HSBC Bank Canada

Third Quarter 2022 Interim Report

HSBC

HSBC Bank Canada third quarter 2022 performance

Quarter ended 30 September 2022

Total operating income		Profit before income tax expense		Profit attributable to the common shareholder	
$665m	↑ 19%	$298m	↑ 27%	$206m	↑ 30%
(2021: $560m)		(2021: $234m)		(2021: $159m)	

Nine months ended 30 September 2022

Total operating income		Profit before income tax expense		Profit attributable to the common shareholder	
$1,834m	↑ 12%	$788m	↑ 8.7%	$542m	↑ 9.3%
(2021: $1,636m)		(2021: $725m)		(2021: $496m)	

At 30 September 2022

Total assets		Common equity tier 1 ratio[1]	
$134.0bn	↑ 12%	11.1%	↓ 290 bps
(At 31 Dec 2021: $119.9bn)		(At 31 Dec 2021: 14.0%)	

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

“Thanks to the efforts of our dedicated team, we have delivered the highest quarterly profit before tax on record for the bank. All of our business segments saw increased profit in the quarter, driven by the impact of the central bank rate increases in the year and growth in our businesses. Even as we continued to grow the business and face rising inflation, we’ve held the line on expenses through prudent cost management. As always, we remain fully focused on serving our clients and supporting their plans whether they need local solutions, global connections or support on their transition to a low carbon economy."

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

Interim report contents

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 debt capital, global trade and receivables finance to global liquidity and cash management.

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, and clearing and settlement.

Quarter ended 30 September 2022

Total operating income

CMB	WPB	GB	MSS
$308m ↑ 15%	$270m ↑ 27%	$58m ↑ 3.6%	$26m ↑ 18%
(2021: $268m)	(2021: $212m)	(2021: $56m)	(2021: $22m)

Profit before income tax expense

CMB	WPB	GB	MSS
$195m ↑ 15%	$83m ↑ 60%	$32m ