HSBC Bank Canada

First Quarter 2022 Interim Report

HSBC

HSBC Bank Canada first quarter 2022 performance

Quarter ended 31 March 2022

Total operating income

$570m ↑ 7.8%

(2021: $529m)

Profit before income tax expense

$292m ↑ 26%

(2021: $232m)

Profit attributable to the common shareholder

$203m ↑ 28%

(2021: $158m)

At 31 March 2022

Total assets

$120.8bn ↑ 0.8%

(At 31 Dec 2021: $119.9bn)

Common equity tier 1 ratio[1]

11.6% ↓ 240 bps

(At 31 Dec 2021: 14.0%)

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

"The year is off to a very strong start. We saw a significant increase in profit before income tax expense with each of our business segments contributing. It also began with positive signs the Canadian economy was shifting to a less restricted phase of the pandemic with services reopening across the country. As a result, lending, investment funds under management and card activity all grew in the quarter. Clients have been adopting our growing suite of digital services, and seeking out our expertise to support their transition to a net zero economy. This strong performance gives us the start to 2022 that we need as the world faces significant uncertainty for the balance of the year: the continuing pandemic and disruptions to supply chains, geopolitical tensions, along with soaring oil prices, inflation and rising interest rates. Despite the challenges ahead, I am confident that our teams will continue to be agile in supporting our clients as they have throughout our history."

1. *Refer to the 'Capital risk' section of the Management's Discussion and Analysis ('MD&A') for definition.*

Select award and recognition

Gold rating for Social Purpose
Corporate Knights Social Purpose Rating (2022)

Trade Finance Market Leader and Best Service Awards in Canada
Euromoney (2022)

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Our business segments[1]

Our operating model consists of four 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.

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 a large suite of global investment products and other specialized services available to serve our clients with international needs.

Global Banking ('GB')[2]

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.

Markets and Securities Services ('MSS')[2]

We enable our corporate and institutional clients to access financial markets and liquidity, unlock investment opportunities, manage risk and transact seamlessly. We bring together financing solutions, sales and trading, research, clearing and settlement, global and direct custody, and asset servicing.

Quarter ended 31 March 2022

Total operating income

CMB	WPB	GB	MSS
$280m ↑ 17%	$217m ↑ 4.8%	$47m ↓ 22%	$26m ↑ 24%
(2021: $239m)	(2021: $207m)	(2021: $60m)	(2021: $21m)

Profit before income tax expense

CMB	WPB	GB	MSS
$217m ↑ 44%	$60m ↑ 62%	$23m ↓ 53%	$13m ↑ 44%
(2021: $151m)	(2021: $37m)	(2021: $49m)	(2021: $9m)

At 31 March 2022

Customer related assets[3]

CMB	WPB	GB	MSS
$34.0bn ↑ 6.9%	$36.3bn ↑ 1%	$4.3bn ↓ 5.4%	nil
(At 31 Dec 2021: $31.8bn)	(At 31 Dec 2021: $35.9bn)	(At 31 Dec 2021: $4.5bn)	(At 31 Dec 2021: nil)

1. *We manage and report our operations around four 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 13 of the MD&A for more information). The Corporate Centre is not an operating segment of the bank. The following numbers provide a reconciliation between operating segments and the entity results. The equivalent results for the Corporate Centre were: Total operating income was nil for the quarter (2021 total operating income: $2m for the quarter), profit/(loss) before income tax expense was a loss of $21m for the quarter (2021 was a loss of: $14m for the quarter) and customer assets of nil (2021: nil).*
2. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation. For further information, refer to note 4.*
3. *Customer related assets includes loans and advances to customers and customers' liability under acceptances.*

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Basis of preparation

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

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter ended 31 March 2022, 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 ended 31 March 2022 ('consolidated financial statements') and our *Annual Report and Accounts 2021*. This MD&A is dated 22 April 2022, 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 ended 31 March 2022.

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 2021 audited annual consolidated financial statements. The bank's 2021 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 2021*. 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' section in the MD&A of our *Annual Report and Accounts 2021* 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, treasury risk (inclusive of capital management, liquidity and funding risk and interest rate 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, inflation, 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 the highly competitive and active employment market continues to prove 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, terrorist acts and geopolitical events. Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2021* for a description of these risk factors, as well as the 'Impact of COVID-19 and our response' section of our *Annual Report and Accounts 2021*. 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 celebrated its 40th anniversary in 2021. We help companies and individuals across Canada to do business and manage their finances here and internationally through four businesses: Commercial Banking, Wealth and Personal Banking, Global Banking[1], and Markets and Securities Services[1]. No international bank has our Canadian presence and no domestic bank has our international reach.

Canada is an important contributor to the HSBC Group 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 Group has committed to becoming net-zero in its operations and financed emissions and is working with our customers to accelerate the transition to a low carbon economy.

HSBC Holdings plc, the parent company of HSBC Bank Canada, is headquartered in London, UK. 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$3,022bn at 31 March 2022, 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. HSBC Bank Canada has a Euro denominated covered bond listed on the London Stock Exchange.

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current year presentation. For further information, refer to note 4.*

Use of supplementary financial measures

In evaluating our performance, we use supplementary financial measures which have been calculated from IFRS figures. Following is a glossary of the relevant measures used throughout this document but not presented within the consolidated financial statements. The following supplementary 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.

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

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[2].

Change in expected credit losses to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[3] 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[3] 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[3] relating to stage 3 loans and advances to customers and customers' 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.

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. *See 'Summary of interest income by types of assets' table on page 7 for the composition of interest earning assets.*
3. *Change in expected credit losses relates primarily to loans, acceptances and commitments.*

Financial highlights

($millions, except where otherwise stated)	Footnotes	Quarter ended 31 Mar 2022	31 Mar 2021
Financial performance for the period			
Total operating income		**570**	529
Change in expected credit losses and other credit impairment charges - release		**42**	16
Operating expenses		**(320)**	(313)
Profit before income tax expense		**292**	232
Profit attributable to the common shareholder		**203**	158
Basic and diluted earnings per common share ($)		**0.37**	0.29
Financial ratios (%)	1		
Return on average common shareholder's equity		**15.5**	11.2
Return on average risk-weighted assets		**2.9**	2.4
Cost efficiency ratio		**56.1**	59.2
Operating leverage ratio		**5.6**	1.2
Net interest margin		**1.28**	1.12
Change in expected credit losses to average gross loans and advances and acceptances	2	**n/a**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		**0.01**	0.11
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**33.1**	32.4
Net write-offs as a percentage of average loans and advances and acceptances		**0.02**	0.06

	Footnotes	At 31 Mar 2022	31 Dec 2021
Financial position at period end			
Total assets		**120,820**	119,853
Loans and advances to customers		**71,228**	68,699
Customer accounts		**71,436**	73,626
Ratio of customer advances to customer accounts (%)	1	**99.7**	93.3
Common shareholder's equity		**4,843**	5,776
Capital, leverage and liquidity measures			
Common equity tier 1 capital ratio (%)	3	**11.6**	14.0
Tier 1 ratio (%)	3	**14.3**	16.8
Total capital ratio (%)	3	**16.7**	19.3
Leverage ratio (%)	3	**4.8**	5.8
Risk-weighted assets ($m)	3	**41,512**	39,836
Liquidity coverage ratio (%)	4	**140**	147

1. *Refer to the 'Use of supplementary measures' section of this document for a glossary of the measures used.*
2. *n/a is shown where the bank is in a net release position resulting in a negative ratio.*
3. *Capital ratios and risk weighted assets are calculated using OSFI's Capital Adequacy Requirements ('CAR') guideline, and the Leverage ratio is calculated using OSFI's Leverage Requirements ('LR') guideline. The CAR and LR guidelines are based on the Basel III guidelines. Refer to the 'Capital risk' section of this document for more information.*
4. *The Liquidity coverage ratio is calculated using OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates the Basel liquidity standards. The LCR in this table has been calculated using averages of the three month-end figures in the quarter. Refer to the 'Liquidity and funding risk' section of this document for more information.*

Financial performance

Summary consolidated income statement

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Net interest income	**337**	282
Net fee income	**197**	196
Net income from financial instruments held for trading	**27**	30
Other items of income	**9**	21
Total operating income	**570**	529
Change in expected credit losses and other credit impairment charges - release	**42**	16
Net operating income	**612**	545
Total operating expenses	**(320)**	(313)
Profit before income tax expense	**292**	232
Income tax expense	**(78)**	(63)
Profit for the period	**214**	169

For the quarter ended 31 March 2022 compared with the same period in the prior year, unless otherwise stated.

Profit before income tax expense was $292m, up $60m or 26% for the quarter. Building on the momentum since the second half of 2020, we have reached our highest profit before income tax expense in a decade, since the first quarter of 2012. Profit before income tax expense and total operating income has increased across three of our four businesses for the quarter.

Operating income of $570m for the quarter represented an increase of $41m or 7.8% from the prior year. Improved net interest margin and growth in lending drove net interest income higher. Net fee income increased as a result of higher investment funds under management in Wealth and Personal Banking, an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking, and higher card and transaction activity in both Wealth and Personal Banking and Commercial Banking. These increases were partly offset by the prior year's elevated levels of advisory fees in Global Banking, in addition to lower gains in other operating income and lower trading income.

Expected credit losses resulted in a release of $42m for the quarter, which was primarily driven by a release in performing loans from COVID-19 related allowances, supported by a relative improvement in macro-economic variables in four of the scenarios used to estimate expected credit losses. This was partly offset by a charge reflecting the effects of a mild deterioration attributable to a new scenario capturing the projected impact of the Russian invasion of Ukraine and inflation on the Canadian economy. The release in the prior year reflected the improvement of forward-looking macro-economic guidance on performing loans at that time, partly offset by impairment charges from non-performing loans in the energy and wholesale foods sectors.

Total operating expenses increased by $7m or 2.2% for the quarter as we continue to strategically make investments to grow our business and support regulatory projects while prudently managing costs.

Performance by income and expense item

For the quarter ended 31 March 2022 compared with the same period in the prior year.

Net interest income

Net interest income increased by $55m or 20% for the quarter as a result of improved margins on interest bearing liabilities, growth in commercial and residential mortgages, and the central bank rate increase in the quarter.

Summary of interest income by types of assets

		Quarter ended					
		31 Mar 2022			31 Mar 2021		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnotes	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks	*1*	**12,578**	**9**	**0.29**	15,259	9	0.24
Loans and advances to customers	*2*	**69,566**	**425**	**2.48**	61,941	406	2.66
Reverse repurchase agreements - non-trading		**8,423**	**7**	**0.34**	5,743	5	0.34
Financial investments	*3*	**16,077**	**29**	**0.73**	18,456	30	0.67
Other interest-earning assets	*4*	**495**	**1**	**0.84**	526	1	0.55
Total interest-earning assets (A)		**107,139**	**471**	**1.77**	101,925	451	1.78
Trading assets and financial assets designated at fair value	*5*	**3,166**	**12**	**1.51**	3,500	7	0.84
Non-interest-earning assets	*6*	**9,560**	**—**	**—**	11,578	—	—
Total		**119,865**	**483**	**1.62**	117,003	458	1.57

1. *'Short-term funds and loans and advances to banks' includes interest-earning cash and balances at central banks and loans and advances to banks.*
2. *'Loans and advances to customers' includes gross interest-earning loans and advances to customers.*
3. *'Financial investments' includes debt instruments at fair value through other comprehensive income.*
4. *'Other interest-earning assets' includes cash collateral and other interest-earning assets included within 'Other assets' on the balance sheet.*
5. *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.*
6. *'Non-interest-earning assets' includes non-interest earning cash and balances at central banks, items in the course of collection from other banks, equity shares held included within 'Trading assets', other financial assets mandatorily measured at fair value through profit or loss, derivatives, non-interest-earning loans and advances to banks and customers and impairment allowances, equity instruments at fair value through other comprehensive income included within 'Financial investments' on the balance sheet, customers' liability under acceptances, property, plant and equipment, goodwill and intangible assets, deferred and current tax assets and non-interest-earning other assets.*

Summary of interest expense by types of liability and equity

		Quarter ended					
		31 Mar 2022			31 Mar 2021		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
	Footnotes	**$m**	**$m**	**%**	$m	$m	%
Deposits by banks	*1*	**1,339**	**—**	**0.04**	1,087	—	0.04
Customer accounts	*2*	**64,195**	**45**	**0.28**	63,094	69	0.45
Repurchase agreements - non-trading		**7,807**	**5**	**0.26**	3,235	3	0.36
Debt securities in issue and subordinated debt		**15,668**	**69**	**1.77**	17,229	80	1.88
Other interest-bearing liabilities	*3*	**2,526**	**15**	**2.48**	2,653	17	2.63
Total interest bearing liabilities (B)		**91,535**	**134**	**0.59**	87,298	169	0.78
Trading liabilities	*4*	**3,194**	**12**	**1.45**	3,420	7	0.84
Non-interest bearing current accounts	*5*	**8,665**	**—**	**—**	7,483	—	—
Total equity and other non-interest bearing liabilities	*6*	**16,471**	**—**	**—**	18,802	—	—
Total		**119,865**	**146**	**0.49**	117,003	176	0.60
Net interest income (A-B)			**337**			282	

1. *'Deposits by banks' includes interest-bearing bank deposits only.*
2. *'Customer accounts' includes interest-bearing customer accounts only.*
3. *'Other interest-bearing liabilities' includes cash collateral and other interest-bearing liabilities included within 'Other liabilities' on the balance sheet.*
4. *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.*
5. *'Non-interest bearing current accounts' is included within 'Customer accounts' on the balance sheet.*
6. *'Total equity and other non-interest bearing liabilities' includes non-interest bearing bank deposits and other customer accounts not included within 'Non-interest bearing current accounts', items in the course of transmission to other banks, derivatives, acceptances, accruals and deferred income, retirement benefit liabilities, provisions, current tax liabilities and non-interest bearing other liabilities.*

Net fee income

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Account services	**19**	15
Broking income	**4**	7
Cards	**21**	16
Credit facilities	**82**	84
Funds under management	**58**	52
Imports/exports	**3**	3
Insurance agency commission	**1**	1
Guarantee and other	**14**	12
Remittances	**10**	10
Underwriting and advisory	**10**	25
Fee income	**222**	225
Less: fee expense	**(25)**	(29)
Net fee income	**197**	196

Net fee income increased slightly by $1m or 0.5% for the quarter. The increase was mainly driven by higher investment funds under management in Wealth and Personal Banking, and increased activity in cards and transactions in account services in both Wealth and Personal Banking and Commercial Banking. This was partly offset by a decrease in advisory fees in Global Banking as a result of the high volume of activity in the prior year. Credit facility fees also decreased in Global Banking, which was partly offset by an increase in Commercial Banking from higher volumes of bankers' acceptances. As a result of activity described above, fee expense has decreased due to lower volumes in advisory fees partly offset by increased activity in cards.

Net income from financial instruments held for trading

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Trading activities	**29**	29
Credit valuation, debit valuation and funding fair value adjustments	**2**	3
Hedge ineffectiveness	**(4)**	(2)
Net income from financial instruments held for trading	**27**	30

Net income from financial instruments held for trading decreased by $3m or 10% for the quarter. The decrease was mainly driven by an unfavourable change in hedge ineffectiveness resulting from the basis difference on cash flow hedge instruments.

Other items of income

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Gains less losses from financial investments	**2**	15
Other operating income	**7**	6
Other items of income	**9**	21

Other items of income decreased by $12m or 57% for the quarter driven by lower gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio.

Change in expected credit losses

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - (release)	**(57)**	(39)
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - charge	**15**	23
Change in expected credit loss and other credit impairment charges - (release)	**(42)**	(16)

The change in expected credit losses for the quarter resulted in a release of $42m compared to a release of $16m in the same period in the prior year. The release for the quarter was primarily driven by a release in performing loans from COVID-19 related allowances, supported by a relative improvement in macro-economic variables in four of the scenarios used to estimate expected credit losses. This was partly offset by a charge reflecting the effects of a mild deterioration attributable to a new scenario capturing the projected impact of the Russian invasion of Ukraine and inflation on the Canadian economy. Change in expected credit losses for stage 3 loans resulted in a charge mainly due to a material aviation loan, partly offset by releases in the energy sector. In 2021, the release was primarily driven by the improvement in forward-looking macro-economic variables at that time related to performing loans, partly offset by impairment charges from non-performing loans in the energy and wholesale foods sectors.

Total operating expenses

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Employee compensation and benefits	**151**	159
General and administrative expenses	**142**	128
Depreciation and impairment of property, plant and equipment	**15**	17
Amortization and impairment of intangible assets	**12**	9
Total operating expenses	**320**	313

Total operating expenses increased by $7m or 2.2% for the quarter mainly due to costs associated with strategic investments to grow our business, support regulatory projects, simplify our processes and provide digital services to meet customers' needs. These increases were partly offset by reduced salary costs due to the timing of certain employee compensation and benefit costs.

Income tax expense

The effective tax rate in the first quarter of 2022 was 26.7% which is modestly higher than the statutory tax rate of 26.5% due to an increase in tax liabilities. The effective tax rate for the first quarter of 2021 was 26.9%.

Movement in financial position

Summary consolidated balance sheet

	At	
	31 Mar 2022	31 Dec 2021
	$m	$m
Assets		
Cash and balances at central bank	**9,241**	13,955
Trading assets	**3,682**	2,907
Derivatives	**3,645**	2,773
Loans and advances	**72,665**	70,358
Reverse repurchase agreements – non-trading	**7,496**	9,058
Financial investments	**16,347**	14,969
Customers' liability under acceptances	**3,338**	3,548
Other assets	**4,406**	2,285
Total assets	**120,820**	119,853
Liabilities and equity		
Liabilities		
Deposits by banks	**1,414**	1,313
Customer accounts	**71,436**	73,626
Repurchase agreements – non-trading	**7,441**	8,044
Trading liabilities	**3,083**	3,598
Derivatives	**4,019**	2,978
Debt securities in issue	**16,754**	14,339
Acceptances	**3,346**	3,556
Other liabilities	**7,384**	5,523
Total liabilities	**114,877**	112,977
Total shareholder's equity	**5,943**	6,876
Total liabilities and equity	**120,820**	119,853

Assets

Total assets at 31 March 2022 were $120.8bn, an increase of $1.0bn or 0.8% from 31 December 2021. The increase was mainly due to higher loans and advances of $2.3bn from increased volumes in commercial loans and residential mortgages. An increase in other assets of $2.1bn in settlement balances to facilitate client trades and the increase financial investments of $1.4bn, also contributed to the increase. These increases were partly offset by reduced cash balances at central banks of $4.7bn as we supported growth in other asset classes.

Liabilities

Total liabilities at 31 March 2022 were $114.9bn, an increase of $1.9bn or 1.7% from 31 December 2021. The increase was primarily from an increase in term and wholesale funding of $2.4bn in debt securities in issue. The increase in other liabilities of $1.9bn correspond with the movement in other assets. These increases were partly offset by a decline in customer accounts of $2.2bn as a result of seasonal payments in our commercial and corporate accounts.

Equity

Total equity at 31 March 2022 was $5.9bn, a decrease of $0.9bn or 14% from 31 December 2021. The decrease represents $0.6bn return of common share capital to parent; a loss of $0.3bn recorded on debt instruments at fair value through other comprehensive income and cash flow hedges from the upward shift in the yield curve; and $0.2bn of dividends on common shares declared in the period. These decreases were partly offset by profits after tax of $0.2bn generated in the period.

Our business segments

We manage and report our operations around the following businesses: Commercial Banking, Wealth and Personal Banking, Global Banking[1], and Markets and Securities Services[1].

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation. For further information, refer to note 4.*

Commercial Banking

Commercial Banking ('CMB') offers a full range of commercial financial services and tailored solutions to clients ranging from small enterprises to large corporates operating internationally.

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Net interest income	**162**	127
Non-interest income	**118**	112
Total operating income	**280**	239
Change in expected credit losses and other credit impairment charges - release	**40**	8
Net operating income	**320**	247
Total operating expenses	**(103)**	(96)
Profit before income tax expense	**217**	151

Overview

Total operating income increased by $41m or 17% for the quarter. CMB has maintained positive momentum in 2022 with loans and acceptances increasing by $2.2bn in the first three months and higher deposit balances compared to the first quarter of 2021. Net interest income has improved as a result of higher volumes and a recovery in margins. Non-interest income has similarly improved with higher volumes of bankers' acceptances, higher fees from domestic and international payments, and corporate credit cards.

Our ambition is to maintain our leadership position as the preferred international financial partner for our clients and to continue 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 deepen client relationships with our award-winning transaction banking capabilities and to support our clients with both their domestic and cross-border banking requirements. With this continued focus, we won Euromoney's Trade Finance Market Leader and Best Service Awards in Canada.

Profit before income tax expense increased by $66m or 44% for the quarter, primarily due to higher operating income and a favourable change in expected credit losses, partly offset by higher operating expense.

Financial performance by income and expense item

Net interest income for the quarter increased by $35m or 28% due to higher average loan and deposit balances and increased rates as a result of the central bank rate increase in the quarter.

Non-interest income for the quarter increased by $6m or 5.4%, mainly due to higher fees from higher volumes of bankers' acceptances, higher fees from domestic and international payments, and corporate credit cards.

Change in expected credit losses resulted in a release of $40m for the quarter. This was primarily driven by a release in performing loans from COVID-19 related allowances, supported by a relative improvement in macro-economic variables in four of the scenarios used to estimate expected credit losses. This was partly offset by a charge reflecting the effects of a mild deterioration attributable to a new scenario capturing the projected impact of inflation on the Canadian economy, and an impairment charge on a stage 3 aviation loan.

Total operating expenses for the quarter increased by $7m or 7.3% as we strategically make investments to grow our business while prudently managing costs.

1. *For the quarter ended 31 March 2022 compared with the same period 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 a large suite of global investment products and other specialized services available to serve our clients with international needs.

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Net interest income	**141**	128
Non-interest income	**76**	79
Total operating income	**217**	207
Change in expected credit losses and other credit impairment charges - release/(charge)	**4**	(3)
Net operating income	**221**	204
Total operating expenses	**(161)**	(167)
Profit before income tax expense	**60**	37

Overview

Total operating income increased by $10m or 4.8% for the quarter. The increases were driven by strong volume growth in total relationship balances[2] and improved margins as a result of the central bank rate increase during the quarter, partly offset by lower treasury-related income.

We grew our overall and international client base as we continue to invest in our distribution channels and market-competitive products. We continue to focus on our clients' needs and digital enhancements to improve the client experience. For example, we launched the HSBC Mortgage Prequalification Calculator on our public website for clients to receive an estimate of the mortgage amount they could qualify for.

Excluding 2012 which included a one-time gain, we had record[3] profit before income tax expense for the quarter. Profit before income tax expense increased by $23m or 62% for the quarter due to higher operating income as noted above, lower expected credit losses and lower operating expenses.

Financial performance by income and expense item

Net interest income increased by $13m or 10% for the quarter due to higher volumes and improved margins as a result of the central bank rate increase during the quarter.

Non-interest income decreased by $3m or 3.8% for the quarter due to lower treasury-related income and lower client activity in our online broker business, partly offset by higher investment funds under management and increased credit card activity.

Change in expected credit losses were $7m favourable for the quarter as a result of a release in performing loans from COVID-19 related allowances.

Total operating expenses decreased by $6m or 3.6% for the quarter due to prudent management of costs while strategically investing to grow our business.

1. *For the quarter ended 31 March 2022 compared with the same period in the prior year, unless otherwise stated.*
2. *Total relationship balances includes lending, deposits and wealth balances.*
3. *Record for the quarter since inception of WPB (previously Retail Banking and Wealth Management ('RBWM')) as a single business segment in 2011.*

Global Banking[1]

Global Banking ('GB') provides tailored financial services and products to major government, corporate and institutional clients worldwide. Our product specialists deliver a comprehensive range of transaction banking, financing, advisory, capital markets and risk management services. Our products, combined with our expertise across industries, enable us to help clients achieve their sustainability goals.

Review of financial performance[2]

Summary income statement

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Net interest income	**25**	22
Non-interest income	**22**	38
Total operating income	**47**	60
Change in expected credit losses and other credit impairment charges - (charge)/release	**(2)**	11
Net operating income	**45**	71
Total operating expenses	**(22)**	(22)
Profit before income tax expense	**23**	49

Overview

Total operating income decreased by $13m or 22% for the quarter. We continued to build on a strong pipeline into the first quarter of 2022. However, the prior year's elevated performance and the timing of transactions in the current year contributed to a decrease in advisory fees. This was partly offset by increases in income from robust capital markets and higher transaction banking activities as the central bank rate increase in the quarter which improved deposit margins.

GB 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, we 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 expense decreased by $26m or 53% for the quarter mainly due to an increase in expected credit losses and a decrease in operating income.

Financial performance by income and expense item

Net interest income for the quarter increased by $3m or 14% as a result of the central bank rate increase in the quarter led to improved deposit margins, while lending margins remained favourable compared to the same period in the prior year.

Non-interest income for the quarter decreased by $16m or 42% primarily due to lower advisory fees and credit facility fees, partly offset by higher underwriting fees from robust capital market.

Change in expected credit losses were a charge of $2m in the current year compared to a release of $11m in the prior year. The charge in the quarter was mainly due to an impairment in a non-performing energy exposure. The release in the prior year reflected the improvement of forward-looking macro-economic guidance on performing loans at that time.

Total operating expenses remained flat for the quarter.

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation. For further information, refer to note 4.*
2. *For the quarter ended 31 March 2022 compared with the same period in the prior year, unless otherwise stated.*

Markets and Securities Services[1]

Markets and Securities Services ('MSS') provides tailored financial services and products to major government, corporate and institutional clients worldwide. Our knowledge and expertise of local and international markets coupled with our global reach enables us to provide comprehensive and bespoke services across various asset classes, which can be combined and customized to meet clients' specific objectives.

Review of financial performance[2]

Summary income statement

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Net interest income	**9**	5
Non-interest income	**17**	16
Total operating income	**26**	21
Total operating expenses	**(13)**	(12)
Profit before income tax expense	**13**	9

Overview

Total operating income increased by $5m or 24% for the quarter. Markets revenue increased as a result of higher rates from the central bank rate increase in the quarter and higher foreign exchange trading income.

MSS continues to pursue its well-established strategy to provide tailored 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, we 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 expense increased by $4m or 44% for the quarter. The increase was mainly due to higher net interest income, partly offset by an increase in operating expenses.

Financial performance by income and expense item

Net interest income for the quarter increased by $4m or 80% mainly due to higher rates as a result of the central bank rate increase in the quarter.

Non-interest income for the quarter increased by $1m or 6.3% driven by higher foreign exchange trading income.

Total operating expenses for the quarter increased by $1m or 8.3%.

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation. For further information, refer to note 4.*
2. *For the quarter ended 31 March 2022 compared with the same period in the prior year, unless otherwise stated.*

Corporate Centre

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

Review of financial performance[1, 2]

Summary income statement

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Non-interest income	**–**	2
Net operating income	**–**	2
Total operating expenses	**(21)**	(16)
Profit/(loss) before income tax expense	**(21)**	(14)

Overview

Profit before income tax expense decreased by $7m for the quarter mainly due to an increase in operating expenses from costs related to initiatives to support our future growth.

1. *For the quarter ended 31 March 2022 compared with the same period in the prior year, unless otherwise stated.*
2. *Corporate Centre is not an operating segment of the bank. The numbers included above provides a reconciliation between operating segments and the entity results.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2022	2021				2020		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**337**	323	315	306	282	275	244	249
Net fee income	**197**	205	197	196	196	185	172	178
Net income from financial instruments held for trading	**27**	28	26	28	30	30	29	47
Other items of income	**9**	23	22	17	21	14	27	28
Total operating income	**570**	579	560	547	529	504	472	502
Change in expected credit losses and other credit impairment charges - release/ (charge)	**42**	(8)	(3)	40	16	1	2	(190)
Net operating income	**612**	571	557	587	545	505	474	312
Total operating expenses	**(320)**	(344)	(323)	(328)	(313)	(345)	(317)	(304)
Profit before income tax expense	**292**	227	234	259	232	160	157	8
Income tax expense	**(78)**	(40)	(63)	(69)	(63)	(35)	(45)	(3)
Profit for the period	**214**	187	171	190	169	125	112	5
Profit/(loss) attributable to:								
– common shareholder	**203**	176	159	179	158	113	101	(8)
– preferred shareholder	**11**	11	12	11	11	12	11	13
Basic and diluted earnings per common share ($)	**0.37**	0.32	0.29	0.32	0.29	0.21	0.18	(0.01)

Comments on trends over the past eight quarters

Net interest income continued to increase in the first quarter of 2022 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. The first quarter of 2022 also benefited from the central bank rate increase in the quarter. Net interest income decreased in the third quarter of 2020 due to the negative impact of central bank rate cuts and maintaining elevated levels of liquidity at lower yields.

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 investment funds under management, credit facilities related to higher volumes of bankers' acceptances, and credit cards. In the fourth 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 quarter 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 first quarter of 2022, it remained relatively flat. It decreased in the third quarter of 2020 due to unfavourable credit and funding fair value adjustments.

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 release in the first quarter of 2022 primarily driven by a release in performing loans from COVID-19 related allowances, supported by a relative improvement in macro-economic variables in four of the scenarios used to estimate expected credit losses. This was partly offset by a charge reflecting the effects of a mild deterioration attributable to a new scenario capturing the projected impact of the Russian invasion of Ukraine and inflation on the Canadian economy. Change in expected credit losses for stage 3 loans resulted in a charge mainly due to a material aviation loan, partly offset by releases in the energy sector. Expected credit losses resulted in a charge in the fourth quarter of 2021 due to an impairment charge from a performing loan in the aviation sector, partly offset by releases from non-performing loans in the energy sector. 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 second quarter 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.

With regards to operating expenses, our focus has been on growing our business in support of our strategic plan, and we continue to make these investments in 2022. 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.

As a result of the trends above, profit before income tax expense has been improving and in the first quarter of 2022 we reached our highest profit before income tax expense in ten years, since the first quarter of 2012.

1. *Record quarter since net fee income began to be 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.

Geopolitical risks and high oil prices heighten uncertainty

Amid signs that the Canadian economy was emerging from the doldrums of the pandemic, and that the disruptions to global supply chains were starting to ease, geopolitical uncertainty spiked in March 2022 as Russia invaded Ukraine.

The hostilities caused oil prices to rise to over USD120/bbl. The increase in energy and commodity prices is another big supply shock that presents another downside risk to the global and domestic economic outlooks, while putting upward pressure on inflation.

The economy has faced a number of challenges in early 2022. First, the Omicron variant of COVID-19 led to the imposition of restrictions to slow its spread in January, leading to a sharp drop in employment. The economy, however, again demonstrated its resilience in managing to expand slightly in the month. Looking ahead, though pandemic risks have declined, Canada did see a sixth wave in late March/early April. Though there were no further restrictions imposed by public health authorities, the pandemic lingers as a factor that could inhibit the pace of the recovery.

Second, gasoline prices increased sharply through the first quarter. The most notable increase occurred in March with gasoline prices hitting record highs across Canada following the invasion of Ukraine in February. Gasoline prices had previously increased by 4.8% in January and 6.9% in February.

Third, the blockade of the Ambassador Bridge temporarily interrupted traffic across a key Canada-US trade conduit, and a very short rail strike highlighted lingering uncertainty over the robustness of supply chains.

On balance, we believe that the downside risks to the economic outlook from geopolitical tensions in Eastern Europe depend on a country's proximity to the armed conflict, and the degree of economic interconnections with Russia and Ukraine. Hence, for Canada, which has very limited economic interaction with either Russia or Ukraine, we see the downside economic risks as moderate and largely coming through weaker business and consumer confidence, and a squeeze to disposable income due to higher prices for oil and other commodities that will put further upward pressure on consumer prices. Accordingly, we now forecast a higher profile for the rate of inflation.

Given the challenges in early 2022, we now expect gross domestic product ('GDP') growth of 2.1% (annualized quarter-over-quarter) in the first quarter. For all of 2022, we look for GDP growth of 3.6%, down from 4.6% in 2021. In 2023, we expect GDP growth to slow to 3.1%,

Inflation has yet to peak

Inflation is now expected to peak at a higher level and to descend at a slower pace this year. In fact, consumer prices rose by 1.4% month-over-month in March 2022, the largest increase since the introduction of the Goods and Services Tax in January 1991. Of note, the Bank of Canada's ('BoC's') inflation targeting regime did not start until February 1991. Also in March, the annual rate of inflation hit 6.7%, highest during the inflation targeting era.

The impact of higher oil prices on gasoline are a significant factor in the upward pressure on inflation, although a broader set of factors are also involved. For example, apart from the direct effect of higher gasoline prices on consumers, higher fuel costs and ongoing supply chain disruptions are putting upward pressure on transportation costs for consumer goods.

Food prices face upside risks, in part due to higher transportation costs, but also due to a severe drought in Western Canada. In addition, the cost of dairy products are rising as retailers pass through much of an 8.4% increase in payments to dairy producers.

Lastly, the sustained upward pressure on shelter services costs has been more persistent than anticipated. In part, this reflects the ongoing strength of the housing market that has pushed up home prices and the costs of home construction.

In our view, inflation will remain above 4% year-over-year through year-end 2022, and average 5.5% for all of 2022. This would be up from 3.4% in 2021, and would be the highest annual inflation rate since 1991. Looking ahead to 2023, we look for inflation to drop to 2.8%.

Monetary policy stimulus to be reduced

The top of the Bank of Canada's ('BoC's') inflation control range is 3%. Inflation is expected to peak at more than double that level, and to remain well above that threshold through the year-end and into 2023. With slack in the overall economy absorbed and elevated inflation expectations, the BoC is expected to continue to raise the policy rate, and to start to shrink the size of its balance sheet in order to reduce the amount of monetary policy stimulus.

Following a 25 basis point rate hike on 2 March, the BoC increased the policy rate by 50 basis point on 13 April. This lifted the policy rate to 1.0%. We look for additional 25 basis point rate hikes in June, July, September, and October, lifting the policy rate to 2.00% by the end of 2022. We look for a further 25 basis point rate hike in January 2023, raising the policy rate to 2.25%. The risks though, are tilted toward a higher policy rate, particularly if inflation remains elevated, and inflation expectations continue to drift upward.

Due to rising global inflation, other central banks also face increased pressure to raise their policy rate and to remove some of the monetary policy stimulus provided during the pandemic. For example, in the US, consumer price inflation hit 8.5% year-over-year in March, its highest reading in 40-years, though this might be the peak for inflation in this cycle. Nonetheless, following a 25 basis point rate hike in March, we expect the Federal Reserve to raise its policy rate by 150 basis points before year end. The mid-point of the Federal Government's policy range would thus be 1.875% at year end.

Given the unknown scale and duration of the supply shock, upside risks to inflation and monetary policy tightening, the risks of a hard landing for the global economy cannot be dismissed.

Our projected BoC policy rate path reflects, in our view, the BoC Governor Tiff Macklem's pledge to take steps to bring inflation back to target without choking off the recovery. Our projected pace of rate hikes balances the need to take steps to bring inflation back into the control range and ensure that inflation expectations remain well anchored, against the risks a higher policy rate poses to the highly indebted household sector and the potential effects on the housing market.

While lifting the policy rate too far, or too quickly, would increase the risk of a hard landing in Canada, many household debt management metrics are in very good shape at the present time given efforts to lessen the effect of the pandemic on households. Hence, in order to bolster confidence, in its commitment to bring inflation back to the 2% target, the BoC is expected to continue to raise the policy rate in coming months.

Fiscal policy likely to remain stimulative

While monetary policy is set to tighten, fiscal policy is likely to remain stimulative, even as pandemic support programs expire and governments benefit from the robust recovery that has boosted revenues. Some governments are also benefiting from the increase in oil and other commodity prices, which will boost tax revenues. For example, Alberta is on pace to balance its budget for the first time in eight years, assuming oil prices remain above USD70/bbl, on average.

At the federal level, a higher profile for revenues allowed the Federal Government to boost spending over the next five years, while also reporting a slightly lower trajectory for the deficit. In 2021-22, stronger revenues allowed the Federal Government to report a deficit of $113.bn, or 4.6% of GDP. This is down from the projected $144.5bn (5.8% of GDP) in the December Economic and Fiscal Update.

The budget also provided some details on a national dental plan, included in response to an agreement between the Liberals and the New Democratic Party ('NDP') that would see the NDP supporting the Liberal minority government until 2025. Another part of that agreement is for the Liberals to introduce a national pharmacare plan. As a result, another big ticket item looms over the fiscal outlook for the next few years.

Overall, the budget included new spending of $56.6bn over the next five years, with spending measures focused on housing, the shift toward a low carbon economy, reconciliation with First Nations, and boosting Canada's military expenditures.

The federal deficit is projected to be 2.0% of GDP in 2022-23 and to decline to 0.3% of GDP in 2026-27. Despite a better outlook for revenues, no target date for a return to balanced budgets was introduced. Instead, the budget focused on a key fiscal anchor, a declining debt-to-GDP ratio. From a peak of 47.5% of GDP in 2021-22, the debt-to-GDP ratio is expected to decline to 41.5% of GDP in 2026-27.

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 2021*. The following is a summary of some key regulatory changes announced in the first quarter of 2022 with the potential to impact our results or operations:

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

Basel III Reforms

In February 2022, OSFI posted the updated versions of the Basel Capital Adequacy Reporting ('BCAR') and the Leverage Requirements ('LR') returns. The two returns have been updated to align with OSFI's revised policy guidance related to the implementation of the Basel III reform package and small and medium-size deposit taking institutions ('SMSB') proportionality. Also in February 2022, OSFI released the final version of two documents on the management of operational risk capital data for institutions required, or those applying, to use the Basel III Standardized Approach for Operational Risk ('SA') capital in Canada: (i) Data Maintenance Expectations for Institutions Using the Standardized Approach for Operational Risk Capital Data ('DME'); and (ii) Assessment Tool - Operational Risk Capital Data ('AT'). In addition, further to the review of the existing implementation notes and self-assessment templates for institutions using the current Standardized Approach ('TSA') or Advanced Measurement Approach ('AMA'), OSFI will be rescinding the existing governance and data maintenance implementation notes for AMA/TSA institutions as well as the TSA & AMA Self-Assessment Template upon implementation of the revised CAR guideline in 2023. These would be replaced by the final version of the DME and related AT.

Assurance on Capital, Leverage and Liquidity Returns

On 31 March 2022, OSFI issued the draft guideline, 'Assurance on Capital, Leverage and Liquidity Returns' to promote continued public confidence in the Canadian financial system. In particular, it seeks to better inform auditors and banks on the work to be performed on regulatory returns in an effort to enhance and align OSFI's assurance expectations across all federally regulated financial institutions. In developing the draft guideline, OSFI considered the range of feedback received from stakeholders in response to the 2021 discussion paper under the same title. OSFI provided in the annex to its letter non-attributed summaries of key respondent comments and an explanation of how the comments are reflected in the draft guideline. Feedback from all interested stakeholders on the draft guideline are to be submitted by 31 May 2022, all comments received will be considered in OSFI's finalization of the guideline in the second half of 2022.

Liquidity Adequacy Requirements

Following its 31 January 2022 release of revisions to the Liquidity Adequacy Requirements ('LAR') Guideline, on 16 February 2022, OSFI released final reporting templates for the Net Cumulative Cash Flow ('NCCF'), both the Comprehensive NCCF (for domestic systemically important banks ('D-SIBs') and Category I small and medium-sized deposit-taking institutions ('SMSBs')) and Streamlined NCCF (for Category II SMSBs), as well as the Operating Cash Flow Statement (for Category III SMSBs). OSFI is also releasing draft NCCF reporting instructions for consultation.

Government and Other Regulators

On 7 April 2022, the 2022 Canadian Federal Budget ('Budget 2022') was announced but has not yet been substantively enacted. A new 1.5% income tax applies for banks, including HSBC Bank Canada, for earnings in excess of $100m. In addition, a one-time 15% tax based on the 2021 taxable income of a bank was also announced. However, as there is a $1-billion taxable income exemption, based on the current outlook we do not anticipate that this should apply to us. The government also announced it expects federally regulated financial institutions to demonstrate an exemplary level of corporate behaviour. Budget 2022 proposes to examine potential changes to the financial transaction approval process to limit the ability of federally regulated financial institutions to use corporate structures in tax havens to engage in aggressive tax avoidance.

On 4 February 2022, the Department of Finance released for public comment a set of draft legislative proposals to implement previously announced and other tax measures. The proposals would implement, among other things, measures to: (i) allow for the immediate expensing of up to $1.5m of eligible investments by Canadian-controlled private corporations, sole proprietors and certain partnerships to help businesses invest in new technologies and move forward with capital projects; (ii) combat the avoidance of tax debts through complex transactions that attempt to circumvent the tax debt collection avoidance rule; (iii) limit the amount of interest and other financing expenses that businesses may deduct for income tax purposes based on a proportion of earnings; (iv) enhance the tax reporting requirements for trusts in order to improve the collection of beneficial ownership information; and (v) update rules that address tax planning relating to allocations to redeeming fund unit holders in the mutual fund industry. Additionally, on the same date, the Department of Finance released for public comment a set of draft legislative proposals to implement previously announced and other tax measures. Among the proposals is a measure to enhance the tax reporting requirements for trusts in order to improve the collection of beneficial ownership information.

Consumer Protection

In January, February and March respectively, the Financial Consumer Agency of Canada ('FCAC') published Guidelines on Complaint-Handling Procedures; Appropriate Products and Services;

and Whistleblowing Procedures all of which set out the FCAC's expectations for implementation of the relevant provisions in the Bank Act and the Financial Consumer Protection Framework Regulations which come into force on 30 June 2022.

On 13 January 2022, Investment Industry Regulatory Organization of Canada ('IIROC') announced proposed amendments to their rule requirements for reporting, internal investigations, and client complaints to better protect Canadian investors.

Payments Canada - Delivery Roadmap

On 15 December 2021, Payments Canada published the Delivery Roadmap December 2021. In 2022, Lynx's second release would support the end to end delivery of ISO 20022 messages (ISO 20022 is a multi-part International Standard prepared by International Organization for Standardization ('ISO') Technical Committee TC68 Financial Services. It describes a common platform for the development of messages). Also, the continuation of system construction, and the development of the Real-time Rail ('RTR') rules, standards, and by-laws are prioritized in preparation for 2023 RTR Release One launch. Additionally, other areas of progress include Automated Clearing and Settlement System ('ACSS'), advances made to support broader access and major announcements around the RTR, the new system that will provide 24/7/365 payments that are final and irrevocable.

Anti-Money Laundering and Terrorist Financing Supervision

Since 24 February 2022, sanctions related to Russia, Belarus and certain regions in Ukraine have been expanded under the Special Economic Measures Act in order to respond to the Russian invasion of Ukraine. The Regulations impose an asset freeze and dealings prohibition on listed designated persons, which include both individuals and entities. Under these regulations it is prohibited for any person in Canada and any Canadian outside Canada to: deal in any property, wherever situated, held by or on behalf of a designated person; enter into or facilitate, directly or indirectly, any transaction related to such a dealing; provide any financial or other related services in respect of such a dealing; make any goods, wherever situated, available to a designated person; and, provide any financial or related service to, or for the benefit of, a designated person, which includes the processing of payments on behalf of a list of designated financial institutions, even where the sender and recipient are not designated, which is more stringent than in other markets. The Regulations also impose restrictions on additional sectors, such as energy and aeronautical sectors.

From 14 February 2022 to 23 February 2022, the Emergencies Act was used by the Federal Government, as part of the whole government strategy to end disruptions, border blockades and the occupation of Ottawa's downtown core. The public order emergency granted temporary measures which included broadening the scope of Canada's anti-money laundering and terrorist financing rules so that they cover crowdfunding platforms and the payment service providers. The government ordered Canadian financial institutions to temporarily cease providing financial services where the institution suspected that an account was being used to further the illegal blockades and occupations and report directly to the Royal Canadian Mounted Police ('RCMP') or Canadian Securities Intelligence Service ('CSIS'), with protection from civil liability.

Climate

On 19 January 2022, the Canadian Securities Administrators ('CSA') published guidance for investment funds on their disclosure practices that relate to environmental, social, and governance ('ESG') considerations, particularly funds whose investment objectives reference ESG factors and other funds that use ESG strategies (ESG-Related Funds). This guidance is intended to help investment funds and their fund managers enhance the ESG-related aspects of the funds' regulatory disclosure documents and ensure that sales communications of ESG-Related Funds are not untrue or misleading and are consistent with the funds' regulatory offering documents. The guidance is based on existing securities regulatory requirements and does not create any new legal requirements or modify existing ones. It also includes best practices that would enhance ESG-related disclosure and sales communications.

Capital Markets

On 10 February 2022, IIROC published guidance to Dealer Members on how to demonstrate compliance with IIROC Cybersecurity Incident Reporting Requirements ('CIRR'). Through the CIRR, IIROC has been able to: (i) provide support to affected Dealers to ensure that appropriate action was taken to assess, respond to, and recover from the incident; (ii) alert other Dealers to potential vulnerabilities or imminent threats; (iii) issue educational notices to guide Dealers on how to manage rising or often experienced incidents; and (iv) evaluate and develop further initiatives aimed at raising awareness of cybersecurity issues and strengthening the cybersecurity resilience of Dealers and the industry as a whole.

On 27 January 2022, the Canadian Securities Administrators ('CSA') published amendments to National Instrument ('NI') 94-101 Mandatory Central Counterparty Clearing of Derivatives and its Companion Policy. NI 94-101 requires that certain market participants clear certain prescribed over-the-counter derivatives through a central counterparty. This legislation has two in force dates depending on the provision, 12 April 2022 and 1 September 2022.

On 27 January 2022, the CSA published for comment a two-staged proposal to modernize the prospectus filing model for investment funds which would reduce regulatory burden without affecting the currency or accuracy of information available to investors.

On 17 December 2021, IIROC published final guidance to assist Dealer Members in understanding and complying with IIROC's know-your-client and suitability determination requirements.

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 2021*.

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 2021, which are stated on pages 33, 46 and 78 of the *Annual Report and Accounts 2021*.

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 2021*.

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 2021*.

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 2021*.

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 ended 31 March 2022. 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 ended 31 March 2022 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 2021.*

On 15 March 2022, the bank returned $600m of common share capital to HSBC Overseas Holdings (UK) Limited; no changes occurred in the number of issued shares.

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

Risk

Refer to the 'Risk' section of our *Annual Report and Accounts 2021* 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 our *Annual Report and Accounts 2021* and in the relevant sections as appropriate.

Credit risk

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Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment 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.

Credit risk management

There were no material changes to the policies and practices for the management of credit risk in the first quarter of 2022, except for an update to 'Renegotiated loans and forbearance' policy as described in following section.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 40 of the *Annual Report and Accounts 2021*.

Renegotiated loans and forbearance*

Effective 1 January 2022, the forbearance definition is expanded to include customers experiencing early stages of credit difficulty, with the list of forbearance concessions expanded to include non-payment related concessions. The impact of adopting this change is inconsequential to our financial reporting.

A customer is considered in forbearance when the following two criteria are met:

- The customer is experiencing, or about to experience, financial difficulty (irrespective of the level of severity); and
- A concession (payment or non-payment) is granted to the customer because of financial difficulty.

Summary of credit risk

The following disclosure presents the gross carrying amount and 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 31 March 2022 is comprised of $334m in respect of assets held at amortized cost, $18m 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			
		31 Mar 2022		31 Dec 2021	
	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		**71,532**	**(304)**	69,033	(334)
– personal		**35,619**	**(73)**	35,341	(75)
– corporate and commercial		**35,913**	**(231)**	33,692	(259)
Loans and advances to banks at amortized cost		**1,437**	**—**	1,659	—
Other financial assets measured at amortized cost		**23,655**	**(30)**	28,134	(28)
– cash and balances at central banks		**9,241**	**—**	13,955	—
– items in the course of collection from other banks		**10**	**—**	9	—
– reverse repurchase agreements - non-trading		**7,496**	**—**	9,058	—
– customers' liability under acceptances		**3,346**	**(8)**	3,556	(8)
– other assets, prepayments and accrued income	*1*	**3,562**	**(22)**	1,556	(20)
Total gross carrying amount on-balance sheet		**96,624**	**(334)**	98,826	(362)
Loans and other credit related commitments		**44,816**	**(17)**	46,737	(31)
– personal		**8,176**	**(1)**	8,141	(2)
– corporate and commercial		**36,640**	**(16)**	38,596	(29)
Financial guarantees	*2*	**1,975**	**(1)**	1,949	(4)
– personal		**11**	**—**	7	—
– corporate and commercial		**1,964**	**(1)**	1,942	(4)
Total nominal amount off-balance sheet	*3*	**46,791**	**(18)**	48,686	(35)
		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*	**16,333**	**—**	14,958	—

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	66,021	5,088	423	71,532	(56)	(107)	(141)	(304)	0.1	2.1	33.3	0.4
– personal	33,845	1,667	107	35,619	(10)	(47)	(16)	(73)	—	2.8	15.0	0.2
– corporate and commercial	32,176	3,421	316	35,913	(46)	(60)	(125)	(231)	0.1	1.8	39.6	0.6
Loans and advances to banks at amortized cost	1,437	—	—	1,437	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	23,382	252	21	23,655	(3)	(6)	(21)	(30)	—	2.4	100.0	0.1
Loan and other credit-related commitments	41,623	3,048	145	44,816	(10)	(7)	—	(17)	—	0.2	—	—
– personal	7,970	163	43	8,176	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	33,653	2,885	102	36,640	(9)	(7)	—	(16)	—	0.2	—	—
Financial guarantees[2]	1,870	75	30	1,975	(1)	—	—	(1)	0.1	—	—	0.1
– personal	11	—	—	11	—	—	—	—	—	—	—	—
– corporate and commercial	1,859	75	30	1,964	(1)	—	—	(1)	0.1	—	—	0.1
At 31 Mar 2022	134,333	8,463	619	143,415	(70)	(120)	(162)	(352)	0.1	1.4	26.2	0.2

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	62,493	6,198	342	69,033	(62)	(145)	(127)	(334)	0.1	2.3	37.1	0.5
– personal	33,756	1,455	130	35,341	(9)	(44)	(22)	(75)	—	3.0	16.9	0.2
– corporate and commercial	28,737	4,743	212	33,692	(53)	(101)	(105)	(259)	0.2	2.1	49.5	0.8
Loans and advances to banks at amortized cost	1,659	—	—	1,659	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	27,768	346	20	28,134	(3)	(5)	(20)	(28)	—	1.4	100.0	0.1
Loan and other credit-related commitments	42,403	4,275	59	46,737	(15)	(16)	—	(31)	—	0.4	—	0.1
– personal	7,990	138	13	8,141	(2)	—	—	(2)	—	—	—	—
– corporate and commercial	34,413	4,137	46	38,596	(13)	(16)	—	(29)	—	0.4	—	0.1
Financial guarantees[2]	1,848	80	21	1,949	(1)	(2)	(1)	(4)	0.1	2.5	4.8	0.2
– personal	7	—	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,841	80	21	1,942	(1)	(2)	(1)	(4)	0.1	2.5	4.8	0.2
At 31 Dec 2021	136,171	10,899	442	147,512	(81)	(168)	(148)	(397)	0.1	1.5	33.5	0.3

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*

During first quarter of 2022, higher oil and natural gas prices, supply chain and inflation challenges, continued house price growth and a decreasing unemployment rate were notable features of the economic environment. The potential for severe scenarios compared to earlier in the pandemic has continued to recede. The improving economic data increased clarity on how the economy is likely to navigate the Omicron and other variants in the near term. COVID-19-related management judgmental adjustments continued to reduce overall, although risks to global economic growth remain.

At 31 March 2022, expected credit losses ('ECL') reflected a higher level of measurement uncertainty as economic conditions remained volatile, with greater weighting to downside economic forecasts than year-end 2021 reflecting increased risks, including the Ukraine-Russia conflict and broader macroeconomic and geopolitical uncertainties. Increased uncertainty resulted in the adoption of five scenarios for the first quarter of 2022.

Methodology

Due to the outbreak of the Ukraine-Russia war, five economic scenarios have been used to capture the current economic environment and to articulate management's view of the range of potential outcomes.

Of the four standard scenarios, three are drawn from consensus forecasts and distributional estimates. The fourth scenario, downside 2, represents management's view of severe downside risks. The additional fifth scenario was developed to ensure that the rapid changes to the economic risk distribution, caused by the outbreak of war, are sufficiently reflected in forward economic guidance. The scenario is designed to capture the implications of a lengthy Ukraine-Russia war including the significant increase in risk of inflation and lower GDP growth.

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 forecasts are subject to a particularly high degree of uncertainty in the current environment. Risks to the outlook are dominated by uncertainty around the implications and duration of the Ukraine-Russia war, the progression and management of the pandemic, particularly in Asia, and the response of monetary authorities to higher inflation.

Russia's invasion of Ukraine and the wide-ranging financial and economic sanctions implemented on the Russian economy have elevated risks and uncertainty around global supply chains, commodity prices and inflation. In Asia, the spread of the Omicron variant has caused renewed disruptions to activity, especially in Hong Kong and mainland China where a commitment to so-called 'zero-COVID' policies has necessitated stringent public health response. In turn, this has further aggravated global supply chain disruptions. The emergence of new vaccine-resistant variants remains a risk globally. Price inflation, driven in part by supply chain constraints caused by the pandemic, risks being made worse by higher commodity prices, as a result of the war in Ukraine. Higher inflation presents risks to growth as real incomes are squeezed by rising costs. This will present an additional risk as central bank tightens policy to bring inflation back towards target.

Other geopolitical risks present downside threats. These risks include continued differences between the US and China over a range of strategic issues and the evolution of the UK's relationship with the EU.

The five scenarios used for the purpose of calculating ECL at 31 March 2022 are the consensus central scenario, the consensus upside scenario, the consensus downside scenario, the Ukraine-Russia stagflation scenario and the downside 2 scenario.

- The consensus central scenario: This scenario features above trend GDP growth in most markets during 2022. It assumes limited negative economic impacts for major economies from the Russia-Ukraine war. Consumer spending and business investment, supported by elevated levels of private sector savings, are expected to support the economy as fiscal and monetary policy support recedes. In this scenario, COVID-19 related restrictions continue to ease in Europe and North America, where governments are willing to accept a certain level of infections in the community while hospitalization levels remain manageable. Inflation is expected to gradually revert towards central bank targets by the end of 2023.
- The consensus upside scenario: This scenario features a faster recovery in economic activity in the near term, compared with the consensus central scenario. In this scenario, growth accelerates, unemployment falls further and equity markets and house prices see further gains.
- The consensus downside scenario: This scenario features weaker economic activity compared with the central scenario. In this scenario, growth weakens, unemployment rises and equity markets and house prices contract.

- The Ukraine/Russia stagflation scenario: This scenario explores risks around a protracted war in Ukraine and wide-ranging sanctions imposed on Russia, with retaliatory export controls. The scenario features a significant supply side shock, in which inflation rises markedly higher than in the central scenario. Interest rates are also expected to rise with some deterioration in other macroeconomic variables compared to consensus central scenario.
- The downside 2 scenario: This scenario reflects management's view of tail risks. It incorporates the crystallization of a number of risks simultaneously, including the emergence of a vaccine-resistant COVID-19 strain that necessitates a stringent public health policy response. It features a large demand shock, which causes price inflation to slow sharply amid a severe and prolonged recession.

