020: $5.1bn)	↓ 13%	$35.5bn (At 31 Dec 2020: $31.6bn)	↑ 12.5%

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 income of $2m for the quarter and $12m for the nine months ended (2020 total operating loss: $11m for the quarter and $22m for the nine months ended), profit/(loss) before income tax expense was a loss of $20m for the quarter and loss of $69m for the nine months ended (2020 was a loss of: $30m for the quarter and $65m for the nine months ended) and customer assets of nil (2020: nil).*
2. *Customer assets includes loans and advances to customers and customers' liability under acceptances.*

MD&A contents

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 2021, 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 2021 ('consolidated financial statements') and our *Annual Report and Accounts 2020*. This MD&A is dated 22 October 2021, 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 2021.

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 2020 audited annual consolidated financial statements. The bank's 2020 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 2020*. 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 2020* 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, capital management, 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, cyber threat and unauthorized access to systems, changes to our credit rating, climate change risk including transition and physical risk impacts, interbank offered rate ('IBOR') transition, changes in accounting standards, changes in tax rates, tax law and policy, and its interpretation of taxing authorities, risk of fraud by employees or others, unauthorized transactions by employees and human error. Our success in delivering our strategic priorities and proactively managing the regulatory environment depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in an employment market impacted by the COVID-19 pandemic proves challenging. We are monitoring people risks with attention to employee mental health and well-being, particularly in the face of the pandemic. 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, pandemics, environmental disasters and terrorist acts. Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2020* 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 Canada and recently celebrated its 40th anniversary. 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. No international bank has our Canadian presence and no domestic bank has our international reach.

Canada is an important contributor to the HSBC Group 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 Asia.

HSBC Holdings plc, the parent company of HSBC Bank Canada, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,969bn at 30 September 2021, HSBC is one of the world's largest banking and financial services organizations.

HSBC's purpose – Opening up a world of opportunity – explains why we exist. We're here to use our unique expertise, capabilities, breadth and perspectives to open up new opportunities for our customers. We're bringing together the people, ideas and capital that nurture progress and growth, helping to create a better world – for our customers, our people, our investors, our communities and the planet we all share.

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

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. Refer to the 'Impact of COVID-19 and our response' section of our *Annual Report and Accounts 2020* for a description of the impact and our response in 2020. We continue to prioritize the safety of our employees and customers and are committed to playing our part in the country's economic recovery.

In Canada, government imposed restrictions on mobility and social interaction beginning in March 2020 have had a significant impact on economic activity. More than a year later, the federal and provincial governments have begun to ease restrictions as the vaccine rollout advances. However, the situation remains fluid.

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 2020. We will continue to be guided in our actions by public health officials.

To address the additional stress on our people created by this extreme situation, we continue to provide wellness programs including for mental health. Where employees must be on site to perform critical roles, we have precautionary measures in place including enhanced cleaning, protective shields, and control and screening of employees and customers. Branches are open and we also continue to support our customers through our digital channels and call centres. For further details on customer relief programs, see the Credit risk section on page 18.

To reduce the risk and play our part in limiting the impact of this public health crisis, approximately 95% of non-branch staff have been working from home since March 2020. As restrictions ease, a small number of employees are returning to some of our offices on a phased and voluntary basis beginning in October 2021. The majority of non-branch employees will not return to the office until 2022 at the earliest. As they do, it will be into a hybrid working model, where our offices are primarily used to collaborate and connect with each other and clients.

Regulators and governments

We are actively participating in Federal government and Bank of Canada programs to help those most impacted by the pandemic. These programs include the Canada Emergency Business Account ('CEBA') program and the Business Credit Availability Program ('BCAP'), which is comprised of the Business Development Bank of Canada ('BDC'), Export Development Canada ('EDC') relief programs and the BDC Highly Affected Sectors Credit Availability Program ('HASCAP'). As of 30 September 2021, our customers have outstanding balances of $533m through these programs. New applications for CEBA loans came to a close on 30 June 2021, and we continue to support our customers with the remaining relief programs which are currently available until 31 December 2021.

In August, the federal government announced its expectation that all federally regulated sectors would require vaccination for their employees. As a result, we have implemented a mandatory vaccination policy effective 1 November 2021.

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 2020* 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 year-to-date, as the forward-looking macro-economic environment improved in 2021, the bank released $53m in expected credit losses, primarily from its performing loans, after factoring in impairment charges from two non-performing energy loans. This compared to the charge of $328m in the same period in the prior year which was primarily driven by the elevated provisions on performing loans due to the evolving impact of the COVID-19 pandemic. This is described in more detail in the 'Credit risk' section of the MD&A on page 18. While revenue has increased by $88m or 19% for the quarter and $116m or 7.6% for the year-to-date as the economy recovers, the uncertainty brought on by the pandemic continues to disrupt global economic activities and there could be further adverse impact to HSBC Bank Canada's business operations and financial results.

Since the onset of the pandemic the bank has maintained elevated capital levels in order to support our customer needs and remains well in excess of the bank's minimum regulatory requirements. Our common equity tier 1 ratio of 14.0% at 30 September 2021 increased compared to 13.7% at 31 December 2020 and 13.1% at 30 September 2020. The bank's liquidity levels remained well above the bank's minimum regulatory requirements. Our average liquidity coverage ratio for the quarter ended 30 September 2021 was 152%, a planned decrease compared to 188% for the quarter ended 31 December 2020 and 201% for the quarter ended 30 September 2020.

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 $121bn and US$2,969bn globally as of 30 September 2021. 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-GAAP 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-Generally Accepted Accounting Principles ('non-GAAP') financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-GAAP 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 ratio 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

($millions, except where otherwise stated)	Footnotes	Quarter ended 30 Sep 2021	Quarter ended 30 Sep 2020	Nine months ended 30 Sep 2021	Nine months ended 30 Sep 2020
Financial performance for the period					
Total operating income		**560**	472	**1,636**	1,520
Change in expected credit losses and other credit impairment charges - (charge)/release		**(3)**	2	**53**	(328)
Operating expenses		**(323)**	(317)	**(964)**	(948)
Profit before income tax expense		**234**	157	**725**	244
Profit attributable to the common shareholder		**159**	101	**496**	147
Basic and diluted earnings per common share ($)		**0.29**	0.18	**0.90**	0.28
Financial measures (%)	1				
Return on average common shareholder's equity		**10.9**	7.1	**11.5**	3.6
Return on average risk-weighted assets	2	**2.4**	1.5	**2.4**	0.8
Cost efficiency ratio		**57.7**	67.2	**58.9**	62.4
Operating leverage ratio		**16.8**	(13.5)	**5.9**	(3.5)
Net interest margin		**1.20**	0.88	**1.19**	1.04
Change in expected credit losses to average gross loans and advances and acceptances	3	**0.02**	n/a	**n/a**	0.66
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		**0.14**	0.18	**0.09**	0.24
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**45.3**	47.4	**45.3**	47.4
Net write-offs as a percentage of average loans and advances and acceptances		**0.08**	0.07	**0.08**	0.09

	Footnotes	At 30 Sep 2021	At 31 Dec 2020
Financial position at period end			
Total assets		**121,096**	117,347
Loans and advances to customers		**67,152**	61,002
Customer accounts		**71,241**	71,950
Ratio of customer advances to customer accounts (%)	1	**94.3**	84.8
Common shareholder's equity		**5,787**	5,782
Capital, leverage and liquidity non-GAAP financial measures	2		
Common equity tier 1 capital ratio (%)		**14.0**	13.7
Tier 1 ratio (%)		**16.8**	16.4
Total capital ratio (%)		**19.4**	19.0
Leverage ratio (%)		**5.8**	6.0
Risk-weighted assets ($m)		**39,575**	40,014
Liquidity coverage ratio (%)	4	**152**	188

1. *Refer to the 'Use of non-GAAP financial measures' section of this document for a discussion of non-GAAP 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.*
4. *The liquidity coverage ratio ('LCR') in this table has been calculated using averages of the three month-end figures in the quarter.*

Financial performance

Summary consolidated income statement

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Net interest income	**315**	244	**903**	811
Net fee income	**197**	172	**589**	528
Net income from financial instruments held for trading	**26**	29	**84**	102
Other items of income	**22**	27	**60**	79
Total operating income	**560**	472	**1,636**	1,520
Change in expected credit losses and other credit impairment charges - (charge)/release	**(3)**	2	**53**	(328)
Net operating income	**557**	474	**1,689**	1,192
Total operating expenses	**(323)**	(317)	**(964)**	(948)
Profit before income tax expense	**234**	157	**725**	244
Income tax expense	**(63)**	(45)	**(195)**	(61)
Profit for the period	**171**	112	**530**	183

For the quarter and nine months ended 30 September 2021 compared with the same periods in the prior year, unless otherwise stated.

Profit before tax has increased across all our global businesses for the year-to-date, building on the momentum since the second half of 2020. The strong growth in both profit before tax and total operating income is comparable with pre-pandemic levels of 2019. Profit before income tax expense was $234m, up $77m or 49% for the quarter and $725m, up $481m or 197%, for the year-to-date.

Operating income of $560m for the quarter and $1,636m for the year-to-date, represented an increase of $88m or 19% and $116m or 7.6%, respectively from the prior year. Improved net interest margins and growth in lending drove net interest income higher for both periods. For the quarter, net fee income increased as a result of an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking, higher investment funds under management in Wealth and Personal Banking and higher advisory fees in Global Banking and Markets. For the year-to-date, this was coupled with higher activity in our online brokerage business in Wealth and Personal Banking. These increases were partly offset in both periods by lower trading income and lower other operating income.

Expected credit losses resulted in a charge of $3m for the quarter related to two non-performing energy loans, partly offset by a release in performing loans as the forward-looking macro-economic variables continued to improve. For the year-to-date, there was a release of $53m as forward-looking macro-economic variables improved on performing loans, partly offset by impairment charges from two non-performing energy loans. The charge in the prior year-to-date reflects the impact of the significant deterioration in forward-looking economic guidance on performing loans due to the pandemic and impairments from non-performing loans due to the decline in oil prices in the first half of 2020.

Total operating expenses increased by $6m or 1.9% for the quarter and $16m or 1.7% for the year-to-date as we strategically make investments to grow our business and move to adopt hybrid working, while prudently managing costs.

Performance by income and expense item

For the quarter and nine months ended 30 September 2021 compared with the same periods in the prior year.

Net interest income

Net interest income increased by $71m or 29% for the quarter as a result of improved margins due to reduced volumes of interest bearing liabilities and growth in lending, partly offset by a reduction in lower yielding financial investments.

Net interest income increased by $92m or 11% for the year-to-date was driven by the same factors as described in the quarter, partly offset by margin compression in the first quarter of 2021 compared to the prior year due to central bank rate cuts in 2020.

Summary of interest income by types of assets

		Quarter ended						Nine months ended					
		30 Sep 2021			30 Sep 2020			**30 Sep 2021**			30 Sep 2020		
		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		**16,236**	**10**	**0.24**	18,759	12	0.24	**15,301**	**27**	**0.24**	10,595	19	0.24
Loans and advances to customers		**66,279**	**416**	**2.49**	62,178	433	2.77	**64,010**	**1,233**	**2.57**	62,437	1,398	2.99
Reverse repurchase agreements - non-trading		**7,237**	**5**	**0.28**	7,765	6	0.30	**6,254**	**14**	**0.31**	7,629	54	0.94
Financial investments		**14,258**	**19**	**0.55**	20,222	39	0.76	**15,607**	**71**	**0.61**	22,874	214	1.25
Other interest-earning assets		**487**	**1**	**0.70**	779	—	0.14	**515**	**3**	**0.62**	1,128	3	0.40
Total interest-earning assets (A)		**104,497**	**451**	**1.72**	109,703	490	1.78	**101,687**	**1,348**	**1.77**	104,663	1,688	2.15
Trading assets and financial assets designated at fair value	*1*	**3,677**	**7**	**0.74**	3,347	6	0.74	**3,598**	**22**	**0.80**	3,831	31	1.09
Non-interest-earning assets		**9,331**	**—**	**—**	12,300	—	—	**10,352**	**—**	**—**	13,269	—	—
Total		**117,505**	**458**	**1.55**	125,350	496	1.57	**115,637**	**1,370**	**1.58**	121,763	1,719	1.89

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 2021			30 Sep 2020			**30 Sep 2021**			30 Sep 2020		
		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	*1*	**1,137**	**—**	**0.07**	1,169	—	0.03	**1,122**	**—**	**0.05**	1,279	2	0.22
Customer accounts	*2*	**63,030**	**43**	**0.27**	67,200	135	0.80	**62,627**	**163**	**0.35**	62,542	479	1.02
Repurchase agreements - non-trading		**5,483**	**3**	**0.25**	4,461	4	0.28	**4,252**	**9**	**0.29**	6,102	47	1.02
Debt securities in issue and subordinated debt		**16,655**	**74**	**1.76**	20,601	91	1.77	**15,981**	**223**	**1.87**	19,873	299	2.01
Other interest-bearing liabilities		**2,533**	**16**	**2.55**	2,598	16	2.36	**2,675**	**50**	**2.48**	2,655	50	2.51
Total interest bearing liabilities (B)		**88,838**	**136**	**0.61**	96,029	246	1.02	**86,657**	**445**	**0.69**	92,451	877	1.27
Trading liabilities	*3*	**3,443**	**8**	**0.92**	2,883	5	0.69	**3,402**	**23**	**0.90**	2,802	20	0.96
Non-interest bearing current accounts		**8,387**	**—**	**—**	6,561	—	—	**7,939**	**—**	**—**	6,170	—	—
Total equity and other non-interest bearing liabilities		**16,837**	**—**	**—**	19,877	—	—	**17,639**	**—**	**—**	20,340	—	—
Total		**117,505**	**144**	**0.49**	125,350	251	0.80	**115,637**	**468**	**0.54**	121,763	897	0.98
Net interest income (A-B)			**315**			244			**903**			811	

1. Includes interest-bearing bank deposits only.
2. Includes interest-bearing customer accounts only.
3. 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..

Net fee income

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Account services	**15**	14	**49**	47
Broking income	**4**	3	**14**	10
Cards	**19**	15	**52**	45
Credit facilities	**90**	80	**258**	235
Funds under management	**57**	50	**163**	144
Imports/exports	**4**	3	**9**	7
Insurance agency commission	**1**	1	**3**	4
Other	**11**	11	**36**	36
Remittances	**11**	9	**32**	28
Underwriting and advisory	**13**	6	**55**	35
Fee income	**225**	192	**671**	591
Less: fee expense	**(28)**	(20)	**(82)**	(63)
Net fee income	**197**	172	**589**	528

Net fee income increased by $25m or 15% for the quarter as credit facility fees increased from higher volumes of bankers' acceptances in Commercial Banking, higher investment funds under management in Wealth and Personal Banking and higher advisory fees in Global Banking and Markets. Increased card activity in both Wealth and Personal Banking and Commercial Banking also had an impact. This was partly offset by an increase in related fee expense as a result of the increased activity.

Net fee income increased by $61m or 12% for the year-to-date. This was mainly a result of an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking, higher advisory fees in Global Banking and Markets, and higher investment funds under management and activity in our online brokerage business in Wealth and Personal Banking. Fee income from higher activity in cards also increased in both Wealth and Personal Banking and Commercial Banking. This was partly offset by an increase in related fee expense due to the increased activity.

Net income from financial instruments held for trading

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Trading activities	**28**	25	**86**	89
Credit valuation, debit valuation and funding fair value adjustments	**1**	3	**4**	(4)
Net interest from trading activities	**(1)**	1	**(1)**	11
Hedge ineffectiveness	**(2)**	—	**(5)**	6
Net income from financial instruments held for trading	**26**	29	**84**	102

Net income from financial instruments held for trading decreased by $3m or 10% for the quarter. The decrease was mainly driven by unfavourable movement in credit and funding fair value adjustments and lower net interest from trading activities due to the lower interest environment. These decreases were partly offset by higher trading activities from increased Rates trading.

Net income from financial instruments held for trading decreased by $18m or 18% for the year-to-date. The decrease was driven by lower net interest income due to the lower interest rate environment, an unfavourable change to hedge ineffectiveness and lower Markets sales and trading activities from decreased Rates trading activities compared to the prior year. This was partly offset by favourable valuation adjustments on forward-looking scenarios due to reduced exposure and tightening of credit spreads.

Other items of income

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**1**	—	**4**	—
Gains less losses from financial investments	**13**	18	**35**	48
Other operating income	**8**	9	**21**	31
Other items of income	**22**	27	**60**	79

Other items of income decreased by $5m or 19% for the quarter driven by lower gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio.

Other items of income decreased by $19m or 24% for the year-to-date driven by lower gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio. Lower other operating income from prior year's gain on the extinguishment of repurchased subordinated debentures also contributed to the decrease. These decreases were partly offset by a favourable movement in the fair value of other financial instruments.

Change in expected credit losses

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - (release)/charge	**(22)**	(40)	**(102)**	189
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - charge	**25**	38	**49**	139
Change in expected credit loss and other credit impairment charges - charge/(release)	**3**	(2)	**(53)**	328

The change in expected credit losses for the quarter resulted in a charge of $3m compared to a release of $2m in the same period in the prior year. The charge for the quarter was driven by two non-performing energy loans. This was partly offset by a release in performing loans as the forward-looking macro-economic variables continued to improve. In 2020, the release was primarily driven by improvement in forward-looking macro-economic variables in performing loans, partly offset by impairment charges from non-performing loans in the energy, transportation and construction sectors.

The change in expected credit losses for the year-to-date resulted in a release of $53m compared to a charge of $328m in the same period in the prior year. The release for the year-to-date was driven by improvement in the forward-looking macro-economic variables related to performing loans, partly offset by impairment charges from two non-performing energy loans. In 2020, the charge was primarily driven by elevated provisions on performing loans due to the impact of the pandemic coupled with impairments from non-performing loans in the energy sector in the first half of 2020.

Total operating expenses

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Employee compensation and benefits	**145**	157	**456**	471
General and administrative expenses	**150**	133	**405**	395
Depreciation and impairment of property, plant and equipment	**17**	18	**64**	55
Amortization and impairment of intangible assets	**11**	9	**39**	27
Total operating expenses	**323**	317	**964**	948

Total operating expenses increased by $6m or 1.9% for the quarter mainly due to costs associated with strategic investments to grow our business, simplify our processes and provide digital services to meet customer demand. These increases were partly offset by reduced discretionary costs in response to the current economic environment.

Total operating expenses increased by $16m or 1.7% for the year-to-date mainly due to costs associated with reorganizing our real estate footprint as we prepare to adopt a hybrid working model, impairment of certain software assets and strategic investments to grow our business, simplify our processes and provide digital services to meet customer demand. These increases were partly offset by reduced discretionary costs in response to the current economic environment.

Income tax expense

The effective tax rate in the third quarter of 2021 was 27.2% which is higher than the statutory tax rate of 26.5% due to an increase in tax liabilities. The effective tax rate for the third quarter of 2020 was 28.1%.

Movement in financial position

Summary consolidated balance sheet

	At	
	30 Sep 2021	31 Dec 2020
	$m	$m
Assets		
Cash and balances at central bank	**15,153**	15,750
Trading assets	**3,105**	1,719
Derivatives	**3,207**	5,447
Loans and advances	**68,928**	62,272
Reverse repurchase agreements – non-trading	**9,285**	5,996
Financial investments	**14,569**	19,879
Customers' liability under acceptances	**3,325**	4,043
Other assets	**3,524**	2,241
Total assets	**121,096**	117,347
Liabilities and equity		
Liabilities		
Deposits by banks	**1,925**	1,139
Customer accounts	**71,241**	71,950
Repurchase agreements – non-trading	**7,949**	3,227
Trading liabilities	**3,097**	1,831
Derivatives	**3,311**	5,647
Debt securities in issue	**16,496**	17,387
Acceptances	**3,334**	4,062
Other liabilities	**6,856**	5,222
Total liabilities	**114,209**	110,465
Total shareholder's equity	**6,887**	6,882
Total liabilities and equity	**121,096**	117,347

Assets

Total assets at 30 September 2021 were $121.1bn, an increase of $3.7bn or 3.2% from 31 December 2020. The increase was primarily from loans and advances of $6.7bn from increased volumes in residential mortgages and commercial loans. Higher volumes in trading assets of $1.4bn and an increase in settlement balances from the timing of customer facilitation trades in other assets of $1.3bn, also contributed to the increase. These increases were partly offset by reduced financial investments of $5.3bn and cash balances at central banks of $0.6bn as we supported growth in other asset classes and repositioned the bank's liquidity needs. Derivatives decreased by $2.2bn as a result of the mark-to-market changes from interest rates and foreign exchange.

Liabilities

Total liabilities at 30 September 2021 were $114.2bn, an increase of $3.7bn or 3.4% from 31 December 2020. The increase was primarily from repurchase agreements of $4.7bn and other liabilities of $1.6bn. These increases were partly offset from a decrease in derivatives of $2.3bn which corresponds with the movement in derivative assets. Term and wholesale funding decreased by $0.9bn in debt securities in issue. A decline in deposits contributed to the decrease of $0.7bn in customer accounts as a result of repositioning the bank's liquidity needs.

Equity

Total equity at 30 September 2021 was $6.9bn, with a nominal increase from 31 December 2020. The increase represents profits after tax of $0.5bn generated in the period. The increase was partly offset by $0.4bn of dividends on common shares declared in the period and a loss of $0.1bn recorded on debt instruments at fair value through other comprehensive income and cash flow hedges.

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 businesses ranging from small enterprises focused primarily on the domestic markets to corporates operating globally.

Review of financial performance[1]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Net interest income	**152**	116	**421**	404
Non-interest income	**116**	107	**340**	314
Total operating income	**268**	223	**761**	718
Change in expected credit losses and other credit impairment charges - release/(charge)	**1**	2	**37**	(262)
Net operating income	**269**	225	**798**	456
Total operating expenses	**(100)**	(97)	**(287)**	(295)
Profit before income tax expense	**169**	128	**511**	161

Overview

Total operating income increased by $45m or 20% for the quarter and $43m or 6% for the year-to-date. CMB has maintained positive momentum in 2021 with loans and acceptances increasing by $2.1bn in the first nine months and deposit balances remaining considerably ahead of the balances a year ago. Net interest income has improved as a result of better volumes and a recovery in margins. Non-interest income has similarly improved with higher volumes of bankers' acceptances and higher client activity in foreign exchange and cards. Year-to-date results were, however, impacted by lower margins on deposits compared to the prior year due to central bank rate cuts in 2020.

Our ambition is to maintain our leadership position as the preferred international financial partner for our clients and to support their plans to transition to a net zero carbon economy. Taking advantage of our international network and with continued investments in our front-end platforms for Global Liquidity and Cash Management ('GLCM') and Global Trade and Receivable Finance ('GTRF'), we are well positioned to support our clients with both their domestic and cross-border banking requirements. In the third quarter, we continued to develop a growing suite of green financial instruments including the launch of five new sustainable finance products for commercial banking clients: green deposits, sustainable trade finance, green revolving credit facilities, sustainability-linked loans and green equipment financing. At the same time, we continued to invest to improve our clients' digital experiences while ensuring security and resilience and are ready to serve our clients on their path to recovery.

Profit before income tax increased by $41m or 32% for the quarter, and $350m or 217% for the year-to-date, primarily due to a significant decrease in expected credit losses and higher operating income.

Financial performance by income and expense item

Net interest income for the quarter increased by $36m or 31% due to higher average loan and deposit balances. For the year-to-date, net interest income increased by $17m or 4.2% due to higher deposit balances and improved lending margins, offset by margin compression in the first quarter of 2021 compared to the prior year due to central bank rate decreases in 2020.

Non-interest income for the quarter and year-to-date increased by $9m or 8.4% and $26m or 8.3%, respectively, mainly due to higher fees from higher volumes of bankers' acceptances, higher fees from domestic and international transactions as well as higher foreign exchange income.

Change in expected credit losses resulted in a release of $1m for the quarter and a release of $37m for the year-to-date. For both periods, this was primarily driven by an improvement in forward-looking macro-economic scenarios as the economy continues to recover from the pandemic, partly offset by impairment charges from non-performing loans, particularly in the energy sector.

Total operating expenses for the quarter nominally increased by $3m or 3.1% and decreased by $8m or 2.7% for the year-to-date, as we continued to prudently manage costs in response to the current economic environment.

1. *For the quarter and nine months ended 30 September 2021 compared with the same periods in the prior year, unless otherwise stated.*

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]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Net interest income	**30**	27	**87**	94
Non-interest income	**48**	45	**148**	155
Total operating income	**78**	72	**235**	249
Change in expected credit losses and other credit impairment charges - (charge)/release	**(12)**	9	**4**	(40)
Net operating income	**66**	81	**239**	209
Total operating expenses	**(33)**	(34)	**(99)**	(116)
Profit before income tax expense	**33**	47	**140**	93

Overview

Total operating income increased by $6m or 8.3% for the quarter, and decreased by $14m or 5.6% for the year-to-date. Global Banking activity recovered strongly in 2021. Advisory fees were higher both for the quarter and year-to-date and lending income improved as margins remained favourable compared to the same period last year. However, this was offset by lower margins on deposits due to the impact of central bank rate reductions in 2020. Markets revenue was behind prior year as a result of lower sales and trading volumes on foreign exchange, rates and credit activities. This was partly offset by favourable movements in certain credit spreads as financial markets continue to recover from COVID-19.

GBM continues to pursue its well-established strategy to provide tailored, wholesale banking solutions, leveraging HSBC's extensive distribution network to provide products and solutions to meet our global clients' needs.

As the Canadian economy continues to emerge from the pandemic, our Banking and Markets teams continue to work closely with our clients to understand their unique challenges, support them as they look to return to growth and in their plans to transition to a net zero carbon economy.

Profit before income tax decreased by $14m or 30% for the quarter, and increased by $47m or 51% for the year-to-date. For the quarter, the decrease was mainly due to an increased charge in expected credit losses, partly offset by an increase in operating income. For the year-to-date, the increase in profit before income tax was mainly due to the decreased charge in expected credit losses on performing loans as forward-looking macro-economic guidance improved, along with lower operating expenses due to prudent cost management, partly offset by lower operating income.

Financial performance by income and expense item

Net interest income for the quarter increased by $3m or 11% mainly due to improved lending margins compared to the same time last year and early loan repayments in the quarter. For the year-to-date, net interest income decreased by $7m or 7.4% due to lower deposit balances and margin compression in the first quarter compared to the prior year due to the central bank rate decreases in 2020, partly offset by improved lending margins.

Non-interest income for the quarter increased by $3m or 6.7% driven by elevated capital markets and advisory revenues. For the year-to-date, non-interest income decreased by $7m or 4.5% primarily due to lower rates and credit activity and lower gains on sale of financial assets, partly offset by higher advisory fees.

Change in expected credit losses were $21m unfavourable variance for the quarter compared to the same period in the prior year due to an impairment in a non-performing energy loan. For the year-to-date, change in expected credit losses improved by $44m as forward-looking macro-economic variables relating to performing loans improved, partly offset by an impairment in a non-performing energy loan.

Total operating expenses for the quarter decreased by $1m or 2.9%, and $17m or 15% for the year-to-date. The decrease was mainly due to lower staff costs from streamlining initiatives.

1. *For the quarter and nine months ended 30 September 2021 compared with the same periods in the prior year, unless otherwise stated.*

Wealth and Personal Banking

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[1]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Net interest income	**133**	115	**395**	355
Non-interest income	**79**	73	**233**	220
Total operating income	**212**	188	**628**	575
Change in expected credit losses and other credit impairment charges - release/(charge)	**8**	(9)	**12**	(26)
Net operating income	**220**	179	**640**	549
Total operating expenses	**(168)**	(167)	**(497)**	(494)
Profit before income tax expense	**52**	12	**143**	55

Overview

Total operating income increased by $24m or 13% for the quarter and $53m or 9.2% for the year-to-date. The increases were driven by strong volume growth in total relationship balances[2], record[3] client activity in our online brokerage business and a favourable shift in product mix, partly offset by lower deposit margins as a result of central bank rate decreases in 2020. Prior year periods also included higher costs associated with maintaining increased liquidity. Growth in total relationship balances[2] was led by record[3] net sales in investment funds under management and real estate secured lending.

We grew our overall and international client base as we continue to invest in our distribution channels and market-competitive products. Our continued focus on the client needs and digital enhancements to improve client experience helped us win Outstanding Client Experience in Wealth Management by the Global Private Banking Innovation Awards 2021.

Excluding 2012 which included a one-time gain, we had record[3] profit before income tax expense for the year-to-date period ended 30 September 2021. Profit before income tax expense increased by $40m or 333% for the quarter, and $88m or 160% for the year-to-date, due to higher operating income as noted above and lower expected credit losses, partly offset by higher operating expenses.

Financial performance by income and expense item

Net interest income increased by $18m or 16% for the quarter and $40m or 11% for the year-to-date, due to higher lending volumes and favourable shift in product mix, partly offset by lower margins on deposits as a result of central bank rate decreases in 2020. For the year-to-date, net interest income also benefited from improved lending margins, while prior year included higher costs associated with maintaining increased liquidity.

Non-interest income increased by $6m or 8.2% for the quarter, and $13m or 5.9% for the year-to-date, due to higher investment funds under management and increased client activity in our online brokerage business.

Change in expected credit losses were $17m favourable for the quarter, and $38m favourable for the year-to-date as a result of improvements in forward-looking economic variables.

Total operating expenses increased by $1m or 0.6% for the quarter and $3m or 0.6% for the year-to-date due to strategic investments to grow our business, partly offset by streamlining initiatives.

1. *For the quarter and nine months ended 30 September 2021 compared with the same periods in the prior year, unless otherwise stated.*
2. *Total relationship balances includes lending, deposits and wealth balances.*
3. *Record for nine months since inception of WPB (previously RBWM) as a single global business in 2011.*

Corporate Centre

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

Review of financial performance[1]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Net interest income	**–**	(14)	**–**	(42)
Non-interest income	**2**	3	**12**	20
Net operating income/(loss)	**2**	(11)	**12**	(22)
Total operating expenses	**(22)**	(19)	**(81)**	(43)
Profit/(loss) before income tax expense	**(20)**	(30)	**(69)**	(65)

Overview

Net operating income for the quarter and year-to-date increased by $13m and $34m, respectively, due to a decrease in liquidity costs in net interest income. For the year-to-date, this was partly offset by lower other operating income as a result of the prior year's gain on the extinguishment of repurchased subordinated debentures. Operating expenses for the quarter and year-to-date increased by $3m and $38m, respectively, primarily due to the cost of initiatives to support future growth and move to adopt hybrid working. The net impact of these movements increased profit before income tax expense by $10m for the quarter and decreased profit before income tax by $4m for the year-to-date.

1. *For the quarter and nine months ended 30 September 2021 compared with the same periods in the prior year, unless otherwise stated.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2021			2020				2019
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**315**	306	282	275	244	249	318	313
Net fee income	**197**	196	196	185	172	178	178	179
Net income from financial instruments held for trading	**26**	28	30	30	29	47	26	48
Other items of income	**22**	17	21	14	27	28	24	21
Total operating income	**560**	547	529	504	472	502	546	561
Change in expected credit losses and other credit impairment charges - release/ (charge)	**(3)**	40	16	1	2	(190)	(140)	(33)
Net operating income	**557**	587	545	505	474	312	406	528
Total operating expenses	**(323)**	(328)	(313)	(345)	(317)	(304)	(327)	(315)
Profit before income tax expense	**234**	259	232	160	157	8	79	213
Income tax expense	**(63)**	(69)	(63)	(35)	(45)	(3)	(13)	(56)
Profit for the period	**171**	190	169	125	112	5	66	157
Profit/(loss) attributable to:								
– common shareholder	**159**	179	158	113	101	(8)	54	144
– preferred shareholder	**12**	11	11	12	11	13	12	13
Basic and diluted earnings per common share ($)	**0.29**	0.32	0.29	0.21	0.18	(0.01)	0.11	0.29

Comments on trends over the past eight quarters

Net interest income continued to increase in the third quarter of 2021 from the third quarter of 2020 due to improvements in net interest margin from improved spread resulting from reduced volumes of interest bearing liabilities and growth in lending, partly offset by a reduction in lower yielding financial investments. Net interest income decreased in the third and second quarter of 2020 due to the negative impact of central bank rate cuts and maintaining elevated levels of liquidity at lower yields. Balance sheet management activities drove net interest income higher in the first quarter of 2020.

Net fee income is comprised of income from several sources that can fluctuate from quarter to quarter and are impacted by business activity, number of days in the quarter and seasonality. The largest drivers of fluctuation from quarter to quarter are underwriting and advisory fees which are event driven. Otherwise, there is an underlying trend of growth in fees from credit facilities related to higher volumes of bankers' acceptances, investment funds under management and credit cards. In the third quarter of 2021, net fee income continued to increase from the third quarter of 2020, reaching its highest point on record[1]. During the third and second quarters of 2020, customer activity decreased due to COVID-19, decreasing net fee income.

Net income from financial instruments held for trading is, by its nature, subject to fluctuations from quarter to quarter. From the third quarter of 2020 to the third quarter of 2021, it remained relatively flat. It decreased in the third quarter of 2020 due to unfavourable credit and funding fair value adjustments. In the second quarter of 2020, the increase was related to favourable movements in credit and funding fair value adjustments driven by reduced credit spreads and lower market volatility, as well as increased Rates trading and balance sheet management activities. In the first quarter of 2020, the decrease was a result of increases in certain credit spreads and market volatility related to COVID-19 which led to unfavourable credit and funding valuation movements. This was partly offset by strong Markets trading and sales activities.

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.

Expected credit losses resulted in a nominal charge in the third quarter of 2021 due to two non-performing energy loans, partly offset by a release in performing loans as the forward-looking macro-economic variables continued to improve. Expected credit losses resulted in releases in performing loans from the third quarter of 2020 through to the second quarter of 2021, although modest in the third and fourth quarters of 2020, as forward-looking macro-economic variables improved. This was partly offset by increased impairment charges from a non-performing loan in the energy sector in the first quarter of 2021 and non-performing loans in the energy and various other sectors in second half of 2020. This was a material change from the first two quarters of 2020 when deterioration in forward-looking economic guidance due to the pandemic coupled with a weakened energy sector from declining oil prices resulted in increases in charges for expected credit losses. The charge for expected credit losses in the fourth quarter of 2019 was 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 as impairment charges from non-performing loans in the wholesale and retail trade sector.

Our focus has been on growing our business in support of our strategic plan, and we continue to make these investments in 2021. This is balanced with prudent management of costs in response to the current economic environment. From 2020 onward, we further streamlined our processes and prioritized digital solutions to assist our customers during the pandemic and beyond.

1. *Record quarter since net fee income was reported separately in 2012.*

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.

Following an unexpected contraction in the gross domestic product ('GDP'), we continue to expect the economy to recover through the remainder of the year and into 2022. On the positive side, Canada has among the highest vaccination rates in the world, which should help sustain a trend toward reopening. With the job market on the upswing and household savings still elevated, key factors are in place for consumer-led growth in coming quarters.

The fourth wave of COVID-19 infections, however, continues to pose a risk. With a rise in hospitalizations and low capacity in intensive care units, there is a risk that authorities might slow the pace at which restrictions are eased. The challenge is most intense in Saskatchewan and Alberta, where public health emergencies were declared in mid-September. Though other provinces are not in such a serious situation, health care systems across the country are under strain. The evolution of the pandemic continues to remain a key risk to the outlook.

Global supply chain disruptions, including the ongoing shortage of semiconductor chips, are another potential headwind to our outlook. Although we do expect these constraints to ease over time, they have been more persistent than initially anticipated.

Still looking for a consumer-led rebound

While acknowledging the risks, we continue to expect a rebound in consumption spending through the second half of the year. Supportive factors include still strong demand for labour, with the Bank of Canada's ('BoC') third quarter 2021 Business Outlook Survey showing that two-thirds of firms still plan to add to payrolls. Another measure of strong labour demand is that job postings are up by almost 50% compared to their level on 1 February 2020. Meanwhile, household savings are still 12 percentage points ($208bn) above pre-pandemic levels, providing ample resources to support consumption spending growth.

The consumer-led expansion in the second half is expected to feature a rebalancing of spending with consumption away from home (such as at restaurants, bars, and theatres) increasing, and spending for consumption at home (such as grocery stores, and beer, wine, and liquor stores) decreasing. In fact, there is already some evidence of this rebalancing. For example, in July, as the restrictions imposed during the third wave were being eased, retail sales of food and beverages fell for a second straight month, while sales at food service and drinking places posted a second consecutive monthly increase of more than 10%.

The setback in the economic growth in the second quarter and supply disruptions will hold GDP growth in 2021 to 5.0%. This is down from our prior forecast of 5.9%. However, with the momentum seen improving toward year-end and into next year, we look for GDP growth of 4.4% in 2022 (up from our prior forecast of 4.0%). Looking further ahead, we expect GDP growth of 2.8% in 2023. Slower trajectories for growth in 2022 and 2023 compared to 2021 will largely reflect slower consumption growth as the pent-up demand effect from the easing of restrictions fades.

Ongoing support for the economy from fiscal policy

The Liberal Party was re-elected to a minority government and though they might face increased spending demands during the next parliament, we expect key fiscal policy measures to closely track the plan laid out in the April federal budget. That is, we look for budget deficits to decline in coming years and for a slow, but steady, decline in the debt-to-GDP ratio.

Based on the April budget and statements made during the recent general election, the federal government is expected to continue to support the economy during the ongoing pandemic, and to provide stimulus to sustain the post-pandemic recovery, with a particular focus on the transition to a low carbon economy.

Housing, particularly the lack of affordable housing, continues to loom as a key concern, particularly as Canada has one of the highest house price-to-income ratios in the Organization for Economic Cooperation and Development. Though housing construction is at record levels, supply constraints will not ease soon. Meanwhile, many of the measures to deal with affordability concerns that were proposed during the election are more likely to boost demand in the short-term and exacerbate affordability problems.

A priority once parliament is recalled on 22 November is the renewal of the BoC's mandate. Every five years, the BoC and the Federal Government sign an agreement to renew the inflation control framework that serves as a guide for the BoC's monetary policy deliberations. These agreements form the backbone of the BoC's operational independence from the government. The last agreement was signed in 2016 and expires on 31 December 2021. As the BoC had already engaged with the Federal Government prior to the election, we expect an agreement before year end.

Inflation, slack, and the Bank of Canada

In September 2021, year-over-year consumer prices inflation hit 4.4%. We expect inflation to remain elevated into 2022, although we still see the upward pressure as largely temporary. Some of the factors that pushed up inflation earlier this year have already started to lose momentum. For example, lumber prices have retreated, and the housing market has cooled somewhat late in the summer.

An important reason to think inflation will pull back from recent highs is that the economy is still operating with excess slack. While the economy overall has recovered much of the ground lost during the pandemic — the level of output is only 1.2% below that of February 2020 — some sectors, particularly those most affected by public health restrictions, continue to operate well below pre-pandemic levels of activity. As well, growth was weaker than expected in the second quarter, and was softer than anticipated to start in the third quarter, in part due to supply chain disruptions.

In industries hardest hit by the pandemic — arts, entertainment and recreation, accommodation and food services, sales of clothing and accessories, air transportation, transit and ground transportation, and rental and leasing services — activity is still down 24.6% compared to February 2020. The slack in these industries is confirmed by the fact that employment and total hours worked are still also well below pre-pandemic levels. This industrial and labour market slack is expected to weigh on inflation in coming months.

That said, the BoC will pay close attention to inflation trends and the possibility that inflation might persist at elevated levels. Lingering supply chain disruptions are one notable risk. There are also reopening price risks. During the pandemic, activity for many high-contact services was severely restricted. Thus, the costs of those services could not be reflected in the Consumer Price Index. However, as restrictions ease, those costs are again becoming more widely available as more service providers reopen. This can lead to some adjustments given that the last reference point for many of these costs was in early 2020. For example, such an adjustment helps explain why the air transportation price index posted a record one-month increase of 37.5% in August. It will take months for the impact of reopening and underlying supply and demand dynamics on consumer prices to become clear, and they might cause inflation to linger above the 2% inflation target longer than expected.

We expect the BoC to leave the policy rate at 0.25% until the second half of 2022. However, as the threshold to taper and end quantitative easing ('QE') is not as stringent as the requirements to raise the policy rate, the BoC is expected to complete its QE program by year end. The QE program has seen the BoC's holdings of Government of Canada ('GoC') bonds rise from 13% to around 42%.

Once QE ends, the BoC is expected to enter a reinvestment phase during which it will maintain its holdings of GoC bonds roughly stable. BoC Governor, Tiff Macklem, has said that the BoC will remain in the reinvestment phase until after it raises the policy rate, and that decisions on the policy rate and the management of the balance sheet are "distinct."

Critical to this rebalancing is an ongoing reduction in public health restrictions that will help unleash pent-up demand for these services.

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 2020*. The following is a summary of some key regulatory changes announced in the third quarter of 2021 with the potential to impact our results or operations:

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

On 6 July, OSFI issued an industry letter seeking further feedback from federally regulated financial institutions ('FRFIs') on operational risk and resilience, focusing on how to position OSFI's perspective on operational risk and resilience within its principles-based guidance framework, while addressing connections to related risks within OSFI's approach to operational risk management and operational resilience.

On 5 August, OSFI issued for public consultation the draft Pillar 3 Disclosure Guideline 2023 for Small and Medium-Sized Banks ('SMSBs'), which proposes to implement a proportional set of Pillar 3 disclosure requirements by SMSBs.

On 12 August, OSFI announced that the temporary exclusion of sovereign-issued securities qualified as High Quality Liquid Assets ('HQLA') from banks' leverage ratio exposure measures will be unwound. Starting 1 January 2022, banks will be required to include these securities in their leverage ratio exposure measures. This temporary relief was put in place as a response to the COVID-19 pandemic, OSFI has concluded that the level of uncertainty in the outlook for economic and financial conditions has now reduced. Meanwhile, banks can continue to exclude central bank reserves from their leverage ratio exposure measures until otherwise notified.