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]

	Central scenario	Consensus upside			Consensus downside			Ukraine–Russia Stagflation scenario			Downside 2		
	Five-year average	Five-year average	Best outcome		Five-year average	Worst outcome		Five-year average	Worst outcome		Five-year average	Worst outcome	
31 March 2022													
GDP growth (%)	**2.5**	**3.8**	**8.8**	**(1Q23)**	**1.5**	**0.3**	**(1Q24)**	**2.4**	**1.9**	**(3Q23)**	**0.7**	**(9.1)**	**(1Q23)**
Unemployment rate (%)	**5.7**	**5.2**	**4.6**	**(4Q23)**	**6.1**	**6.6**	**(4Q22)**	**5.8**	**6.0**	**(4Q22)**	**9.1**	**11.3**	**(3Q23)**
House Price Index (%)	**4.1**	**6.2**	**17.8**	**(3Q22)**	**2.5**	**(0.2)**	**(1Q23)**	**5.4**	**0.2**	**(1Q24)**	**(1.1)**	**(20.9)**	**(2Q23)**
Brent oil prices (US$/barrel)	**85.6**	**112.0**	**166.7**	**(4Q22)**	**72.5**	**60.0**	**(4Q22)**	**132.6**	**167.7**	**(1Q24)**	**56.9**	**46.4**	**(2Q23)**
Probability (%)	**55**	**5**			**5**			**25**			**10**		
31 December 2021													
GDP growth (%)	2.5	4.0	9.1	(3Q22)	1.6	(0.5)	(4Q22)	—	—	—	0.4	(13.9)	(4Q22)
Unemployment rate (%)	5.9	5.5	5.0	(2Q23)	6.4	7.3	(3Q22)	—	—	—	9.4	11.5	(2Q23)
House Price Index (%)	3.3	5.8	16.0	(4Q22)	1.7	(2.3)	(4Q22)	—	—	—	(2.2)	(23.8)	(1Q23)
Brent oil prices (US$/barrel)	66.1	79.1	101.8	(2Q22)	54.3	34.9	(4Q22)	—	—	—	40.0	26.4	(1Q23)
Probability (%)	75	10			10			—			5		

1. *Macroeconomic projections at 31 March 2022 are based on average 2Q2022-1Q2027 (31 December 2021: average 1Q2022-4Q2026).*
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.*

Scenario probabilities

Scenario weights have changed from those applied at 31 December 2021. In light of increased uncertainty and financial and economic volatility, management have assigned higher weights to downside scenarios. At 31 March 2022, the consensus upside and central scenarios had a combined weighting of 60% (31 December 2021: 85%) and the downside scenarios have a combined weighting of 40% (31 December 2021: 15%).

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.

At 31 March 2022, 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 is 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 31 March 2022 are set out in the following table.

Management judgmental adjustments to ECL[1]

	Retail	Wholesale	Total
	$m	$m	$m
Expert credit and model adjustments	**13**	**84**	**97**
Adjustments for forward economic guidance and late breaking events	**25**	**—**	**25**
31 March 2022	**38**	**84**	**122**
Expert credit and model adjustments	32	122	154
Adjustments for forward economic guidance and late breaking events	21	—	21
31 December 2021	53	122	175

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]

	31 Mar 2022	31 Dec 2021
	$m	$m
Reported ECL	133	192
100% consensus central scenario	66	125
100% consensus upside scenario	37	78
100% consensus downside scenario	116	192
100% Ukraine-Russia stagflation scenario	148	—
100% downside 2	569	1,431
Gross carrying amount/nominal amount[3]	105,532	109,335

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]

	31 Mar 2022	31 Dec 2021
	$m	$m
Reported ECL	65	71
100% consensus central scenario	62	69
100% consensus upside scenario	57	66
100% consensus downside scenario	65	74
100% Ukraine-Russia stagflation scenario	63	—
100% downside 2	101	112
Gross carrying amount	35,572	35,440

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							
		31 Mar 2022				31 Mar 2021			
		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		78	163	128	369	56	249	148	453
Transfers of financial instruments:	2	27	(48)	21	—	31	(32)	1	—
– transfers from stage 1 to stage 2		(2)	2	—	—	(3)	3	—	—
– transfers from stage 2 to stage 1		28	(28)	—	—	34	(34)	—	—
– transfers to stage 3		—	(25)	25	—	—	(2)	2	—
– transfers from stage 3		1	3	(4)	—	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	2	(18)	3	—	(15)	(14)	5	—	(9)
New financial assets originated or purchased		4	—	—	4	3	—	—	3
Changes to risk parameters		(22)	3	(3)	(22)	(26)	1	22	(3)
Asset derecognized (including final repayments)		(1)	(6)	(1)	(8)	(1)	(2)	(1)	(4)
Assets written off		—	—	(4)	(4)	—	—	(10)	(10)
Foreign exchange		(1)	(1)	—	(2)	—	(1)	—	(1)
Balance at the end of the period		67	114	141	322	49	220	160	429
ECL charge/(release) for the period		(37)	—	(4)	(41)	(38)	4	21	(13)
Recoveries		—	—	(1)	(1)	—	—	(2)	(2)
Total ECL charge/(release) for the period		(37)	—	(5)	(42)	(38)	4	19	(15)

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	Quarter ended	At	Quarter ended
	31 Mar 2022	**31 Mar 2022**	31 Mar 2021	31 Mar 2021
	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	**322**	**(42)**	429	(15)
Other financial assets measured at amortized cost	**30**	**—**	39	(1)
Performance guarantee contracts	**8**	**—**	9	—
Debt instruments measured at FVOCI	**—**	**—**	1	—
Total allowance for ECL / Total income statement ECL charge/(release) for the period	**360**	**(42)**	478	(16)

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]	16,757	—	—	—	—	16,757	—	16,757
– stage 1	16,757	—	—	—	—	16,757	—	16,757
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	37,635	18,647	13,732	1,095	423	71,532	(304)	71,228
– stage 1	37,447	17,577	10,727	270	—	66,021	(56)	65,965
– stage 2	188	1,070	3,005	825	—	5,088	(107)	4,981
– stage 3	—	—	—	—	423	423	(141)	282
Loans and advances to banks at amortized cost	1,437	—	—	—	—	1,437	—	1,437
– stage 1	1,437	—	—	—	—	1,437	—	1,437
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	20,276	2,123	1,158	77	21	23,655	(30)	23,625
– stage 1	20,276	2,115	985	6	—	23,382	(3)	23,379
– stage 2	—	8	173	71	—	252	(6)	246
– stage 3	—	—	—	—	21	21	(21)	—
Total gross carrying amount on-balance sheet	76,105	20,770	14,890	1,172	444	113,381	(334)	113,047
Percentage of total credit quality	67.1 %	18.3 %	13.1 %	1.0 %	0.4 %	100.0 %		
Loan and other credit-related commitments	17,123	17,691	9,121	736	145	44,816	(17)	44,799
– stage 1	16,878	16,959	7,703	83	—	41,623	(10)	41,613
– stage 2	245	732	1,418	653	—	3,048	(7)	3,041
– stage 3	—	—	—	—	145	145	—	145
Financial guarantees[2]	1,166	458	263	58	30	1,975	(1)	1,974
– stage 1	1,166	450	251	3	—	1,870	(1)	1,869
– stage 2	—	8	12	55	—	75	—	75
– stage 3	—	—	—	—	30	30	—	30
Total nominal amount off-balance sheet	18,289	18,149	9,384	794	175	46,791	(18)	46,773
At 31 Mar 2022	94,394	38,919	24,274	1,966	619	160,172	(352)	159,820

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]	14,962	—	—	—	—	14,962	—	14,962
– stage 1	14,962	—	—	—	—	14,962	—	14,962
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	35,475	17,915	13,937	1,364	342	69,033	(334)	68,699
– stage 1	35,300	16,653	10,321	219	—	62,493	(62)	62,431
– stage 2	175	1,262	3,616	1,145	—	6,198	(145)	6,053
– stage 3	—	—	—	—	342	342	(127)	215
Loans and advances to banks at amortized cost	1,659	—	—	—	—	1,659	—	1,659
– stage 1	1,659	—	—	—	—	1,659	—	1,659
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	23,733	2,513	1,776	92	20	28,134	(28)	28,106
– stage 1	23,732	2,480	1,550	6	—	27,768	(3)	27,765
– stage 2	1	33	226	86	—	346	(5)	341
– stage 3	—	—	—	—	20	20	(20)	—
Total gross carrying amount on-balance sheet	75,829	20,428	15,713	1,456	362	113,788	(362)	113,426
Percentage of total credit quality	66.6 %	18.0 %	13.8 %	1.3 %	0.3 %	100.0 %		
Loan and other credit-related commitments	17,597	19,251	8,994	836	59	46,737	(31)	46,706
– stage 1	17,083	18,326	6,891	103	—	42,403	(15)	42,388
– stage 2	514	925	2,103	733	—	4,275	(16)	4,259
– stage 3	—	—	—	—	59	59	—	59
Financial guarantees[2]	1,113	497	245	73	21	1,949	(4)	1,945
– stage 1	1,113	488	235	12	—	1,848	(1)	1,847
– stage 2	—	9	10	61	—	80	(2)	78
– stage 3	—	—	—	—	21	21	(1)	20
Total nominal amount off-balance sheet	18,710	19,748	9,239	909	80	48,686	(35)	48,651
At 31 Dec 2021	94,539	40,176	24,952	2,365	442	162,474	(397)	162,077

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

		At			
		31 Mar 2022		31 Dec 2021	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnote	**$m**	**$m**	$m	$m
Corporate and commercial					
– agriculture, forestry and fishing		**769**	**(1)**	646	(3)
– mining and quarrying	1	**1,384**	**(60)**	1,211	(69)
– manufacture		**6,145**	**(35)**	5,406	(31)
– electricity, gas, steam and air-conditioning supply		**231**	**(12)**	250	(19)
– water supply, sewerage, waste management and remediation		**119**	**—**	118	(1)
– construction		**835**	**(6)**	869	(12)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**6,700**	**(23)**	6,024	(27)
– aviation, transportation and storage		**2,893**	**(36)**	2,860	(29)
– accommodation and food		**1,493**	**(20)**	1,485	(26)
– publishing, audiovisual and broadcasting		**797**	**(1)**	775	(1)
– real estate		**10,049**	**(16)**	9,692	(19)
– professional, scientific and technical activities		**757**	**(2)**	725	(1)
– administrative and support services		**842**	**(13)**	837	(9)
– education		**83**	**—**	39	—
– health and care		**416**	**(1)**	259	—
– arts, entertainment and recreation		**253**	**—**	285	(2)
– other services		**141**	**(2)**	220	(2)
– government		**32**	**—**	32	—
– non-bank financial institutions		**1,974**	**(3)**	1,959	(8)
Total		**35,913**	**(231)**	33,692	(259)
By geography	2				
Canada		**33,776**	**(222)**	31,569	(235)
– British Columbia		**9,853**	**(24)**	9,323	(31)
– Ontario		**13,081**	**(70)**	12,077	(78)
– Alberta		**5,050**	**(90)**	4,783	(91)
– Quebec		**4,003**	**(17)**	3,656	(18)
– Saskatchewan and Manitoba		**1,188**	**(19)**	1,153	(16)
– Atlantic provinces		**601**	**(2)**	577	(1)
United States of America		**1,138**	**(6)**	1,103	(6)
Other		**999**	**(3)**	1,020	(18)
Total		**35,913**	**(231)**	33,692	(259)

1. *Mining and quarrying includes energy related exposures which constitute approximately 76% of the gross carrying amount and 96% of the allowance for ECL at 31 March 2022 (31 December 2021: Gross carrying amount was 86% and allowance for ECL was 96%).*
2. *Provincial geographic distribution is based on the address of the 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							
		31 Mar 2022				31 Mar 2021			
		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		**67**	**119**	**106**	**292**	40	196	129	365
Transfers of financial instruments:	2	**13**	**(36)**	**23**	**—**	22	(22)	—	—
– transfers from stage 1 to stage 2		**(1)**	**1**	**—**	**—**	(2)	2	—	—
– transfers from stage 2 to stage 1		**14**	**(14)**	**—**	**—**	24	(24)	—	—
– transfers to stage 3		**—**	**(23)**	**23**	**—**	—	—	—	—
– transfers from stage 3		**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	**(8)**	**1**	**—**	**(7)**	(11)	3	—	(8)
New financial assets originated or purchased		**3**	**—**	**—**	**3**	2	—	—	2
Changes to risk parameters		**(17)**	**(12)**	**(3)**	**(32)**	(17)	(16)	20	(13)
Asset derecognized (including final repayments)		**(1)**	**(4)**	**—**	**(5)**	—	—	—	—
Assets written off		**—**	**—**	**(1)**	**(1)**	—	—	(7)	(7)
Foreign exchange		**(1)**	**(1)**	**—**	**(2)**	—	(1)	—	(1)
Balance at the end of the period		**56**	**67**	**125**	**248**	36	160	142	338
ECL charge/(release) for the period		**(23)**	**(15)**	**(3)**	**(41)**	(26)	(13)	20	(19)
Recoveries		**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period		**(23)**	**(15)**	**(3)**	**(41)**	(26)	(13)	20	(19)

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 $44m or 15% as compared to 31 December 2021, and the wholesale lending change in ECL for the three months ended 31 March 2022 resulted in an income statement release of $41m. The release for the quarter was primarily driven by a release in performing loans from COVID-19 related allowances, partly offset by a charge reflecting a deterioration in the forward economic outlook as a result of the Russian invasion of Ukraine and the impact of inflation.

The ECL release for the three months ended 31 March 2022 of $41m presented in the above table consisted of $32m release relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages, $7m release relating to the net remeasurement impact of stage transfers and a release of $2m relating to underlying net volume movement. There were nil recoveries during the three months ended 31 March 2022.

The total ECL coverage for loans and advances to customers for corporate and commercial at 31 March 2022 was 0.6%, a decrease of 0.2% as compared to 31 December 2021.