On 13 August, OSFI released updated requirements governing how FRFIs should disclose and report technology and cyber security incidents to OSFI within 24 hours, or sooner if possible.

Government of Canada

On 4 August, the Government of Canada published the final report from the Advisory Committee on Open Banking. The report makes recommendations on how to modernize the Canadian financial services sector and implement a secure open banking system.

Other regulators and governments

On 15 July, the Canadian Securities Administrators ('CSA') announced that they are adopting amendments to NI 31-103 ('Amendments'), as part of the CSA's initiative to enhance protection of older and vulnerable clients. The Amendments will require registrants to take reasonable steps where a registrant reasonably believes that financial exploitation of a vulnerable client has occurred or is occurring and the client does not have the mental capacity to make decisions involving financial matters.

On 3 August, the CSA published a position paper, setting out its plan to create a new, single self-regulatory organization ('SRO'). The new SRO will consolidate the functions of the Investment Industry Regulatory Organization of Canada ('IIROC') and the Mutual Fund Dealers Association of Canada ('MFDA') and will combine the two existing investor protection funds, the Canadian Investor Protection Fund and the MFDA Investor Protection Corporation. The new SRO will also harmonize, where appropriate, IIROC and MFDA rules, and will streamline their complaint process, among others.

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 2020*.

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 2020, which are stated on pages 32, 44 and 75 to 76 of the *Annual Report and Accounts 2020*.

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 2020*.

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 2020*.

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 2020*.

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 2021. 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 2021 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 28 of our *Annual Report and Accounts 2020.*

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 2020* 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

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

There were no material changes to the policies and practices for the management of credit risk in 2021.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 38 of the *Annual Report and Accounts 2020*.

Payment relief options

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

As at 30 September 2021, payment deferral periods for clients that participated in these programs have concluded, however, we have assessed and will continue to assess the needs of each individual client and continue to provide support to clients on a case by case basis. The majority of our clients that have exited these programs have returned to making regular payments on their loans following the expiry of their payment deferral periods.

Further details about the payment relief offered are described on page 53 of our *Annual Report and Accounts 2020*.

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 2021 comprised of \$380m in respect of assets held at amortized cost, \$26m in respect of loan commitments and financial guarantees and \$8m in respect of performance guarantee contracts.

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

		At			
		30 Sep 2021		31 Dec 2020	
	Footnotes	**Gross carrying/ nominal amount**	**Allowance for ECL**	Gross carrying/ nominal amount	Allowance for ECL
		$m	**$m**	$m	$m
Loans and advances to customers at amortized cost		**67,501**	**(349)**	61,410	(408)
– personal		**34,996**	**(74)**	31,131	(87)
– corporate and commercial		**32,505**	**(275)**	30,279	(321)
Loans and advances to banks at amortized cost		**1,776**	**–**	1,270	–
Other financial assets measured at amortized cost		**30,505**	**(31)**	27,443	(41)
– cash and balances at central banks		**15,153**	**–**	15,750	–
– items in the course of collection from other banks		**17**	**–**	13	–
– reverse repurchase agreements non - trading		**9,285**	**–**	5,996	–
– customers' liability under acceptances		**3,335**	**(10)**	4,062	(19)
– other assets, prepayments and accrued income	1	**2,715**	**(21)**	1,622	(22)
Total gross carrying amount on-balance sheet		**99,782**	**(380)**	90,123	(449)
Loans and other credit related commitments		**46,025**	**(23)**	44,426	(42)
– personal		**8,021**	**–**	7,734	(1)
– corporate and commercial		**38,004**	**(23)**	36,692	(41)
Financial guarantees	2	**1,809**	**(3)**	1,985	(3)
– personal		**7**	**–**	7	–
– corporate and commercial		**1,802**	**(3)**	1,978	(3)
Total nominal amount off-balance sheet	3	**47,834**	**(26)**	46,411	(45)
		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	**14,559**	**–**	19,873	(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	61,407	5,736	358	67,501	(53)	(134)	(162)	(349)	0.1	2.3	45.3	0.5
– personal	33,843	1,017	136	34,996	(9)	(41)	(24)	(74)	–	4.0	17.6	0.2
– corporate and commercial	27,564	4,719	222	32,505	(44)	(93)	(138)	(275)	0.2	2.0	62.2	0.8
Loans and advances to banks at amortized cost	1,776	–	–	1,776	–	–	–	–	–	–	–	–
Other financial assets measured at amortized cost	30,124	360	21	30,505	(3)	(7)	(21)	(31)	–	1.9	100.0	0.1
Loan and other credit-related commitments	41,836	4,121	68	46,025	(11)	(12)	–	(23)	–	0.3	–	–
– personal	7,890	120	11	8,021	–	–	–	–	–	–	–	–
– corporate and commercial	33,946	4,001	57	38,004	(11)	(12)	–	(23)	–	0.3	–	0.1
Financial guarantees[2]	1,668	117	24	1,809	(1)	(2)	–	(3)	0.1	1.7	–	0.2
– personal	7	–	–	7	–	–	–	–	–	–	–	–
– corporate and commercial	1,661	117	24	1,802	(1)	(2)	–	(3)	0.1	1.7	–	0.2
At 30 Sep 2021	136,811	10,334	471	147,616	(68)	(155)	(183)	(406)	–	1.5	38.9	0.3

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	49,642	11,292	476	61,410	(45)	(215)	(148)	(408)	0.1	1.9	31.1	0.7
– personal	29,163	1,866	102	31,131	(15)	(53)	(19)	(87)	0.1	2.8	18.6	0.3
– corporate and commercial	20,479	9,426	374	30,279	(30)	(162)	(129)	(321)	0.1	1.7	34.5	1.1
Loans and advances to banks at amortized cost	1,270	—	—	1,270	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	26,536	885	22	27,443	(3)	(16)	(22)	(41)	—	1.8	100.0	0.1
Loan and other credit-related commitments	35,262	9,019	145	44,426	(10)	(32)	—	(42)	—	0.4	—	0.1
– personal	7,652	66	16	7,734	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	27,610	8,953	129	36,692	(9)	(32)	—	(41)	—	0.4	—	0.1
Financial guarantees[2]	1,834	149	2	1,985	(1)	(2)	—	(3)	0.1	1.3	—	0.2
– personal	6	1	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,828	148	2	1,978	(1)	(2)	—	(3)	0.1	1.4	—	0.2
At 31 Dec 2020	114,544	21,345	645	136,534	(59)	(265)	(170)	(494)	0.1	1.2	26.4	0.4

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*

Methodology

Four economic scenarios have been used to capture the exceptional nature of the current economic environment and to articulate management's view of the range of potential outcomes. Three of these scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters, while consensus Upside and Downside scenarios are created with reference to distributions that capture forecasters' views of the entire range of outcomes. Management has chosen to use an additional scenario to represent its view of severe downside risks. The use of an additional scenario is in line with the bank's forward economic guidance methodology and has been regularly used over the course of 2021. Management may include additional scenarios if it feels that the consensus scenarios do not adequately capture the top and emerging risks. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions and may result in shocks that drive economic activity permanently away from trend.

Description of economic scenarios

The economic assumptions presented in this section have been formed by the bank, with reference to external forecasts specifically for the purpose of calculating ECL.

Economic reopening and roll-out of vaccines has supported strong recovery in the world economy in 2021 following an unprecedented contraction in 2020. Across Canada, over 70% of the population has been fully vaccinated and over 50% of the populations in the UK, USA, Hong Kong and mainland China, which has contributed to a reduction of hospitalizations and deaths despite a resurgence in new cases in some markets. This has allowed further reopening and some resumption of travel. It is likely that multi-year vaccination programmes will be needed and that a divide between developed and developing countries will persist. The emergence of new variants that reduce the efficacy of vaccines and vaccine hesitancy remain as risks.

Economic forecasts are subject to a high degree of uncertainty in the current environment. While risks to the economic outlook are dominated by the progression and management of the pandemic and vaccine rollout, geopolitical risks also present downside threats. These risks include: continued differences between the USA and China over a range of issues, dampened business sentiment in Hong Kong, the evolution of the UK's relationship with the European Union and continued uncertainty in Canadian housing markets.

Four scenarios have been used for the purpose of calculating ECL at 30 September 2021. These are the consensus Central scenario, the consensus Downside scenario, the consensus Upside scenario and an additional Downside scenario.

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

Macroeconomic projections[1, 2]

	Footnote	Central scenario	Consensus Upside			Consensus Downside			Additional Downside		
		Five-year average	Five-year average	Best outcome		Five-year average	Worst outcome		Five-year average	Worst outcome	
30 September 2021											
GDP growth (%)		**2.6**	**4.6**	**12.0**	**(2Q22)**	**1.3**	**(0.6)**	**(3Q22)**	**1.6**	**(5.1)**	**(3Q22)**
Unemployment rate (%)		**6.0**	**5.4**	**4.3**	**(2Q22)**	**6.5**	**7.9**	**(1Q22)**	**7.9**	**9.6**	**(4Q22)**
House Price Index (%)		**3.7**	**6.5**	**20.2**	**(4Q21)**	**1.9**	**(5.3)**	**(3Q22)**	**(0.7)**	**(14.6)**	**(3Q22)**
Brent oil prices (US$/barrel)	3	**63.5**	**76.6**	**103.2**	**(1Q22)**	**55**	**44.9**	**(3Q22)**	**36.2**	**26.1**	**(4Q22)**
Probability (%)		**70**	**10**			**10**			**10**		
31 December 2020											
GDP growth (%)		2.9	4.4	15.8	(2Q21)	1.6	(3.6)	(1Q21)	1.9	(5.0)	(1Q21)
Unemployment rate (%)		6.8	6.2	5.3	(3Q22)	7.3	9.2	(1Q21)	8.9	11.3	(1Q21)
House Price Index (%)		2.7	3.6	5.2	(1Q21)	1.9	(1.3)	(1Q22)	1.1	(10.4)	(4Q21)
Brent oil prices (US$/barrel)	3	46.6	59.1	81.0	(4Q21)	39.5	26.3	(4Q21)	29.4	17.3	(1Q22)
Probability (%)		70	10			10			10		

1. Macroeconomic projections at 30 September 2021 are based on average 4Q2021-3Q2026 (31 December 2020: average 1Q2021-4Q2025).
2. The 'worst' or the 'best' outcome refers to the quarter that is either the trough or peak in the respective variable, in the first two years of the scenario.
3. The bank considers various oil price benchmarks and applies the specific oil price benchmark which is determined to have the closest fit for each specific ECL allowance model.

Scenario probabilities

Management has assigned probability weights to the scenarios that reflect their view of the distribution of risks. The central scenario has been assigned 70% weight and rest of the scenarios have been assigned 10% weight each.

Management judgmental adjustments

In the context of IFRS 9, management judgmental 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 during management review and challenge.

Wider-ranging model changes will take time to develop and need observable loss data on which models can be developed. Models will be revisited over time once the longer-term impacts of the COVID-19 pandemic are observed.

At 30 September 2021, management judgments were applied to reflect credit risk dynamics not captured by our models. The drivers of the management judgmental adjustments continue to evolve with the economic environment.

Where the macroeconomic and portfolio risk outlook continues to improve, supported by low levels of observed defaults, adjustments initially taken to reflect increased risk expectations have been retired or reduced.

However, other adjustments have increased where modelled outcomes are overly sensitive, given the limited observed deterioration in the underlying portfolios during the pandemic or where sector-specific risk are not adequately captured.

We have internal governance in place to monitor management judgmental adjustments regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment over time, as appropriate.

Management judgmental adjustments made in estimating the reported ECL at 30 September 2021 are set out in the following table. The table includes adjustments in relation to data and model limitations resulting from the pandemic, late outbreak events, and as a result of the regular process of model development and implementation. It shows the adjustments applicable to the scenario-weighted ECL numbers.

Management judgmental adjustments to ECL[1]

	Retail	Wholesale	Total
	$m	$m	$m
Expert credit and model adjustments	**25**	**105**	**130**
Adjustments for forward economic guidance and late breaking events	**22**	**–**	**22**
30 September 2021	**47**	**105**	**152**
Expert credit and model adjustments	28	30	58
Adjustments for forward economic guidance and late breaking events	26	16	42
31 December 2020	54	46	100

1. Management judgmental adjustments presented in the table reflect increases to ECL.

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 as well as 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 the 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 LGD of a particular portfolio was sensitive to these changes.

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

Wholesale portfolio analysis

The portfolios below were selected based on contribution to ECL and sensitivity to macro-economic factors.

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of financial instruments subject to significant measurement uncertainty[2]

	30 Sep 2021	31 Dec 2020
	$m	$m
Reported ECL	170	252
Consensus central scenario	131	195
Consensus upside scenario	71	115
Consensus downside scenario	221	347
Additional downside scenario	514	715
Gross carrying amount/nominal amount[3]	108,008	111,095

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 amounts but low ECL under all the above scenarios.*

Retail portfolio analysis

Exposures modelled using small portfolio approach were excluded from the sensitivity analysis.