Personal lending

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

		At			
		31 Mar 2022		31 Dec 2021	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnote	**$m**	**$m**	$m	$m
Residential mortgages		**32,696**	**(29)**	32,406	(36)
Home equity lines of credit		**1,397**	**(8)**	1,404	(8)
Personal revolving loan facilities		**446**	**(10)**	471	(11)
Other personal loan facilities		**710**	**(8)**	673	(4)
Retail card		**339**	**(15)**	354	(12)
Run-off consumer loan portfolio		**31**	**(3)**	33	(4)
Total		**35,619**	**(73)**	35,341	(75)
By geography	1				
Canada		**35,426**	**(71)**	35,147	(73)
– British Columbia		**16,910**	**(28)**	16,989	(31)
– Ontario		**14,524**	**(25)**	14,174	(25)
– Alberta		**1,793**	**(8)**	1,801	(8)
– Quebec		**1,581**	**(5)**	1,566	(4)
– Saskatchewan and Manitoba		**343**	**(2)**	349	(2)
– Atlantic provinces		**265**	**(3)**	260	(3)
– Territories		**10**	**—**	8	—
Other		**193**	**(2)**	194	(2)
Total		**35,619**	**(73)**	35,341	(75)

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

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

		Quarter ended							
		31 Mar 2022				31 Mar 2021			
		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		**11**	**44**	**22**	**77**	16	53	19	88
Transfers of financial instruments:	2	**14**	**(12)**	**(2)**	**—**	9	(10)	1	—
– transfers from stage 1 to stage 2		**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**14**	**(14)**	**—**	**—**	10	(10)	—	—
– transfers to stage 3		**—**	**(2)**	**2**	**—**	—	(2)	2	—
– transfers from stage 3		**1**	**3**	**(4)**	**—**	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	2	**(10)**	**2**	**—**	**(8)**	(3)	2	—	(1)
New financial assets originated or purchased		**1**	**—**	**—**	**1**	1	—	—	1
Changes to risk parameters		**(5)**	**15**	**—**	**10**	(9)	17	2	10
Asset derecognized (including final repayments)		**—**	**(2)**	**(1)**	**(3)**	(1)	(2)	(1)	(4)
Assets written off		**—**	**—**	**(3)**	**(3)**	—	—	(3)	(3)
Balance at the end of the period		**11**	**47**	**16**	**74**	13	60	18	91
ECL charge/(release) for the period		**(14)**	**15**	**(1)**	**—**	(12)	17	1	6
Recoveries		**—**	**—**	**(1)**	**(1)**	—	—	(2)	(2)
Total ECL charge/(release) for the period		**(14)**	**15**	**(2)**	**(1)**	(12)	17	(1)	4

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 $3m or 4% during the first quarter of 2022. The ECL release for the three months ended 31 March 2022 of $1m presented in the above table consisted of $8m release relating to the net remeasurement impact of stage transfers and $2m release relating to underlying net volume movement, partly offset by a charge of $10m relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages. There were recoveries of $1m 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	**1,523**	**10 %**	**13,204**	**90 %**	**14,727**	**674**	**100 %**
Western Canada[4]	**861**	**46 %**	**1,004**	**54 %**	**1,865**	**144**	**100 %**
Ontario	**2,700**	**18 %**	**12,625**	**82 %**	**15,325**	**526**	**100 %**
Quebec and Atlantic provinces	**738**	**43 %**	**974**	**57 %**	**1,712**	**66**	**100 %**
At 31 Mar 2022	**5,822**	**17 %**	**27,807**	**83 %**	**33,629**	**1,410**	**100 %**
British Columbia	1,520	10 %	13,184	90 %	14,704	688	100 %
Western Canada[4]	868	46 %	1,008	54 %	1,876	152	100 %
Ontario	2,700	18 %	12,261	82 %	14,961	517	100 %
Quebec and Atlantic provinces	740	44 %	950	56 %	1,690	67	100 %
At 31 Dec 2021	5,828	18 %	27,403	82 %	33,231	1,424	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.*

Amortization period[1]

	Residential mortgages		
	≤ 20 years	**> 20 years ≤ 25 years**	**> 25 years ≤ 30 years**
At 31 Mar 2022	**17.3 %**	**62.7 %**	**20.0 %**
At 31 Dec 2021	17.5 %	62.4 %	20.1 %

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	**61.0 %**	**53.5 %**
Western Canada[4]	**67.7 %**	**69.6 %**
Ontario	**64.2 %**	**58.2 %**
Quebec and Atlantic provinces	**63.7 %**	**59.4 %**
Total Canada for the three months ended 31 Mar 2022	**63.2 %**	**57.4 %**
Total Canada for the three months ended 31 Dec 2021	63.2 %	57.8 %

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			
		31 Mar 2022		31 Dec 2021	
		Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	Footnotes	$m	$m	$m	$m
Corporate and commercial		**316**	**(125)**	212	(105)
– agriculture, forestry and fishing		**3**	**(1)**	3	(1)
– mining and quarrying	*1*	**106**	**(39)**	108	(42)
– manufacture		**32**	**(20)**	25	(13)
– electricity, gas, steam and air-conditioning supply		**19**	**(12)**	20	(19)
– construction		**9**	**(3)**	9	(7)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**34**	**(14)**	35	(14)
– aviation, transportation and storage		**98**	**(26)**	4	(2)
– accommodation and food		**1**	**—**	1	(1)
– real estate		**1**	**(1)**	1	(1)
– administrative and support services		**12**	**(8)**	4	(4)
– non-bank financial institutions		**1**	**(1)**	2	(1)
Households	*2*	**107**	**(16)**	130	(22)
Loans and advances to banks		**—**	**—**	—	—
Total		**423**	**(141)**	342	(127)

1. *Mining and quarrying includes energy related exposures which constitute approximately 99% of the gross carrying amount and 94% of the allowance for ECL at 31 March 2022 (31 December 2021: Gross carrying amount was 99% and allowance for ECL was 94%).*
2. *Households includes the personal lending portfolio.*

Treasury risk

Overview

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements. Treasury risk also includes the risk to our earnings or capital due to changes in market interest rates.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

Our objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support our business strategy, and meet our regulatory and stress testing-related requirements.

Our approach to treasury management is driven by our strategic and organizational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting both consolidated and local regulatory requirements at all times.

Our policy is underpinned by our risk management framework, our internal capital adequacy assessment process ('ICAAP') and our internal liquidity adequacy assessment process ('ILAAP'). The risk framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes.

The ICAAP and ILAAP provide an assessment of the bank's capital and liquidity adequacy with consideration of the bank's risk metrics, business model, strategy, performance and planning, risks to capital, and the implications of stress testing to capital and liquidity.

Refer to the 'Treasury risk' section of our *Annual Report and Accounts 2021* for a discussion of how the bank manages treasury risk as well as our current policies and practices.

Assessment of capital, liquidity and funding risk

Our capital management framework incorporates key capital risk appetites for common equity tier 1 capital ratio, tier 1 capital ratio, total capital ratio and leverage ratio. An appropriate funding and liquidity profile is managed through critical Board-level appetite measures including liquidity coverage ratio ('LCR'), net stable funding ratio ('NSFR') and the internal liquidity metric ('ILM').

We closely monitor future regulatory changes, including the implementation of Basel III Reforms. The final version of the guidance was released by OSFI in January 2022 and we continue to evaluate the impact of these changes on our capital and liquidity requirements.

Assessment of interest rate risk in the banking book

The Asset, Liability and Capital Management ('ALCM') team uses a number of measures to monitor and control interest rate risk in the banking book, including: net interest income sensitivity and economic value of equity sensitivity.

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected net interest income ('NII') under varying interest rate scenarios (i.e. simulation modelling), through the earning at risk ('EaR') model, where all other economic variables are held constant.

Economic value of equity ('EVE') represents the present value of the future banking book cash flows that could be distributed to equity providers under a managed run-off scenario. An EVE sensitivity represents the expected movement in EVE due to pre-specified interest rate shocks, where all other economic variables are held constant. We monitor EVE sensitivities as a percentage of capital resources.

Refer to the 'Treasury risk' section of our *Annual Report and Accounts 2021* for a discussion of the management process of capital, liquidity and funding risk and interest rate risk in the banking book.

Liquidity and funding risk

Liquidity and funding risk is the potential for loss if the bank is unable to generate sufficient cash or its equivalents to meet financial commitments in a timely manner at reasonable prices as they become due. Financial commitments include liabilities to depositors and suppliers, lending, investment and pledging commitments.

The objective of our liquidity and funding risk management framework is to ensure that all foreseeable funding commitments, including deposit withdrawals, can be met when due, and that access to the wholesale markets is coordinated and cost-effective. It is designed to allow us to withstand very severe liquidity stresses and be adaptable to changing business models, markets and regulations.

The bank remained above regulatory minimum liquidity and funding levels in the first quarter of 2022.

Management of liquidity and funding risk

Our liquidity and funding management strategy as described in the 'Liquidity and funding risk' section of our *Annual Report and Accounts 2021* continues to apply.

The bank's OSFI LCR is summarized in the following table. Compared to the previous quarter the bank's average LCR for the three months ended 31 March 2022 decreased to 140% from 147%. This was predominately driven by a decrease in liquid assets, attributable to an increase in customer loans and a decrease in customer deposits, offset by an increase in unsecured funding. The bank's average LCR is calculated as the ratio of High-Quality Liquid Assets ('HQLA') to the total net stressed cash outflows over the next 30 calendar days.

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.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	31 Mar 2022	31 Dec 2021
Total HQLA[2] ($m)	**27,691**	30,999
Total net cash outflows[2] ($m)	**19,752**	21,126
Liquidity coverage ratio (%)	**140**	147

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.*

As a basis to determine the bank's stable funding requirement, the bank calculates the NSFR on a Prudential Regulation Authority ('PRA') basis. The bank will 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.

Liquid assets

Liquid assets are held and managed on a stand-alone operating entity basis. Most are held directly by the Markets Treasury department, primarily for the purpose of managing liquidity risk in line with the internal liquidity and funding risk management framework. Liquid assets also include any unencumbered liquid assets held outside Markets Treasury departments for any other purpose. To qualify as part of the liquid asset buffer, assets must have a deep and liquid repo market in the underlying security. The internal liquidity and funding risk management framework gives ultimate control of all unencumbered assets and sources of liquidity to Markets Treasury.

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. 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. Liquid assets consist of cash or assets that can be converted into cash at little or no loss of value.

Liquid assets[1]

	At	
	31 Mar 2022	31 Dec 2021
	$m	$m
Level 1	**24,816**	28,182
Level 2a	**1,943**	1,949
Level 2b	**66**	50
Total	**26,825**	30,181

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.*

Capital risk

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 2021* for a discussion of how the bank manages its capital.

The bank remained within its required regulatory capital limits during the quarter ended 31 March 2022.

Basel III capital and leverage rules

The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.

The Basel III capital adequacy framework significantly revised the definitions of regulatory capital and introduced the requirement that all regulatory capital must be able to absorb losses in a failed financial institution. Capital instruments issued prior to the adoption of the existing requirements in 2013 that do not meet these requirements are being phased out as regulatory capital over a ten-year period from 2013 to 2022.

The framework emphasizes common equity as the predominant component of tier 1 capital by adding a minimum common equity tier 1 ('CET1') capital ratio. The Basel III rules also require institutions to hold capital buffers designed to avoid breaches of minimum regulatory requirements during periods of stress.

Regulatory capital

Regulatory capital and capital ratios in the tables below are presented under a Basel III 'all-in' basis.

Total regulatory capital*

		At	
		31 Mar 2022	31 Dec 2021
	Footnotes	**$m**	$m
Gross common equity	*1*	**4,843**	5,776
Regulatory adjustments		**(15)**	(186)
Common equity tier 1 capital	*2*	**4,828**	5,590
Additional tier 1 eligible capital	*3*	**1,100**	1,100
Tier 1 capital		**5,928**	6,690
Tier 2 capital	*2 , 4*	**1,003**	1,014
Total capital		**6,931**	7,704

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. There is no impact as at 31 March 2022.*
3. *Includes preferred shares.*
4. *As at 31 December 2021, included a capital instrument subject to phase out. Effective 1 January 2022, the capital instrument has been fully phased out.*

Regulatory capital ratios

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

		At	
		31 Mar 2022	31 Dec 2021
	Footnotes	**$m**	$m
Risk-weighted assets ('RWA')	*1, 2*	**41,512**	39,836
		%	%
Actual regulatory capital ratios	*3, 4*		
– common equity tier 1 capital ratio		**11.6**	14.0
– tier 1 capital ratio		**14.3**	16.8
– total capital ratio		**16.7**	19.3
– leverage ratio	*5, 6*	**4.8**	5.8
Regulatory capital requirements	*7*		
– 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
– minimum leverage ratio		**3.0**	3.0

1. *RWA represent the amounts by which assets are adjusted by risk-weight factors to reflect the riskiness of on and off-balance sheet exposures in accordance with the Capital Adequacy Requirements ('CAR') Guideline issued by OSFI. Certain assets are not risk-weighted, but deducted from capital.*
2. *In April 2020, OSFI announced certain regulatory flexibility measures to support COVID-19 efforts in light of the current evolving situation. Effective 31 March 2020, OSFI lowered the capital floor factor from 75% to 70%. The revised floor factor will be in place until the second quarter 2023.*
3. *Presented under a Basel III basis with non-qualifying capital instruments phased out over 10 years starting 1 January 2013.*
4. *The common equity tier 1, tier 1, and total capital ratios are calculated as the respective capital base divided by risk-weighted assets, in accordance with CAR Guideline issued by OSFI.*
5. *Leverage Ratio is calculated as tier 1 capital divided by leverage exposure measures, in accordance with Leverage Requirements ('LR') Guideline issued by OSFI. Leverage exposure measures represent the sum of on-balance sheet assets and specified off-balance sheet items.*
6. *Leverage ratio includes certain COVID-19 related relief measures announced by OSFI which allows the bank to exclude central bank reserves and sovereign-issued securities from their leverage ratio exposure measures until 31 December 2021. In August 2021, OSFI confirmed that the exclusion of sovereign-issued securities from the leverage ratio exposure measure will not be extended past 31 December 2021; however, central bank reserves will continue to be excluded from the leverage ratio exposure measure for the bank.*
7. *OSFI target capital ratios including mandated capital conservation buffer.*

On 15 March 2022, the bank returned $600m of common share capital to HSBC Overseas Holdings (UK) Limited, reducing capital and leverage ratios during the quarter.