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]

	30 Sep 2021	31 Dec 2020
	$m	$m
Reported ECL	68	78
Consensus central scenario	67	76
Consensus upside scenario	61	72
Consensus downside scenario	72	81
Additional downside scenario	84	92
Gross carrying amount	34,661	31,154

1. *ECL sensitivities exclude 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 2021				30 Sep 2020			
		Non-credit impaired		Credit-impaired		Non-credit impaired		Credit-impaired	
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Footnote	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of the period		70	165	146	381	94	263	187	544
Transfers of financial instruments:	2	19	(23)	4	—	3	(6)	3	—
– transfers from stage 1 to stage 2		(6)	6	—	—	(13)	13	—	—
– transfers from stage 2 to stage 1		25	(25)	—	—	16	(16)	—	—
– transfers to stage 3		—	(4)	4	—	—	(4)	4	—
– transfers from stage 3		—	—	—	—	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	2	(13)	4	—	(9)	(6)	20	—	14
New financial assets originated or purchased		5	—	—	5	4	—	—	4
Changes to risk parameters		(16)	4	26	14	(29)	(17)	34	(12)
Asset derecognized (including final repayments)		—	(3)	(2)	(5)	(2)	(2)	(1)	(5)
Assets written off		—	—	(14)	(14)	—	—	(12)	(12)
Foreign exchange		—	1	2	3	1	(1)	(1)	(1)
Balance at the end of the period		65	148	162	375	65	257	210	532
ECL charge/(release) for the period		(24)	5	24	5	(33)	1	33	1
Recoveries		—	—	(2)	(2)	—	—	(6)	(6)
Total ECL charge/(release) for the period		(24)	5	22	3	(33)	1	27	(5)

1. *Excludes performance guarantee contracts.*
2. *Transfers of financial instruments represent stage movements of prior period ECL allowances to the current period stage classification. Net remeasurement line represents the current period change in ECL allowances for transfers, without considering changes to credit or other risk parameters.*

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

		Nine months ended							
		30 Sep 2021				30 Sep 2020			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**56**	**249**	**148**	**453**	47	101	118	266
Transfers of financial instruments:	2	**109**	**(115)**	**6**	**—**	27	(38)	11	—
– transfers from stage 1 to stage 2		**(10)**	**10**	**—**	**—**	(29)	29	—	—
– transfers from stage 2 to stage 1		**118**	**(118)**	**—**	**—**	54	(54)	—	—
– transfers to stage 3		**—**	**(9)**	**9**	**—**	—	(15)	15	—
– transfers from stage 3		**1**	**2**	**(3)**	**—**	2	2	(4)	—
Net remeasurement of ECL arising from transfer of stage	2	**(47)**	**11**	**—**	**(36)**	(27)	40	—	13
New financial assets originated or purchased		**12**	**—**	**—**	**12**	10	—	—	10
Changes to risk parameters		**(63)**	**12**	**57**	**6**	11	161	133	305
Asset derecognized (including final repayments)		**(2)**	**(9)**	**(7)**	**(18)**	(3)	(6)	(5)	(14)
Assets written off		**—**	**—**	**(43)**	**(43)**	—	—	(46)	(46)
Foreign exchange		**—**	**—**	**1**	**1**	—	(1)	(1)	(2)
Balance at the end of the period		**65**	**148**	**162**	**375**	65	257	210	532
ECL charge/(release) for the period		**(100)**	**14**	**50**	**(36)**	(9)	195	128	314
Recoveries		**—**	**—**	**(5)**	**(5)**	—	—	(10)	(10)
Total ECL charge/(release) for the period		**(100)**	**14**	**45**	**(41)**	(9)	195	118	304

1. *Excludes performance guarantee contracts.*
2. *Transfers of financial instruments represent stage movements of prior period ECL allowances to the current period stage classification. Net remeasurement line represents the current period change in ECL allowances for transfers, without considering changes to credit or other risk parameters.*

	At	Nine months ended	At	Nine months ended
	30 Sep 2021	**30 Sep 2021**	30 Sep 2020	30 Sep 2020
	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	**375**	**(41)**	532	304
Other financial assets measured at amortized cost	**31**	**(11)**	37	15
Performance guarantee contracts	**8**	**(1)**	9	7
Debt instruments measured at FVOCI	**—**	**—**	2	2
Total allowance for ECL / Total income statement ECL charge/(release) for the period	**414**	**(53)**	580	328

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]	**14,438**	**—**	**—**	**—**	**—**	**14,438**	**—**	**14,438**
– stage 1	**14,438**	**—**	**—**	**—**	**—**	**14,438**	**—**	**14,438**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loans and advances to customers at amortized cost	**36,375**	**15,560**	**13,719**	**1,489**	**358**	**67,501**	**(349)**	**67,152**
– stage 1	**36,230**	**14,964**	**10,035**	**178**	**—**	**61,407**	**(53)**	**61,354**
– stage 2	**145**	**596**	**3,684**	**1,311**	**—**	**5,736**	**(134)**	**5,602**
– stage 3	**—**	**—**	**—**	**—**	**358**	**358**	**(162)**	**196**
Loans and advances to banks at amortized cost	**1,776**	**—**	**—**	**—**	**—**	**1,776**	**—**	**1,776**
– stage 1	**1,776**	**—**	**—**	**—**	**—**	**1,776**	**—**	**1,776**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets at amortized cost	**26,341**	**2,580**	**1,463**	**100**	**21**	**30,505**	**(31)**	**30,474**
– stage 1	**26,341**	**2,558**	**1,219**	**6**	**—**	**30,124**	**(3)**	**30,121**
– stage 2	**—**	**22**	**244**	**94**	**—**	**360**	**(7)**	**353**
– stage 3	**—**	**—**	**—**	**—**	**21**	**21**	**(21)**	**—**
Total gross carrying amount on-balance sheet	**78,930**	**18,140**	**15,182**	**1,589**	**379**	**114,220**	**(380)**	**113,840**
Percentage of total credit quality	**69.1 %**	**15.9 %**	**13.3 %**	**1.4 %**	**0.3 %**	**100.0 %**		
Loan and other credit-related commitments	**16,718**	**18,898**	**9,271**	**1,070**	**68**	**46,025**	**(23)**	**46,002**
– stage 1	**16,434**	**18,421**	**6,885**	**96**	**—**	**41,836**	**(11)**	**41,825**
– stage 2	**284**	**477**	**2,386**	**974**	**—**	**4,121**	**(12)**	**4,109**
– stage 3	**—**	**—**	**—**	**—**	**68**	**68**	**—**	**68**
Financial guarantees[2]	**1,012**	**485**	**220**	**68**	**24**	**1,809**	**(3)**	**1,806**
– stage 1	**1,012**	**476**	**178**	**2**	**—**	**1,668**	**(1)**	**1,667**
– stage 2	**—**	**9**	**42**	**66**	**—**	**117**	**(2)**	**115**
– stage 3	**—**	**—**	**—**	**—**	**24**	**24**	**—**	**24**
Total nominal amount off-balance sheet	**17,730**	**19,383**	**9,491**	**1,138**	**92**	**47,834**	**(26)**	**47,808**
At 30 Sep 2021	**96,660**	**37,523**	**24,673**	**2,727**	**471**	**162,054**	**(406)**	**161,648**

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]	19,325	—	—	—	—	19,325	(1)	19,324
– stage 1	19,325	—	—	—	—	19,325	(1)	19,324
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	29,753	14,679	14,357	2,145	476	61,410	(408)	61,002
– stage 1	29,590	12,284	7,624	144	—	49,642	(45)	49,597
– stage 2	163	2,395	6,733	2,001	—	11,292	(215)	11,077
– stage 3	—	—	—	—	476	476	(148)	328
Loans and advances to banks at amortized cost	1,270	—	—	—	—	1,270	—	1,270
– stage 1	1,270	—	—	—	—	1,270	—	1,270
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	23,143	2,231	1,894	153	22	27,443	(41)	27,402
– stage 1	23,107	2,004	1,412	13	—	26,536	(3)	26,533
– stage 2	36	227	482	140	—	885	(16)	869
– stage 3	—	—	—	—	22	22	(22)	—
Total gross carrying amount on-balance sheet	73,491	16,910	16,251	2,298	498	109,448	(450)	108,998
Percentage of total credit quality	67.1 %	15.5 %	14.8 %	2.1 %	0.5 %	100.0 %		
Loan and other credit-related commitments	16,325	16,224	10,436	1,296	145	44,426	(42)	44,384
– stage 1	15,554	13,773	5,861	74	—	35,262	(10)	35,252
– stage 2	771	2,451	4,575	1,222	—	9,019	(32)	8,987
– stage 3	—	—	—	—	145	145	—	145
Financial guarantees[2]	1,163	477	264	79	2	1,985	(3)	1,982
– stage 1	1,163	469	192	10	—	1,834	(1)	1,833
– stage 2	—	8	72	69	—	149	(2)	147
– stage 3	—	—	—	—	2	2	—	2
Total nominal amount off-balance sheet	17,488	16,701	10,700	1,375	147	46,411	(45)	46,366
At 31 Dec 2020	90,979	33,611	26,951	3,673	645	155,859	(495)	155,364

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 2021 Gross carrying amount $m	30 Sep 2021 Allowance for ECL $m	31 Dec 2020 Gross carrying amount $m	31 Dec 2020 Allowance for ECL $m
Corporate and commercial					
– agriculture, forestry and fishing		**536**	**(4)**	474	(6)
– mining and quarrying	1	**1,422**	**(91)**	1,464	(95)
– manufacture		**4,832**	**(31)**	4,448	(43)
– electricity, gas, steam and air-conditioning supply		**251**	**(21)**	355	(1)
– water supply, sewerage, waste management and remediation		**134**	**—**	115	—
– construction		**854**	**(12)**	864	(11)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**5,433**	**(28)**	4,663	(39)
– transportation and storage		**2,771**	**(20)**	2,723	(21)
– accommodation and food		**1,474**	**(25)**	1,375	(28)
– publishing, audiovisual and broadcasting		**829**	**(1)**	891	(6)
– real estate		**9,597**	**(20)**	8,454	(34)
– professional, scientific and technical activities		**699**	**(3)**	1,028	(5)
– administrative and support services		**855**	**(7)**	770	(20)
– education		**159**	**—**	148	—
– health and care		**243**	**(1)**	219	—
– arts, entertainment and recreation		**289**	**(1)**	298	(1)
– other services		**150**	**(2)**	133	—
– government		**28**	**—**	25	—
– non-bank financial institutions		**1,949**	**(8)**	1,832	(11)
Total		**32,505**	**(275)**	30,279	(321)
By geography	2				
Canada		**30,525**	**(254)**	28,435	(304)
– British Columbia		**9,221**	**(37)**	8,819	(56)
– Ontario		**11,333**	**(80)**	10,247	(88)
– Alberta		**4,906**	**(102)**	4,820	(115)
– Quebec		**3,535**	**(18)**	3,247	(29)
– Saskatchewan and Manitoba		**955**	**(16)**	904	(13)
– Atlantic provinces		**575**	**(1)**	398	(3)
United States of America		**935**	**(13)**	1,119	(8)
Other		**1,045**	**(8)**	725	(9)
Total		**32,505**	**(275)**	30,279	(321)

1. *Mining and quarrying includes energy related exposures which constitute approximately 76% of the gross carrying amount and 95% of the allowance for ECL at 30 September 2021 (31 December 2020: Gross carrying amount was 86% and allowance for ECL was 92%).*
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 2021				30 Sep 2020			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**58**	**113**	**127**	**298**	76	225	171	472
Transfers of financial instruments:	2	**6**	**(6)**	**—**	**—**	(1)	(1)	2	—
– transfers from stage 1 to stage 2		**(5)**	**5**	**—**	**—**	(12)	12	—	—
– transfers from stage 2 to stage 1		**11**	**(11)**	**—**	**—**	11	(11)	—	—
– transfers to stage 3		**—**	**—**	**—**	**—**	—	(2)	2	—
– transfers from stage 3		**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	**(4)**	**3**	**—**	**(1)**	(4)	18	—	14
New financial assets originated or purchased		**4**	**—**	**—**	**4**	2	—	—	2
Changes to risk parameters		**(8)**	**(4)**	**21**	**9**	(26)	(29)	30	(25)
Asset derecognized (including final repayments)		**—**	**—**	**(1)**	**(1)**	(1)	(1)	(1)	(3)
Assets written off		**—**	**—**	**(11)**	**(11)**	—	—	(8)	(8)
Foreign exchange		**—**	**1**	**2**	**3**	1	(1)	(1)	(1)
Balance at the end of the period		**56**	**107**	**138**	**301**	47	211	193	451
ECL charge/(release) for the period		**(8)**	**(1)**	**20**	**11**	(29)	(12)	29	(12)
Recoveries		**—**	**—**	**—**	**—**	—	—	(2)	(2)
Total ECL charge/(release) for the period		**(8)**	**(1)**	**20**	**11**	(29)	(12)	27	(14)

1. Excludes performance guarantee contracts.
2. Transfers of financial instruments represent stage movements of prior period ECL allowances to the current period stage classification. Net remeasurement line represents the current period change in ECL allowances for transfers, without considering changes to credit or other risk parameters.

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 2021				30 Sep 2020			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**40**	**196**	**129**	**365**	32	70	103	205
Transfers of financial instruments:	2	**69**	**(69)**	**—**	**—**	11	(20)	9	—
– transfers from stage 1 to stage 2		**(8)**	**8**	**—**	**—**	(27)	27	—	—
– transfers from stage 2 to stage 1		**76**	**(76)**	**—**	**—**	37	(37)	—	—
– transfers to stage 3		**—**	**(1)**	**1**	**—**	—	(10)	10	—
– transfers from stage 3		**1**	**—**	**(1)**	**—**	1	—	(1)	—
Net remeasurement of ECL arising from transfer of stage	2	**(32)**	**7**	**—**	**(25)**	(17)	33	—	16
New financial assets originated or purchased		**9**	**—**	**—**	**9**	7	—	—	7
Changes to risk parameters		**(29)**	**(26)**	**46**	**(9)**	15	131	119	265
Asset derecognized (including final repayments)		**(1)**	**(1)**	**(4)**	**(6)**	(1)	(2)	(2)	(5)
Assets written off		**—**	**—**	**(34)**	**(34)**	—	—	(35)	(35)
Foreign exchange		**—**	**—**	**1**	**1**	—	(1)	(1)	(2)
Balance at the end of the period		**56**	**107**	**138**	**301**	47	211	193	451
ECL charge/(release) for the period		**(53)**	**(20)**	**42**	**(31)**	4	162	117	283
Recoveries		**—**	**—**	**—**	**—**	—	—	(2)	(2)
Total ECL charge/(release) for the period		**(53)**	**(20)**	**42**	**(31)**	4	162	115	281

1. Excludes performance guarantee contracts.
2. Transfers of financial instruments represent stage movements of prior period ECL allowances to the current period stage classification. Net remeasurement line represents the current period change in ECL allowances for transfers, without considering changes to credit or other risk parameters.

The wholesale allowance for ECL decreased by $64m or 18% as compared to 31 December 2020, and the wholesale lending change in ECL for the nine months ended resulted in an income statement release of $31m. This release was primarily driven by improvement in forward-looking macro-economic variables related to performing loans, partly offset by impairment charges from two non-performing loans in the energy sector.

The ECL release for the nine months ended of $31m presented in the above table consisted of $9m relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages, $25m relating to the net remeasurement impact of stage transfers, partly offset by a charge of $3m relating to underlying net volume movement. There were nil recoveries during the nine months ended.

The total ECL coverage for loans and advances to customers for corporate and commercial at 30 September 2021 was 0.8%, a decrease of 0.3% as compared to 31 December 2020.

Personal lending

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

	Footnote	At 30 Sep 2021 Gross carrying amount $m	30 Sep 2021 Allowance for ECL $m	31 Dec 2020 Gross carrying amount $m	31 Dec 2020 Allowance for ECL $m
Residential mortgages		**31,795**	**(38)**	28,129	(42)
Home equity lines of credit		**1,415**	**(5)**	1,550	(5)
Personal revolving loan facilities		**475**	**(11)**	533	(16)
Other personal loan facilities		**960**	**(5)**	543	(5)
Retail card		**315**	**(11)**	331	(13)
Run-off consumer loan portfolio		**36**	**(4)**	45	(6)
Total		**34,996**	**(74)**	31,131	(87)
By geography	1				
Canada		**34,802**	**(72)**	30,947	(85)
– British Columbia		**16,826**	**(31)**	15,220	(36)
– Ontario		**14,031**	**(25)**	12,018	(29)
– Alberta		**1,784**	**(7)**	1,747	(9)
– Quebec		**1,551**	**(4)**	1,374	(5)
– Saskatchewan and Manitoba		**345**	**(2)**	338	(2)
– Atlantic provinces		**257**	**(3)**	243	(4)
– Territories		**8**	**—**	7	—
Other		**194**	**(2)**	184	(2)
Total		**34,996**	**(74)**	31,131	(87)

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]

	Footnote	Quarter ended 30 Sep 2021 Non-credit impaired Stage 1 $m	30 Sep 2021 Non-credit impaired Stage 2 $m	30 Sep 2021 Credit-impaired Stage 3 $m	30 Sep 2021 Total $m	30 Sep 2020 Non-credit impaired Stage 1 $m	30 Sep 2020 Non-credit impaired Stage 2 $m	30 Sep 2020 Credit-impaired Stage 3 $m	30 Sep 2020 Total $m
Balance at the beginning of the period		**12**	**52**	**19**	**83**	18	38	16	72
Transfers of financial instruments:	2	**13**	**(17)**	**4**	**—**	4	(5)	1	—
– transfers from stage 1 to stage 2		**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**14**	**(14)**	**—**	**—**	5	(5)	—	—
– transfers to stage 3		**—**	**(4)**	**4**	**—**	—	(2)	2	—
– transfers from stage 3		**—**	**—**	**—**	**—**	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	2	**(9)**	**1**	**—**	**(8)**	(2)	2	—	—
New financial assets originated or purchased		**1**	**—**	**—**	**1**	2	—	—	2
Changes to risk parameters		**(8)**	**8**	**5**	**5**	(3)	12	4	13
Asset derecognized (including final repayments)		**—**	**(3)**	**(1)**	**(4)**	(1)	(1)	—	(2)
Assets written off		**—**	**—**	**(3)**	**(3)**	—	—	(4)	(4)
Balance at the end of the period		**9**	**41**	**24**	**74**	18	46	17	81
ECL charge/(release) for the period		**(16)**	**6**	**4**	**(6)**	(4)	13	4	13
Recoveries		**—**	**—**	**(2)**	**(2)**	—	—	(4)	(4)
Total ECL charge/(release) for the period		**(16)**	**6**	**2**	**(8)**	(4)	13	—	9

1. *Excludes performance guarantee contracts.*
2. *Transfers of financial instruments represent stage movements of prior period ECL allowances to the current period stage classification. Net remeasurement line represents the current period change in ECL allowances for transfers, without considering changes to credit or other risk parameters.*

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

		Nine months ended							
		30 Sep 2021				30 Sep 2020			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**16**	**53**	**19**	**88**	15	31	15	61
Transfers of financial instruments:	2	**40**	**(46)**	**6**	**—**	16	(18)	2	—
– transfers from stage 1 to stage 2		**(2)**	**2**	**—**	**—**	(2)	2	—	—
– transfers from stage 2 to stage 1		**42**	**(42)**	**—**	**—**	17	(17)	—	—
– transfers to stage 3		**—**	**(8)**	**8**	**—**	—	(5)	5	—
– transfers from stage 3		**—**	**2**	**(2)**	**—**	1	2	(3)	—
Net remeasurement of ECL arising from transfer of stage	2	**(15)**	**4**	**—**	**(11)**	(10)	7	—	(3)
New financial assets originated or purchased		**3**	**—**	**—**	**3**	3	—	—	3
Changes to risk parameters		**(34)**	**38**	**11**	**15**	(4)	30	14	40
Asset derecognized (including final repayments)		**(1)**	**(8)**	**(3)**	**(12)**	(2)	(4)	(3)	(9)
Assets written off		**—**	**—**	**(9)**	**(9)**	—	—	(11)	(11)
Balance at the end of the period		**9**	**41**	**24**	**74**	18	46	17	81
ECL charge/(release) for the period		**(47)**	**34**	**8**	**(5)**	(13)	33	11	31
Recoveries		**—**	**—**	**(5)**	**(5)**	—	—	(8)	(8)
Total ECL charge/(release) for the period		**(47)**	**34**	**3**	**(10)**	(13)	33	3	23

1. *Excludes performance guarantee contracts.*
2. *Transfers of financial instruments represent stage movements of prior period ECL allowances to the current period stage classification. Net remeasurement line represents the current period change in ECL allowances for transfers, without considering changes to credit or other risk parameters.*

The personal lending allowance for ECL decreased by $14m or 16% during 2021. The ECL release for the nine months ended of $10m presented in the above table consisted of $11m relating to the net remeasurement impact of stage transfers and $9m relating to underlying net volume movement, partly offset by a charge of $15m relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages. There were recoveries of $5m during the period.

The write-offs were mainly from cards and personal loan facilities.

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, 5]

	Residential mortgages					**HELOC[2]**	
	Insured[3]		**Uninsured[3]**		**Total**		**Uninsured**
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**1,454**	**10 %**	**13,245**	**90 %**	**14,699**	**696**	**100 %**
Western Canada[4]	**838**	**45 %**	**1,026**	**55 %**	**1,864**	**151**	**100 %**
Ontario	**2,552**	**18 %**	**12,025**	**82 %**	**14,577**	**515**	**100 %**
Quebec and Atlantic provinces	**706**	**42 %**	**969**	**58 %**	**1,675**	**69**	**100 %**
At 30 Sep 2021	**5,550**	**17 %**	**27,265**	**83 %**	**32,815**	**1,431**	**100 %**

	Residential mortgages[6]					HELOC[2, 6]	
	Insured[3]		Uninsured[3]		Total		Uninsured
	$m	%	$m	%	$m	$m	%
British Columbia	1,252	9 %	12,528	91 %	13,780	763	100 %
Western Canada[4]	698	41 %	1,016	59 %	1,714	170	100 %
Ontario	2,094	18 %	9,743	82 %	11,837	555	100 %
Quebec and Atlantic provinces	557	38 %	910	62 %	1,467	70	100 %
At 31 Dec 2020	4,601	16 %	24,197	84 %	28,798	1,558	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. *Residential mortgages and HELOC include Wholesale lending and Personal lending exposures.*
6. *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 2021	**18.0 %**	**61.9 %**	**20.1 %**
At 31 Dec 2020	20.1 %	56.0 %	23.9 %

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	**62.1 %**	**56.5 %**
Western Canada[4]	**68.8 %**	**67.2 %**
Ontario	**65.3 %**	**59.4 %**
Quebec and Atlantic provinces	**64.7 %**	**61.7 %**
Total Canada for the three months ended 30 Sep 2021	**64.4 %**	**59.0 %**
Total Canada for the three months ended 31 Dec 2020	62.8 %	57.5 %

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 2021		31 Dec 2020	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial		**222**	**(138)**	374	(129)
– agriculture, forestry and fishing		**4**	**(2)**	6	(4)
– mining and quarrying	*1*	**107**	**(62)**	137	(56)
– manufacture		**24**	**(13)**	119	(16)
– electricity, gas, steam and air-conditioning supply		**21**	**(21)**	—	—
– construction		**9**	**(8)**	10	(4)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**38**	**(17)**	53	(19)
– transportation and storage		**8**	**(6)**	7	(6)
– accommodation and food		**1**	**(1)**	5	(4)
– publishing, audiovisual and broadcasting		**1**	**(1)**	12	(4)
– real estate		**3**	**(2)**	13	(5)
– administrative and support services		**4**	**(4)**	11	(10)
– non-bank financial institutions		**2**	**(1)**	1	(1)
Households	*2*	**136**	**(24)**	102	(19)
Loans and advances to banks		**—**	**—**	—	—
Total		**358**	**(162)**	476	(148)

1. *Mining and quarrying includes energy related exposures which constitute approximately 99% of the gross carrying amount and 96% of the allowance for ECL at 30 September 2021 (31 December 2020: Gross carrying amount was 99% and allowance for ECL was 97%).*
2. *Households includes the personal lending portfolio.*

Renegotiated loans

The gross carrying amount of renegotiated loans was $191m at 30 September 2021 (31 December 2020: $289m) and the allowance for ECL was $29m (31 December 2020: $30m).

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 2020* 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.

During the quarter the bank issued its first Euro denominated covered bond. The Euro 750m issuance is listed on the London Stock Exchange and further diversifies the bank's sources of funding while also expanding the bank's investor base.

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 30 September 2021 decreased by $8bn from elevated levels at 31 December 2020 primarily due to an increase in customer loans and a decrease in short-term funding. The bank continues to closely monitor liquidity for changes in customers' needs as well as for any changes in the market driven by COVID-19.

Liquid assets[1]

	At	
	30 Sep 2021	31 Dec 2020
	$m	$m
Level 1	**28,647**	35,684
Level 2a	**2,153**	3,061
Level 2b	**18**	10
Total	**30,818**	38,755

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 2021, the bank was compliant with both requirements.

The bank expects to implement the OSFI NSFR in 2023. 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 2021, the bank's average LCR of 152% 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. Compared to the previous quarter the bank's average LCR for the three months ended 30 September 2021 increased to 152% from 145%. This is predominately driven by an increase in liquid assets, attributable to an increase in short-term funding and customer deposits, offset by an increase in customer loans.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Sep 2021	30 Jun 2021
Total HQLA[2] ($m)	**30,399**	29,113
Total net cash outflows[2] ($m)	**19,955**	20,142
Liquidity coverage ratio (%)	**152**	145

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 2020* 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 $18.4m at the nine months ended 30 September 2021 increased by $3.2m from the prior year, largely due to increased interest rate risk in non-trading books and an increased granularity in the credit spread scenario, which reflects COVID-19 market volatility more accurately. Over the same period, the average total VaR of $18.8m increased by $6.3m. Total VaR is largely driven by non-trading VaR.

As the economy rebounded, driven by more businesses reopening as vaccine distribution increased around the world, this led to higher inflation with indications of Bank of Canada's threshold tapering. This has contributed to increases in both market volatility and long-term interest rates during the quarter. The bank has remained within contained levels of risk. The reduction in interest rate risk at the quarter end drove the trading VaR decrease. The trading VaR of $1m at the quarter end decreased by $1.3m while average trading VaR of $1.5m for the quarter remained at similar levels.

Total VaR*

	Nine months ended	
	30 Sep 2021	30 Sep 2020
	$m	$m
At period end	**18.4**	15.2
Average	**18.8**	12.5
Minimum	**13.5**	7.2
Maximum	**23.6**	19.5

Non-trading VaR*

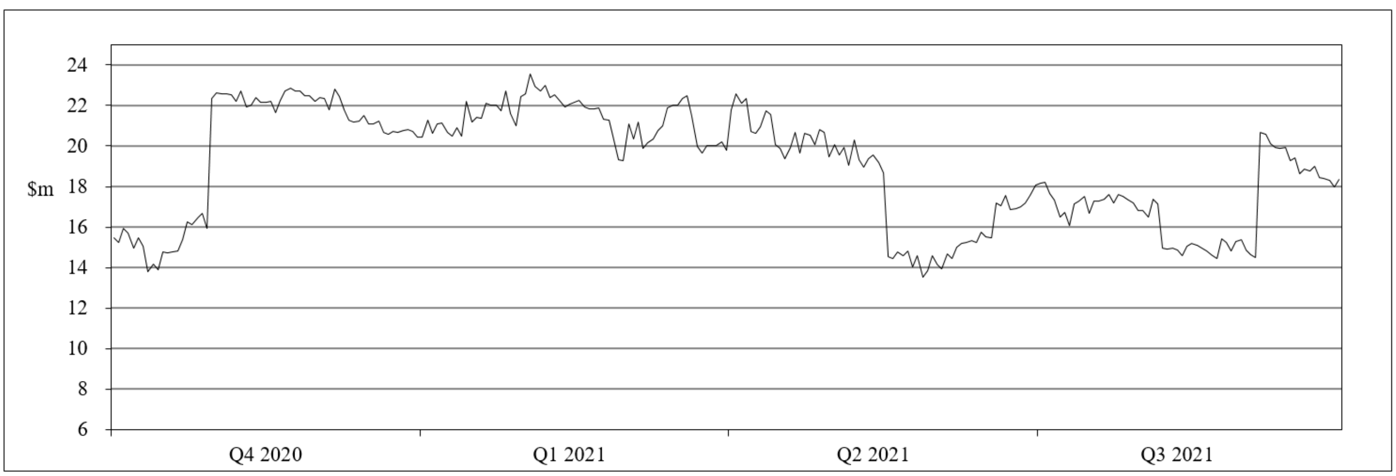
	Nine months ended	
	30 Sep 2021	30 Sep 2020
	$m	$m
At period end	**18.2**	16.5
Average	**19.1**	12.8
Minimum	**14.1**	7.0
Maximum	**24.6**	19.1

Trading VaR (by risk type)*[1]

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification[2]	Total[3]
	$m	$m	$m	$m	$m	$m
January - Sep 2021						
At period end	**–**	**0.8**	**–**	**0.9**	**(0.7)**	**1.0**
Average	**–**	**1.3**	**–**	**0.6**	**(0.4)**	**1.5**
Minimum	**–**	**0.5**	**–**	**0.2**	**–**	**0.6**
Maximum	**–**	**3.4**	**–**	**1.9**	**–**	**3.5**
January - Sep 2020						
At period end	—	2.0	—	1.4	(1.1)	2.3
Average	—	1.3	—	0.7	(0.5)	1.5
Minimum	—	0.5	—	0.3	—	0.6
Maximum	0.3	2.6	—	1.9	—	2.7

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

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



1. *The total VaR increase in the fourth quarter of 2020 was largely due to an increase of granularity in credit spread scenario, which reflects COVID-19 market volatility more accurately. The total VaR decrease in the second quarter of 2021 was due to HSBC Bank Canada own bond issuance which reduced interest rate risk. The total VaR increase in the third quarter of 2021 was due to covered bond issuance which increased interest rate risk.*

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 2020* 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 2021		30 Sep 2020	
		Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	Footnote	**$m**	**$m**	$m	$m
100 basis point increase		**(391)**	**216**	(409)	211
25 basis point decrease	*1*	**94**	**(63)**	84	(55)

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.*

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 2020* 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.