Outstanding shares and dividends

		Quarter ended			Year ended		
		31 Mar 2022			31 Dec 2021		
		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*	**0.36452**	**548,668**	**1,125**	0.79283	548,668	1,725
Class 1 preferred shares	*3*						
– Series H		**0.18925**	**20,000**	**500**	0.76505	20,000	500
– Series I		**0.28750**	**14,000**	**350**	1.15000	14,000	350
– Series K		**0.34063**	**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. *On 15 March 2022, the bank returned $600m of common share capital to HSBC Overseas Holdings (UK) Limited; no changes occurred in the number of issued shares.*
3. *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*

Dividends declared in the first quarter 2022

During the first quarter of 2022, the bank declared regular quarterly dividends of $11m for the first quarter of 2022 on all series of outstanding HSBC Bank Canada Class 1 preferred shares and a final dividend of $200m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2021.

Dividends declared in the second quarter 2022

On 22 April 2022, the bank declared regular quarterly dividends for the second quarter of 2022 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 30 June 2022 or the first business day thereafter to the shareholder of record on 15 June 2022.

On 22 April 2022, the bank also declared a first interim dividend of $90m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2022, which will be paid on or before 30 June 2022 to the shareholder of record on 22 April 2022.

As the quarterly dividends on preferred shares for the second quarter of 2022 and the first interim dividend on common shares for 2022 were declared after 31 March 2022, the amounts have not been included in the balance sheet as a liability.

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 2021* 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):

	31 Mar 2022		31 Mar 2021	
	Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	$m	**$m**	$m	$m
100 basis point increase	**(239)**	**204**	(442)	217
25 basis point decrease	**58**	**(56)**	99	(63)

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 'Market risk' section of our *Annual Report and Accounts 2021* 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 $18.9m at the quarter ended 31 March 2022 decreased by $0.9m from the prior year, largely due to a decrease in interest rate risk in non-trading books. Over the same period, the average total VaR of $23m increased by $1.6m due to increased volatility in markets during the quarter. Total VaR is largely driven by non-trading VaR.

The bank has remained within contained levels of risk. The reduction in interest rate risk during the quarter drove the trading VaR decrease. The trading VaR at the period-end and average trading VaR during the quarter decreased by $0.9m and $0.6m, respectively.

Total VaR*

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
At period end	**18.9**	19.8
Average	**23.0**	21.4
Minimum	**18.5**	19.3
Maximum	**26.9**	23.6

Non-trading VaR*

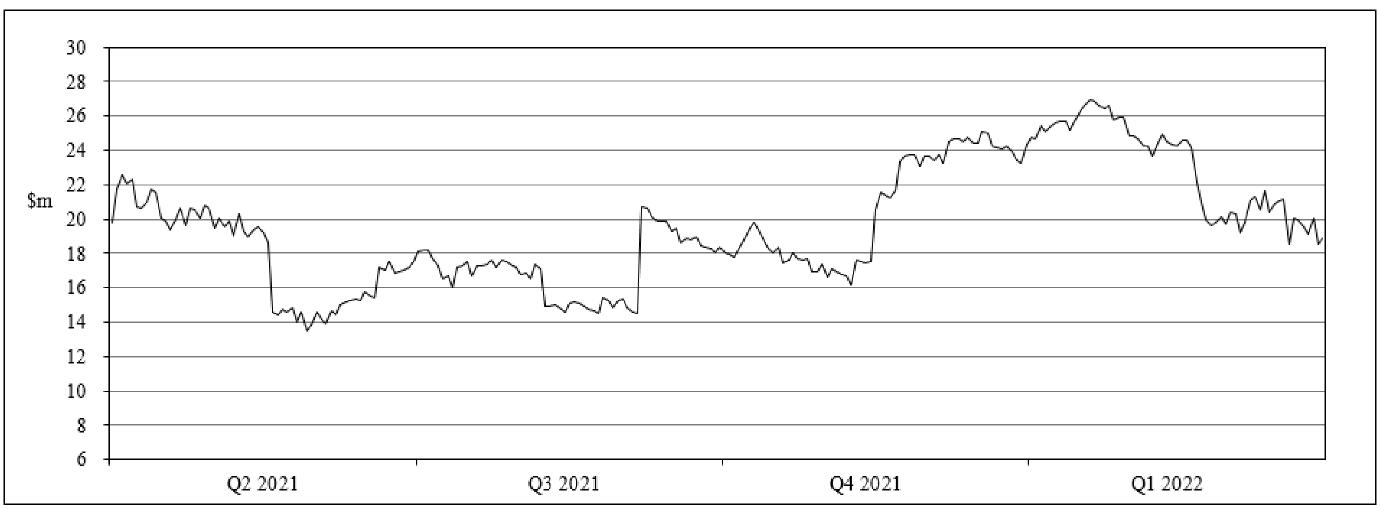
	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
At period end	**18.6**	21.8
Average	**23.3**	22.5
Minimum	**18.5**	20.3
Maximum	**26.6**	24.6

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 - March 2022						
At period end	**—**	**0.6**	**—**	**0.6**	**(0.3)**	**0.9**
Average	**—**	**0.9**	**—**	**0.7**	**(0.4)**	**1.2**
Minimum	**—**	**0.5**	**—**	**0.2**	**—**	**0.5**
Maximum	**—**	**1.9**	**—**	**1.4**	**—**	**2.1**
January - March 2021						
At period end	—	1.5	—	0.9	(0.6)	1.8
Average	—	1.7	—	0.7	(0.6)	1.8
Minimum	—	0.7	—	0.3	—	0.7
Maximum	—	3.4	—	1.9	—	3.5

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 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 decrease in the first quarter of 2022 was due to the reduction in interest rate risk. The total VaR increase in the fourth quarter of 2021 was largely due to increased market volatility. The total VaR increase in the third quarter of 2021 was due to covered bond issuance in EUR which increased interest rate risk. The total VaR decrease in the second quarter of 2021 was due to HSBC Bank Canada own bond issuance in CAD which reduced interest rate risk.*

Factors that may affect future results

The above risk sections of 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' and the 'Impact of COVID-19 and our response' sections of our *Annual Report and Accounts 2021* for a description of additional factors which may affect future financial results.

IBOR transition

During first quarter of 2022, the IBOR program has been actively engaged in planning for the transition of outstanding US dollar LIBOR legacy contracts through 2022 and into 2023. Following the requirement to cease entering into new contracts referencing US dollar LIBOR from 1 January 2022, we are actively engaging with our clients with a view to transition those facilities at the earliest possible opportunity and to support our clients in transitioning their legacy US dollar LIBOR contracts by no later than the end of June 2023.

We also continue to develop and implement products that are exposed to US dollar LIBOR transition and continue to observe market developments for products relating to RFR and alternative rates.

As a result of the extended US dollar LIBOR transition activities, we continue to monitor the key risks associated with IBOR transition. These risk factors remain unchanged and include regulatory compliance risk, resilience risk, financial reporting risk, legal risk and market risk.

The Bank of Canada's Canadian Alternative Reference Rate ('CARR') working group recommended in December 2021 that the administrator of Canadian Dollar Offered Rate ('CDOR') cease the publication of CDOR after 30 June 2024. The final decision to cease CDOR remains solely with the administrator who indicated they would provide additional information by the end of April 2022, subsequent to a public consultation regarding the potential permanent cessation of CDOR. The potential replacement rate, the reformed Canadian Overnight Repo Rate Average ('CORRA'), began its daily publishing on 15 June 2020.

Consolidated Financial Statements

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Consolidated income statement

		Quarter ended	
		31 Mar 2022	31 Mar 2021
	Notes	**$m**	$m
Net interest income		**337**	282
– interest income		**471**	451
– interest expense		**(134)**	(169)
Net fee income	2	**197**	196
– fee income		**222**	225
– fee expense		**(25)**	(29)
Net income from financial instruments held for trading		**27**	30
Gains less losses from financial investments		**2**	15
Other operating income		**7**	6
Total operating income		**570**	529
Change in expected credit losses and other credit impairment charges - release		**42**	16
Net operating income		**612**	545
Employee compensation and benefits	3	**(151)**	(159)
General and administrative expenses		**(142)**	(128)
Depreciation and impairment of property, plant and equipment		**(15)**	(17)
Amortization and impairment of intangible assets		**(12)**	(9)
Total operating expenses		**(320)**	(313)
Profit before income tax expense		**292**	232
Income tax expense		**(78)**	(63)
Profit for the period		**214**	169
Profit attributable to:			
– the common shareholder		**203**	158
– the preferred shareholder		**11**	11
Profit for the period		**214**	169
Average number of common shares outstanding (000's)		**548,668**	548,668
Basic and diluted earnings per common share ($)		**$ 0.37**	$ 0.29

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	
	31 Mar 2022	31 Mar 2021
	$m	$m
Profit for the period	**214**	169
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	**(182)**	(68)
– fair value losses	**(246)**	(78)
– fair value gains transferred to the income statement on disposal	**(2)**	(15)
– income taxes	**66**	25
Cash flow hedges	**(179)**	(36)
– fair value losses	**(265)**	(28)
– fair value losses/(gains) reclassified to the income statement	**22**	(21)
– income taxes	**64**	13
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	**24**	16
– before income taxes	**33**	22
– income taxes	**(9)**	(6)
Equity instruments designated at fair value through other comprehensive income	**1**	—
– fair value gains	**1**	—
Other comprehensive loss for the period, net of tax	**(336)**	(88)
Total comprehensive income for the period	**(122)**	81
Attributable to:		
– the common shareholder	**(133)**	70
– the preferred shareholder	**11**	11
Total comprehensive income for the period	**(122)**	81

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

		At	
		31 Mar 2022	31 Dec 2021
	Notes	**$m**	$m
Assets			
Cash and balances at central banks		**9,241**	13,955
Items in the course of collection from other banks		**10**	9
Trading assets	*5*	**3,682**	2,907
Other financial assets mandatorily measured at fair value through profit or loss		**18**	18
Derivatives	*6*	**3,645**	2,773
Loans and advances to banks		**1,437**	1,659
Loans and advances to customers		**71,228**	68,699
Reverse repurchase agreements – non-trading		**7,496**	9,058
Financial investments	*7*	**16,347**	14,969
Other assets	*8*	**3,349**	1,377
Prepayments and accrued income		**221**	186
Customers' liability under acceptances		**3,338**	3,548
Current tax assets		**215**	148
Property, plant and equipment		**325**	263
Goodwill and intangible assets		**183**	181
Deferred tax assets		**85**	103
Total assets		**120,820**	119,853
Liabilities and equity			
Liabilities			
Deposits by banks		**1,414**	1,313
Customer accounts		**71,436**	73,626
Repurchase agreements – non-trading		**7,441**	8,044
Items in the course of transmission to other banks		**324**	253
Trading liabilities	*9*	**3,083**	3,598
Derivatives	*6*	**4,019**	2,978
Debt securities in issue	*10*	**16,754**	14,339
Other liabilities	*11*	**5,464**	3,517
Acceptances		**3,346**	3,556
Accruals and deferred income		**308**	401
Retirement benefit liabilities		**233**	267
Subordinated liabilities		**1,011**	1,011
Provisions		**44**	74
Total liabilities		**114,877**	112,977
Equity			
Common shares		**1,125**	1,725
Preferred shares		**1,100**	1,100
Other reserves		**(383)**	(23)
Retained earnings		**4,101**	4,074
Total shareholder's equity		**5,943**	6,876
Total liabilities and equity		**120,820**	119,853

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

	Quarter ended	
	31 Mar 2022	31 Mar 2021
	$m	$m
Profit before income tax expense	**292**	232
Adjustments for non-cash items:		
Depreciation, amortization and impairment	**27**	26
Share-based payment expense	**1**	2
Change in expected credit losses and other credit impairment charges	**(42)**	(16)
Charge for defined benefit pension plans	**3**	3
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**(35)**	(16)
Change in net trading securities and net derivatives	**(1,367)**	(585)
Change in loans and advances to customers	**(2,503)**	(1,454)
Change in reverse repurchase agreements – non-trading	**1,355**	1,043
Change in other assets	**(1,874)**	(1,395)
Change in accruals and deferred income	**(93)**	(125)
Change in deposits by banks	**101**	140
Change in customer accounts	**(2,190)**	(2,347)
Change in repurchase agreements – non-trading	**(603)**	847
Change in debt securities in issue	**2,415**	(2,897)
Change in other liabilities	**1,781**	1,949
Tax paid	**(7)**	(84)
Net cash from operating activities	**(2,739)**	(4,677)
Purchase of financial investments	**(2,191)**	(731)
Proceeds from the sale and maturity of financial investments	**566**	4,069
Purchase of intangibles and property, plant and equipment	**(28)**	(9)
Net cash from investing activities	**(1,653)**	3,329
Return of capital to parent	**(600)**	—
Dividends paid to shareholder	**(211)**	(206)
Lease principal payments	**(12)**	(10)
Net cash from financing activities	**(823)**	(216)
Net increase in cash and cash equivalents	**(5,215)**	(1,564)
Cash and cash equivalents at the beginning of the period	**19,759**	17,279
Cash and cash equivalents at the end of the period	**14,544**	15,715
Cash and cash equivalents comprise:		
Cash and balances at central bank	**9,241**	13,024
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(314)**	(304)
Loans and advances to banks of one month or less	**1,437**	1,260
Non-trading reverse repurchase agreements with banks of one month or less	**4,180**	1,735
Cash and cash equivalents at the end of the period	**14,544**	15,715
Interest:		
Interest paid	**(143)**	(251)
Interest received	**440**	451

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

			Other reserves			
	Share capital	**Retained earnings**	**Financial assets at FVOCI reserve**	**Cash flow hedging reserve**	**Total other reserves**	**Total equity**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 Jan 2022	**2,825**	**4,074**	**(22)**	**(1)**	**(23)**	**6,876**
Profit for the period	**—**	**214**	**—**	**—**	**—**	**214**
Other comprehensive income/(loss), net of tax	**—**	**24**	**(181)**	**(179)**	**(360)**	**(336)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**(182)**	**—**	**(182)**	**(182)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**1**	**—**	**1**	**1**
– cash flow hedges	**—**	**—**	**—**	**(179)**	**(179)**	**(179)**
– remeasurement of defined benefit plans	**—**	**24**	**—**	**—**	**—**	**24**
Total comprehensive income for the period	**—**	**238**	**(181)**	**(179)**	**(360)**	**(122)**
Dividends on common shares	**—**	**(200)**	**—**	**—**	**—**	**(200)**
Dividends on preferred shares	**—**	**(11)**	**—**	**—**	**—**	**(11)**
Return of capital to parent	**(600)**	**—**	**—**	**—**	**—**	**(600)**
Shares issued under employee remuneration and share plan	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Mar 2022	**2,225**	**4,101**	**(203)**	**(180)**	**(383)**	**5,943**

			Other reserves			
	Share capital	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	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	—	169	—	—	—	169
Other comprehensive income/(loss), net of tax	—	16	(68)	(36)	(104)	(88)
– debt instruments at fair value through other comprehensive income	—	—	(68)	—	(68)	(68)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—
– cash flow hedges	—	—	—	(36)	(36)	(36)
– remeasurement of defined benefit plans	—	16	—	—	—	16
Total comprehensive income for the period	—	185	(68)	(36)	(104)	81
Dividends on common shares	—	(195)	—	—	—	(195)
Dividends on preferred shares	—	(11)	—	—	—	(11)
Return of capital to parent	—	—	—	—	—	—
Shares issued under employee remuneration and share plan	—	1	—	—	—	1
At 31 Mar 2021	2,825	3,788	40	105	145	6,758

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 2021 audited annual consolidated financial statements. The bank's 2021 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 2021 annual consolidated financial statements of the bank's *Annual Report and Accounts 2021*.