IBOR transition

The Financial Conduct Authority ('FCA') and the administrator of LIBOR, the International Benchmark Administrator ('IBA'), announced on 5 March 2021 that publication of 26 of the five main LIBOR currency interest rate benchmark settings would cease at the end of 2021. Additionally, confirming the extension of the publication date of the most widely used US dollar LIBOR tenors until 30 June 2023. As a result, the bank's transition program is currently focused on actively transitioning away from those contracts that reference IBORs demising at the end of 2021.

Furthermore, certain financial instruments presented in 'Financial instruments impacted by IBOR reform' section of our *Annual Report and Accounts 2020*, on the basis of the USD LIBOR cessation date in place as at 31 December 2021, will reach their contractual maturity date prior to 30 June 2023.

In support of transition from IBORs, throughout 2021, the bank continued its efforts to provide the capability to offer Risk-Free Rates ('RFR') and alternative rate products, and to proactively offer customers the ability to transition from their legacy IBOR-based products.

Provision of RFR and alternative rate product capabilities

All of our global business lines developed and implemented system and operational capabilities for the majority of alternative rates, such as base or prime rates, and RFR products during 2020 and 2021, with only a limited number of non-standard products requiring completion in the second half of 2021. As market liquidity builds, our product readiness has enabled new transactions to be undertaken in alternative rate and RFR products, and resulted in a continued decrease in IBOR exposures with rates or tenors demising on 31 December 2021.

Transition legacy contracts

During the third quarter of 2021, the bank's IBOR transition programme continued to engage with our clients, and finalize systems and operational changes necessary to facilitate an orderly transition from IBORs to RFRs, or alternative benchmarks, such as policy interest rates. Clients have been approached in a structured manner, based on product readiness and client prioritization and are tracked using internal targets. Within the prioritization, the group has taken into account our clients' adherence to the fallback provisions for derivatives within the ISDA protocol, implemented in January 2021, and loan contractual fallback language.

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 2020* 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 2021.

Regulatory capital

Total regulatory capital*

		At	
		30 Sep 2021	31 Dec 2020
	Footnotes	**$m**	$m
Gross common equity	*1*	**5,787**	5,782
Regulatory adjustments		**(229)**	(308)
Common equity tier 1 capital	*2*	**5,558**	5,474
Additional tier 1 eligible capital		**1,100**	1,100
Tier 1 capital		**6,658**	6,574
Tier 2 capital	*2, 3*	**1,014**	1,015
Total capital		**7,672**	7,589

1. *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2. *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 was $7m as at 30 September 2021.*
3. *Includes a capital instrument subject to phase out and allowances.*

Regulatory capital ratios

Risk-weighted assets, actual regulatory capital ratios and capital requirements

		At	
		30 Sep 2021	31 Dec 2020
	Footnotes	**$m**	$m
Risk-weighted assets ('RWA')	*1*	**39,575**	40,014
		%	%
Actual regulatory capital ratios	*2*		
– common equity tier 1 capital ratio		**14.0**	13.7
– tier 1 capital ratio		**16.8**	16.4
– total capital ratio		**19.4**	19.0
– leverage ratio		**5.8**	6.0
Regulatory capital requirements	*3*		
– 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. *In April 2020, OSFI announced certain regulatory flexibility measures to support COVID-19 efforts in light of the 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.*
2. *Presented under a Basel III basis with non-qualifying capital instruments phased out over 10 years starting 1 January 2013.*
3. *OSFI target capital ratios including mandated capital conservation buffer.*

Outstanding shares and dividends

		Nine months ended			Year ended		
		30 Sep 2021			31 Dec 2020		
		Dividend	**Number of issued shares**	**Carrying value**	Dividend	Number of issued shares	Carrying value
	Footnotes	**$ per share**	**000's**	**$m**	$ per share	000's	$m
Common shares	*1, 2*	**0.64702**	**548,668**	**1,725**	0.32085	548,668	1,725
Class 1 preferred shares	*3*						
– Series G	*4*	**—**	**—**	**—**	0.50000	—	—
– Series H	*4*	**0.56782**	**20,000**	**500**	0.39471	20,000	500
– Series I		**0.86250**	**14,000**	**350**	1.15000	14,000	350
– Series K		**1.02189**	**10,000**	**250**	1.36252	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. *50 million common shares were issued on 30 March 2020 for an aggregate subscription price of $500m.*
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 on preferred shares Series H 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.*

Dividends declared in the third quarter 2021

During the third quarter 2021, the bank declared regular quarterly dividends of $11m for the third quarter of 2021 on all series of outstanding HSBC Bank Canada Class 1 preferred shares and a second interim dividend of $100m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2021.

Dividends declared in the fourth quarter 2021

On 22 October 2021, the bank declared regular quarterly dividends for the fourth quarter of 2021 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 2021 or the first business day thereafter to the shareholder of record on 15 December 2021.

On 22 October 2021, the bank also declared a third interim dividend of $80m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2021, which will be paid on or before 31 December 2021 to the shareholder of record on 22 October 2021.

As the quarterly dividends on preferred shares for the fourth quarter of 2021 and the third interim dividend on common shares for 2021 were declared after 30 September 2021, the amounts have not been included in the balance sheet as a liability.

Consolidated Financial Statements

Consolidated income statement

		Quarter ended		Nine months ended	
		30 Sep 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	Notes	**$m**	$m	**$m**	$m
Net interest income		**315**	244	**903**	811
– interest income		**451**	490	**1,348**	1,688
– interest expense		**(136)**	(246)	**(445)**	(877)
Net fee income	*2*	**197**	172	**589**	528
– fee income		**225**	192	**671**	591
– fee expense		**(28)**	(20)	**(82)**	(63)
Net income from financial instruments held for trading		**26**	29	**84**	102
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**1**	—	**4**	—
Gains less losses from financial investments		**13**	18	**35**	48
Other operating income		**8**	9	**21**	31
Total operating income		**560**	472	**1,636**	1,520
Change in expected credit losses and other credit impairment charges - (charge)/release		**(3)**	2	**53**	(328)
Net operating income		**557**	474	**1,689**	1,192
Employee compensation and benefits	*3*	**(145)**	(157)	**(456)**	(471)
General and administrative expenses		**(150)**	(133)	**(405)**	(395)
Depreciation and impairment of property, plant and equipment		**(17)**	(18)	**(64)**	(55)
Amortization and impairment of intangible assets		**(11)**	(9)	**(39)**	(27)
Total operating expenses		**(323)**	(317)	**(964)**	(948)
Profit before income tax expense		**234**	157	**725**	244
Income tax expense		**(63)**	(45)	**(195)**	(61)
Profit for the period		**171**	112	**530**	183
Profit attributable to:					
– the common shareholder		**159**	101	**496**	147
– the preferred shareholder		**12**	11	**34**	36
Profit for the period		**171**	112	**530**	183
Average number of common shares outstanding (000’s)		**548,668**	548,668	**548,668**	532,368
Basic and diluted earnings per common share ($)		**$ 0.29**	$ 0.18	**$ 0.90**	$ 0.28

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 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Profit for the period	**171**	112	**530**	183
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	**(21)**	16	**(89)**	84
– fair value gains/(losses)	**(15)**	37	**(85)**	160
– fair value gains transferred to the income statement on disposal	**(13)**	(18)	**(35)**	(48)
– expected credit losses recognized in the income statement - (release)/charge	**–**	2	**(1)**	2
– income taxes	**7**	(5)	**32**	(30)
Cash flow hedges	**(31)**	(17)	**(87)**	151
– fair value gains/(losses)	**(34)**	8	**(67)**	316
– fair value gains reclassified to the income statement	**(9)**	(31)	**(52)**	(110)
– income taxes	**12**	6	**32**	(55)
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**27**	(27)	**39**	(37)
– before income taxes	**37**	(37)	**53**	(50)
– income taxes	**(10)**	10	**(14)**	13
Equity instruments designated at fair value through other comprehensive income	**–**	(1)	**1**	(4)
– fair value gains/(losses)	**–**	(1)	**1**	(5)
Other comprehensive (loss)/income for the period, net of tax	**(25)**	(29)	**(136)**	194
Total comprehensive income for the period	**146**	83	**394**	377
Attributable to:				
– the common shareholder	**134**	72	**360**	341
– the preferred shareholder	**12**	11	**34**	36
Total comprehensive income for the period	**146**	83	**394**	377

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 2021 $m	31 Dec 2020 $m
Assets			
Cash and balances at central banks		**15,153**	15,750
Items in the course of collection from other banks		**17**	13
Trading assets	5	**3,105**	1,719
Other financial assets mandatorily measured at fair value through profit or loss		**16**	9
Derivatives	6	**3,207**	5,447
Loans and advances to banks		**1,776**	1,270
Loans and advances to customers		**67,152**	61,002
Reverse repurchase agreements – non-trading		**9,285**	5,996
Financial investments	7	**14,569**	19,879
Other assets	8	**2,698**	1,430
Prepayments and accrued income		**198**	196
Customers' liability under acceptances		**3,325**	4,043
Current tax assets		**92**	28
Property, plant and equipment		**232**	277
Goodwill and intangible assets		**173**	167
Deferred tax assets		**98**	121
Total assets		**121,096**	117,347
Liabilities and equity			
Liabilities			
Deposits by banks		**1,925**	1,139
Customer accounts		**71,241**	71,950
Repurchase agreements – non-trading		**7,949**	3,227
Items in the course of transmission to other banks		**343**	181
Trading liabilities	9	**3,097**	1,831
Derivatives	6	**3,311**	5,647
Debt securities in issue	10	**16,496**	17,387
Other liabilities	11	**4,798**	3,097
Acceptances		**3,334**	4,062
Accruals and deferred income		**392**	523
Retirement benefit liabilities		**254**	310
Subordinated liabilities		**1,011**	1,011
Provisions		**58**	81
Current tax liabilities		**–**	19
Total liabilities		**114,209**	110,465
Equity			
Common shares		**1,725**	1,725
Preferred shares		**1,100**	1,100
Other reserves		**74**	249
Retained earnings		**3,988**	3,808
Total shareholder's equity		**6,887**	6,882
Total liabilities and equity		**121,096**	117,347

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 2021	30 Sep 2020
	$m	$m
Profit before income tax expense	**725**	244
Adjustments for non-cash items:		
Depreciation, amortization and impairment	**103**	82
Share-based payment expense	**4**	6
Change in expected credit losses	**(53)**	328
Charge for defined benefit pension plans	**10**	11
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**(2)**	10
Change in net trading securities and net derivatives	**(342)**	2,917
Change in loans and advances to customers	**(6,129)**	(186)
Change in reverse repurchase agreements – non-trading	**474**	(1,855)
Change in other assets	**(587)**	(978)
Change in accruals and deferred income	**(131)**	(98)
Change in deposits by banks	**786**	254
Change in customer accounts	**(709)**	10,709
Change in repurchase agreements – non-trading	**4,722**	(2,712)
Change in debt securities in issue	**(891)**	4,119
Change in other liabilities	**1,027**	671
Tax paid	**(214)**	(212)
Net cash from operating activities	**(1,207)**	13,310
Purchase of financial investments	**(3,048)**	(8,232)
Proceeds from the sale and maturity of financial investments	**8,239**	11,833
Purchase of intangibles and property, plant and equipment	**(64)**	(46)
Net cash from investing activities	**5,127**	3,555
Issuance of common shares	**–**	500
Dividends paid to shareholder	**(378)**	(196)
Repurchase of subordinated debentures	**–**	(22)
Lease principal payments	**(35)**	(39)
Net cash from financing activities	**(413)**	243
Net increase in cash and cash equivalents	**3,507**	17,108
Cash and cash equivalents at the beginning of the period	**17,279**	1,357
Cash and cash equivalents at the end of the period	**20,786**	18,465
Cash and cash equivalents comprise:		
Cash and balances at central bank	**15,153**	17,159
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(326)**	(201)
Loans and advances to banks of one month or less	**1,776**	1,022
Non-trading reverse repurchase agreements with banks of one month or less	**4,183**	475
T-Bills and certificates of deposits less than three months	**–**	10
Cash and cash equivalents at the end of the period	**20,786**	18,465
Interest:		
Interest paid	**(583)**	(923)
Interest received	**1,356**	1,704

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 2021	**2,825**	**3,808**	**108**	**141**	**249**	**6,882**
Profit for the period	**—**	**530**	**—**	**—**	**—**	**530**
Other comprehensive income/(loss), net of tax	**—**	**39**	**(88)**	**(87)**	**(175)**	**(136)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**(89)**	**—**	**(89)**	**(89)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**1**	**—**	**1**	**1**
– cash flow hedges	**—**	**—**	**—**	**(87)**	**(87)**	**(87)**
– remeasurement of defined benefit plans	**—**	**39**	**—**	**—**	**—**	**39**
Total comprehensive income for the period	**—**	**569**	**(88)**	**(87)**	**(175)**	**394**
Dividends on common shares	**—**	**(355)**	**—**	**—**	**—**	**(355)**
Dividends on preferred shares	**—**	**(34)**	**—**	**—**	**—**	**(34)**
Issuance of common shares	**—**	**—**	**—**	**—**	**—**	**—**
Shares issued under employee remuneration and share plan	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Sep 2021	**2,825**	**3,988**	**20**	**54**	**74**	**6,887**

	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

1. Share capital is comprised of common shares $1,725m 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 ('consolidated 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 2020 audited annual consolidated financial statements. The bank's 2020 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

Future accounting developments have been disclosed in note 1(c) of the 2020 annual consolidated financial statements of the bank's *Annual Report and Accounts 2020*.

(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 significant changes in the current period to the critical accounting estimates and judgments applied in 2020, which are stated on pages 32, 44 and 75 to 76 of the *Annual Report and Accounts 2020*.

(e) Consolidation

The consolidated financial statements comprise the consolidated financial statements of the bank and its subsidiaries as at 30 September 2021. The method adopted by the bank to consolidate its subsidiaries is described in note 2(a) of the 2020 annual consolidated financial statements of the bank's *Annual Report and Accounts 2020*.

(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 2020 annual consolidated financial statements of the bank's *Annual Report and Accounts 2020*.

2 Net fee income

Net fee income by global business

	Quarter ended							
	30 Sep 2021				30 Sep 2020			
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Account services	**10**	**2**	**3**	**15**	10	1	3	14
Broking income	**–**	**–**	**4**	**4**	–	–	3	3
Cards	**6**	**–**	**13**	**19**	4	–	11	15
Credit facilities	**74**	**16**	**–**	**90**	67	13	–	80
Funds under management	**–**	**–**	**57**	**57**	–	–	50	50
Imports/exports	**3**	**1**	**–**	**4**	3	–	–	3
Insurance agency commission	**–**	**–**	**1**	**1**	–	–	1	1
Other	**6**	**3**	**2**	**11**	7	3	1	11
Remittances	**7**	**2**	**2**	**11**	6	2	1	9
Underwriting and advisory	**–**	**13**	**–**	**13**	–	6	–	6
Fee income	**106**	**37**	**82**	**225**	97	25	70	192
Less: fee expense	**(3)**	**(6)**	**(19)**	**(28)**	(4)	(1)	(15)	(20)
Net fee income	**103**	**31**	**63**	**197**	93	24	55	172

	Nine months ended							
	30 Sep 2021				30 Sep 2020			
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Account services	**31**	**6**	**12**	**49**	30	5	12	47
Broking income	**–**	**1**	**13**	**14**	–	–	10	10
Cards	**15**	**–**	**37**	**52**	12	–	33	45
Credit facilities	**215**	**43**	**–**	**258**	193	42	–	235
Funds under management	**–**	**–**	**163**	**163**	–	–	144	144
Imports/exports	**8**	**1**	**–**	**9**	7	–	–	7
Insurance agency commission	**–**	**–**	**3**	**3**	–	–	4	4
Other	**22**	**9**	**5**	**36**	23	10	3	36
Remittances	**21**	**7**	**4**	**32**	19	6	3	28
Underwriting and advisory	**1**	**54**	**–**	**55**	1	34	–	35
Fee income	**313**	**121**	**237**	**671**	285	97	209	591
Less: fee expense	**(11)**	**(19)**	**(52)**	**(82)**	(11)	(7)	(45)	(63)
Net fee income	**302**	**102**	**185**	**589**	274	90	164	528

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 2021	30 Sep 2020	**30 Sep 2021**	30 Sep 2020
	$m	$m	**$m**	$m
Defined benefit plans	**5**	5	**15**	16
– pension plans	**3**	3	**10**	11
– non-pension plans	**2**	2	**5**	5
Defined contribution pension plans	**9**	10	**27**	29
Total	**14**	15	**42**	45

A remeasurement of the net defined benefit liability has occurred in accordance with the bank's accounting policy as described on page 83 of the *Annual Report and Accounts 2020.*

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.

Profit for the period

	Quarter ended									
	30 Sep 2021					30 Sep 2020				
	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	**152**	**30**	**133**	**—**	**315**	116	27	115	(14)	244
Net fee income	**103**	**31**	**63**	**—**	**197**	93	24	55	—	172
Net income from financial instruments held for trading	**9**	**14**	**5**	**(2)**	**26**	9	14	8	(2)	29
Other income	**4**	**3**	**11**	**4**	**22**	5	7	10	5	27
Total operating income	**268**	**78**	**212**	**2**	**560**	223	72	188	(11)	472
Change in expected credit losses and other credit impairment charges - release/(charge)	**1**	**(12)**	**8**	**—**	**(3)**	2	9	(9)	—	2
Net operating income	**269**	**66**	**220**	**2**	**557**	225	81	179	(11)	474
– external	**266**	**54**	**234**	**3**	**557**	252	72	154	(4)	474
– inter-segment	**3**	**12**	**(14)**	**(1)**	**—**	(27)	9	25	(7)	—
Total operating expenses	**(100)**	**(33)**	**(168)**	**(22)**	**(323)**	(97)	(34)	(167)	(19)	(317)
Profit/(loss) before income tax expense	**169**	**33**	**52**	**(20)**	**234**	128	47	12	(30)	157

	Nine months ended									
	30 Sep 2021					30 Sep 2020				
	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	**421**	**87**	**395**	**—**	**903**	404	94	355	(42)	811
Net fee income	**302**	**102**	**185**	**—**	**589**	274	90	164	—	528
Net income from financial instruments held for trading	**27**	**40**	**23**	**(6)**	**84**	26	48	28	—	102
Other income	**11**	**6**	**25**	**18**	**60**	14	17	28	20	79
Total operating income	**761**	**235**	**628**	**12**	**1,636**	718	249	575	(22)	1,520
Change in expected credit losses and other credit impairment charges - release/(charge)	**37**	**4**	**12**	**—**	**53**	(262)	(40)	(26)	—	(328)
Net operating income	**798**	**239**	**640**	**12**	**1,689**	456	209	549	(22)	1,192
– external	**804**	**213**	**659**	**13**	**1,689**	525	199	468	—	1,192
– inter-segment	**(6)**	**26**	**(19)**	**(1)**	**—**	(69)	10	81	(22)	—
Total operating expenses	**(287)**	**(99)**	**(497)**	**(81)**	**(964)**	(295)	(116)	(494)	(43)	(948)
Profit/(loss) before income tax expense	**511**	**140**	**143**	**(69)**	**725**	161	93	55	(65)	244

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 $m	Global Banking and Markets $m	Wealth and Personal Banking $m	Corporate Centre[1] $m	Total $m
At 30 Sep 2021					
Loans and advances to customers	**28,258**	**3,386**	**35,508**	**—**	**67,152**
Customers' liability under acceptances	**2,220**	**1,093**	**12**	**—**	**3,325**
Total external assets	**41,886**	**27,004**	**51,944**	**262**	**121,096**
Customer accounts	**25,326**	**6,405**	**39,510**	**—**	**71,241**
Acceptances	**2,228**	**1,094**	**12**	**—**	**3,334**
Total external liabilities	**35,514**	**26,635**	**51,796**	**264**	**114,209**
At 31 Dec 2020					
Loans and advances to customers	25,642	3,794	31,566	—	61,002
Customers' liability under acceptances	2,687	1,344	12	—	4,043
Total external assets	41,213	29,110	46,703	321	117,347
Customer accounts	25,188	7,959	38,803	—	71,950
Acceptances	2,703	1,347	12	—	4,062
Total external liabilities	35,345	26,228	48,505	387	110,465

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

	Footnote	At 30 Sep 2021 $m	At 31 Dec 2020 $m
Debt securities			
– Canadian and Provincial Government bonds	1	**2,409**	1,486
– treasury and other eligible bills		**656**	121
– other debt securities		**39**	112
Equity securities		**1**	—
At the end of the period		**3,105**	1,719
Trading assets			
– not subject to repledge or resale by counterparties		**1,782**	1,012
– which may be repledged or resold by counterparties		**1,323**	707
At the end of the period		**3,105**	1,719

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 2020*.

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 $m	Hedge accounting $m	Held for trading $m	Hedge accounting $m	Total $m	Held for trading $m	Hedge accounting $m	Total $m
Foreign exchange	**161,499**	**1,173**	**1,527**	**—**	**1,527**	**1,510**	**3**	**1,513**
Interest rate	**270,558**	**16,896**	**1,530**	**150**	**1,680**	**1,652**	**146**	**1,798**
Commodity	**5**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Sep 2021	**432,062**	**18,069**	**3,057**	**150**	**3,207**	**3,162**	**149**	**3,311**
Foreign exchange	144,349	64	1,861	—	1,861	1,913	—	1,913
Interest rate	408,615	16,446	3,323	261	3,584	3,317	415	3,732
Commodity	428	—	2	—	2	2	—	2
At 31 Dec 2020	553,392	16,510	5,186	261	5,447	5,232	415	5,647

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 2021			31 Dec 2020		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Interest rate	8,597	31	113	10,772	42	415
Total	**8,597**	**31**	**113**	10,772	42	415

Cash flow hedging instrument by hedged risk

	At					
	30 Sep 2021			31 Dec 2020		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Foreign exchange	1,173	—	3	64	—	—
Interest rate	8,299	119	33	5,674	219	—
Total	**9,472**	**119**	**36**	5,738	219	—

7 Financial investments

Carrying amount of financial investments

		At	
		30 Sep 2021	31 Dec 2020
	Footnote	$m	$m
Debt securities		14,559	19,873
– Canadian and Provincial Government bonds	1	9,116	11,782
– international Government bonds	1	2,424	2,838
– other debt securities issued by banks and other financial institutions		2,626	3,502
– treasury and other eligible bills		393	1,751
Equity securities		10	6
At the end of the period		**14,569**	19,879
Financial investments			
– not subject to repledge or resale by counterparties		13,728	19,788
– which may be repledged or resold by counterparties		841	91
At the end of the period		**14,569**	19,879

1. *Includes government guaranteed bonds.*

8 Other assets

	At	
	30 Sep 2021	31 Dec 2020
	$m	$m
Accounts receivable	616	339
Settlement accounts	1,592	614
Cash collateral	481	470
Other	9	7
At the end of the period	**2,698**	1,430

9 Trading liabilities

	At	
	30 Sep 2021	31 Dec 2020
	$m	$m
Net short positions in securities	3,097	1,831
At the end of the period	**3,097**	1,831

10 Debt securities in issue

	At	
	30 Sep 2021	31 Dec 2020
	$m	$m
Bonds and medium term notes	**8,610**	9,218
Covered bonds	**4,624**	3,883
Money market instruments	**3,262**	4,286
At the end of the period	**16,496**	17,387

Term to maturity

	At	
	30 Sep 2021	31 Dec 2020
	$m	$m
Less than 1 year	**7,630**	7,456
1-5 years	**8,678**	9,896
5-10 years	**188**	35
At the end of the period	**16,496**	17,387

11 Other liabilities

	At	
	30 Sep 2021	31 Dec 2020
	$m	$m
Mortgages sold with recourse	**2,240**	1,955
Lease liabilities	**198**	226
Accounts payable	**379**	282
Settlement accounts	**1,687**	354
Cash collateral	**238**	225
Other	**51**	49
Share based payment related liability	**5**	6
At the end of the period	**4,798**	3,097

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 September 2021 are consistent with those applied for the *Annual Report and Accounts 2020*.

Financial instruments carried at fair value and bases of valuation

	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	$m	$m	$m	$m
Recurring fair value measurements				
At 30 Sep 2021				
Assets				
Trading assets	**3,069**	**36**	**–**	**3,105**
Other financial assets mandatorily measured at fair value through profit or loss	**–**	**16**	**–**	**16**
Derivatives	**–**	**3,207**	**–**	**3,207**
Financial investments	**14,483**	**86**	**–**	**14,569**
Liabilities				
Trading liabilities	**3,046**	**51**	**–**	**3,097**
Derivatives	**–**	**3,311**	**–**	**3,311**
At 31 Dec 2020				
Assets				
Trading assets	1,659	60	–	1,719
Other financial assets mandatorily measured at fair value through profit or loss	–	9	–	9
Derivatives	–	5,447	–	5,447
Financial investments	19,873	6	–	19,879
Liabilities				
Trading liabilities	1,776	55	–	1,831
Derivatives	–	5,647	–	5,647

Transfers between Level 1 and Level 2 fair values

	Assets		Liabilities
	Trading assets	Financial investments	Trading liabilities
	$m	$m	$m
Quarter ended 30 Sep 2021			
Transfer from Level 1 to Level 2	**–**	**13**	**–**
Transfer from Level 2 to Level 1	**–**	**58**	**–**
Quarter ended 30 Sep 2020			
Transfer from Level 1 to Level 2	–	–	–
Transfer from Level 2 to Level 1	–	–	–

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 changes in 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 104 and 105 of the *Annual Report and Accounts 2020*.

Fair values of financial instruments not carried at fair value

		At			
		30 Sep 2021		31 Dec 2020	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	1	**67,152**	**67,270**	61,002	61,309
Liabilities					
Customer accounts		**71,241**	**71,395**	71,950	72,234
Debt securities in issue		**16,497**	**16,704**	17,387	17,792
Subordinated liabilities		**1,011**	**1,045**	1,011	1,047

1. *Loans and advances to customers specifically relating to Canada: carrying amount $63,420m and fair value $63,532m.*

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

On 22 October 2021, the bank declared regular quarterly dividends for the fourth quarter of 2021 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 2021 or the first business day thereafter to the shareholder of record on 15 December 2021.

On 22 October 2021, the bank also declared a third interim dividend of $80m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2021, which will be paid on or before 31 December 2021 to the shareholder of record on 22 October 2021.

As the quarterly dividends on preferred shares for the fourth quarter of 2021 and the third interim dividend on common shares for 2021 were declared after 30 September 2021, 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 2021 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 22 October 2021 and authorized for issue.

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