(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 2021, which are stated on pages 33 to 34, 46 and 78 of the *Annual Report and Accounts 2021*.

(e) Consolidation

The consolidated financial statements comprise the consolidated financial statements of the bank and its subsidiaries as at 31 March 2022. The method adopted by the bank to consolidate its subsidiaries is described in note 2(a) of the 2021 annual consolidated financial statements of the bank's *Annual Report and Accounts 2021*.

(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 2021 annual consolidated financial statements of the bank's *Annual Report and Accounts 2021*.

2 Net fee income

Net fee income by business segment

	Quarter ended											
	31 Mar 2022						31 Mar 2021					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking[1]**	**Markets and Securities Services[1]**	**Corporate Centre[2]**	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking[1]	Markets and Securities Services[1]	Corporate Centre[2]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Account services	**12**	**4**	**3**	**—**	**—**	**19**	10	3	2	—	—	15
Broking income	**—**	**4**	**—**	**—**	**—**	**4**	—	6	—	1	—	7
Cards	**6**	**15**	**—**	**—**	**—**	**21**	4	12	—	—	—	16
Credit facilities	**74**	**—**	**8**	**—**	**—**	**82**	69	—	15	—	—	84
Funds under management[3]	**—**	**58**	**—**	**—**	**—**	**58**	—	52	—	—	—	52
Imports/exports	**3**	**—**	**—**	**—**	**—**	**3**	3	—	—	—	—	3
Insurance agency commission	**—**	**1**	**—**	**—**	**—**	**1**	—	1	—	—	—	1
Guarantees and other	**10**	**2**	**3**	**(1)**	**—**	**14**	8	1	3	—	—	12
Remittances	**7**	**1**	**2**	**—**	**—**	**10**	7	1	2	—	—	10
Underwriting and advisory	**—**	**—**	**7**	**5**	**(2)**	**10**	—	—	22	3	—	25
Fee income	**112**	**85**	**23**	**4**	**(2)**	**222**	101	76	44	4	—	225
Less: fee expense	**(4)**	**(19)**	**(1)**	**(1)**	**—**	**(25)**	(3)	(17)	(8)	(1)	—	(29)
Net fee income	**108**	**66**	**22**	**3**	**(2)**	**197**	98	59	36	3	—	196

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation. For further information, refer to note 4.*
2. *Corporate Centre is not an operating segment of the bank. The numbers included above provides a reconciliation between operating segments and the entity results.*

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	
	31 Mar 2022	31 Mar 2021
	$m	$m
Defined benefit plans	**5**	6
– pension plans	**3**	4
– non-pension plans	**2**	2
Defined contribution pension plans	**6**	8
Total	**11**	14

A remeasurement of the net defined benefit liability has occurred in accordance with the bank's accounting policy as described on page 86 of the *Annual Report and Accounts 2021.*

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. Our reportable segments under IFRS 8 'Operating Segments' are Commercial Banking, Wealth and Personal Banking, Global Banking, and Markets and Securities Services.

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 businesses' assets, liabilities and capital, at market rates, taking into account relevant terms.

Profit for the period

	Quarter ended											
	31 Mar 2022						31 Mar 2021					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking[1]**	**Markets and Securities Services[1]**	**Corporate Centre[2]**	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking[1]	Markets and Securities Services[1]	Corporate Centre[2]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Net interest income	**162**	**141**	**25**	**9**	**—**	**337**	127	128	22	5	—	282
Net fee income	**108**	**66**	**22**	**3**	**(2)**	**197**	98	59	36	3	—	196
Net income from financial instruments held for trading	**9**	**5**	**—**	**14**	**(1)**	**27**	9	11	—	12	(2)	30
Other income	**1**	**5**	**—**	**—**	**3**	**9**	5	9	2	1	4	21
Total operating income	**280**	**217**	**47**	**26**	**—**	**570**	239	207	60	21	2	529
Change in expected credit losses and other credit impairment charges - release/ (charge)	**40**	**4**	**(2)**	**—**	**—**	**42**	8	(3)	11	—	—	16
Net operating income	**320**	**221**	**45**	**26**	**—**	**612**	247	204	71	21	2	545
– external	**316**	**235**	**34**	**27**	**—**	**612**	257	200	64	21	3	545
– inter-segment	**4**	**(14)**	**11**	**(1)**	**—**	**—**	(10)	4	7	—	(1)	—
Total operating expenses	**(103)**	**(161)**	**(22)**	**(13)**	**(21)**	**(320)**	(96)	(167)	(22)	(12)	(16)	(313)
Profit/(loss) before income tax expense	**217**	**60**	**23**	**13**	**(21)**	**292**	151	37	49	9	(14)	232

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation.*
2. *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	**Wealth and Personal Banking**	**Global Banking[1]**	**Markets and Securities Services[1]**	**Corporate Centre[1]**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 31 Mar 2022						
Loans and advances to customers	**31,577**	**36,292**	**3,359**	**—**	**—**	**71,228**
Customers' liability under acceptances	**2,422**	**12**	**904**	**—**	**—**	**3,338**
Total external assets	**44,508**	**48,887**	**8,545**	**18,377**	**503**	**120,820**
Customer accounts	**25,926**	**39,283**	**6,120**	**107**	**—**	**71,436**
Acceptances	**2,430**	**12**	**904**	**—**	**—**	**3,346**
Total external liabilities	**36,711**	**50,596**	**10,339**	**16,799**	**432**	**114,877**
At 31 Dec 2021						
Loans and advances to customers	29,203	35,916	3,580	—	—	68,699
Customers' liability under acceptances	2,610	12	926	—	—	3,548
Total external assets	42,613	51,841	8,577	16,147	675	119,853
Customer accounts	27,344	39,423	6,787	72	—	73,626
Acceptances	2,618	12	926	—	—	3,556
Total external liabilities	37,104	50,791	10,377	14,511	194	112,977

1. *Effective from the fourth quarter of 2021, we have separated the business segment previously named 'Global Banking and Markets' into 'Global Banking' and 'Markets and Securities Services' to reflect our new operating segments. All comparatives have been aligned to conform to current period presentation.*
2. *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 31 Mar 2022 $m	31 Dec 2021 $m
Debt securities			
– Canadian and Provincial Government bonds	1	**3,108**	2,536
– treasury and other eligible bills		**346**	165
– other debt securities		**228**	206
At the end of the period		**3,682**	2,907
Trading assets			
– not subject to repledge or resale by counterparties		**1,538**	1,087
– which may be repledged or resold by counterparties		**2,144**	1,820
At the end of the period		**3,682**	2,907

1. *Including government guaranteed bonds.*

6 Derivatives

Refer to note 2 and note 12 of the bank's *Annual Report and Accounts 2021* for a detailed description of the types of derivatives, use of derivatives and relevant accounting policies.

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

	Notional contract amount[1]		Fair value – Assets			Fair value – Liabilities		
	Held for trading	Hedge accounting	Held for trading	Hedge accounting	Total	Held for trading	Hedge accounting	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Foreign exchange	**152,821**	**1,036**	**1,612**	**–**	**1,612**	**1,613**	**64**	**1,677**
Interest rate	**246,476**	**19,722**	**1,872**	**161**	**2,033**	**2,058**	**284**	**2,342**
Commodity	**9**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
At 31 Mar 2022	**399,306**	**20,758**	**3,484**	**161**	**3,645**	**3,671**	**348**	**4,019**
Foreign exchange	142,104	1,143	1,199	1	1,200	1,213	36	1,249
Interest rate	238,118	17,414	1,452	121	1,573	1,612	117	1,729
Commodity	4	–	–	–	–	–	–	–
At 31 Dec 2021	380,226	18,557	2,651	122	2,773	2,825	153	2,978

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 31 Mar 2022			31 Dec 2021		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Interest rate	**8,485**	**146**	**26**	8,704	42	62
Total	**8,485**	**146**	**26**	8,704	42	62

Cash flow hedging instrument by hedged risk

	At 31 Mar 2022			31 Dec 2021		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Foreign exchange	**1,036**	**–**	**64**	1,143	1	36
Interest rate	**11,237**	**15**	**258**	8,710	79	55
Total	**12,273**	**15**	**322**	9,853	80	91

7 Financial investments

Carrying amount of financial investments

	Footnote	At 31 Mar 2022 $m	At 31 Dec 2021 $m
Debt securities		**16,333**	14,958
– Canadian and Provincial Government bonds	1	**11,104**	9,760
– international Government bonds	1	**2,711**	2,375
– other debt securities issued by banks and other financial institutions		**2,127**	2,430
– treasury and other eligible bills		**391**	393
Equity securities		**14**	11
At the end of the period		**16,347**	14,969
Financial investments			
– not subject to repledge or resale by counterparties		**15,263**	13,637
– which may be repledged or resold by counterparties		**1,084**	1,332
At the end of the period		**16,347**	14,969

1. Includes government guaranteed bonds.

8 Other assets

	At 31 Mar 2022 $m	At 31 Dec 2021 $m
Accounts receivable	**657**	462
Settlement accounts	**2,099**	494
Cash collateral	**586**	413
Other	**7**	8
At the end of the period	**3,349**	1,377

9 Trading liabilities

	At 31 Mar 2022 $m	At 31 Dec 2021 $m
Net short positions in securities	**3,083**	3,598
At the end of the period	**3,083**	3,598

10 Debt securities in issue

	At 31 Mar 2022 $m	At 31 Dec 2021 $m
Bonds and medium term notes	**11,295**	8,743
Covered bonds	**3,539**	3,614
Money market instruments	**1,920**	1,982
At the end of the period	**16,754**	14,339

Term to maturity

	At 31 Mar 2022 $m	At 31 Dec 2021 $m
Less than 1 year	**7,970**	5,583
1-5 years	**8,557**	8,756
5-10 years	**227**	—
At the end of the period	**16,754**	14,339

11 Other liabilities

	At	
	31 Mar 2022	31 Dec 2021
	$m	$m
Mortgages sold with recourse	**2,086**	2,163
Lease liabilities	**275**	225
Accounts payable	**695**	640
Settlement accounts	**2,140**	371
Cash collateral	**192**	67
Other	**68**	45
Share based payment related liability	**8**	6
At the end of the period	**5,464**	3,517

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 31 March 2022 are consistent with those applied for the *Annual Report and Accounts 2021*.

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 31 Mar 2022				
Assets				
Trading assets	**3,455**	**227**	**—**	**3,682**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**18**	**—**	**18**
Derivatives	**—**	**3,645**	**—**	**3,645**
Financial investments	**16,333**	**14**	**—**	**16,347**
Liabilities				
Trading liabilities	**2,942**	**141**	**—**	**3,083**
Derivatives	**—**	**4,019**	**—**	**4,019**
At 31 Dec 2021				
Assets				
Trading assets	2,750	157	—	2,907
Other financial assets mandatorily measured at fair value through profit or loss	—	18	—	18
Derivatives	—	2,773	—	2,773
Financial investments	14,958	11	—	14,969
Liabilities				
Trading liabilities	3,571	27	—	3,598
Derivatives	—	2,978	—	2,978

Transfers between Level 1 and Level 2 fair values

	Assets		Liabilities
	Trading assets	**Financial investments**	**Trading liabilities**
	$m	**$m**	**$m**
Quarter ended 31 Mar 2022			
Transfer from Level 1 to Level 2	**—**	**—**	**—**
Transfer from Level 2 to Level 1	**—**	**—**	**1**
Quarter ended 31 Mar 2021			
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 page 107 of the *Annual Report and Accounts 2021*.

Fair values of financial instruments not carried at fair value

		At			
		31 Mar 2022		31 Dec 2021	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	*1*	**71,228**	**71,021**	68,699	68,734
Liabilities					
Customer accounts		**71,436**	**71,528**	73,626	73,736
Debt securities in issue		**16,754**	**16,627**	14,339	14,466
Subordinated liabilities		**1,011**	**1,027**	1,011	1,074

1. Loans and advances to customers specifically relating to Canada: carrying amount $67,226m and fair value $67,031m (31 December 2021: carrying amount $64,909m and fair value $64,942m).

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 April 2022, the bank declared regular quarterly dividends for the second quarter of 2022 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 30 June 2022 or the first business day thereafter to the shareholder of record on 15 June 2022.

On 22 April 2022, the bank also declared a first interim dividend of $90m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2022, which will be paid on or before 30 June 2022 to the shareholder of record on 22 April 2022.

As the quarterly dividends on preferred shares for the second quarter of 2022 and the first interim dividend on common shares for 2022 were declared after 31 March 2022, 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 31 March 2022 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 22 April 2022 and authorized for issue.

Shareholder information

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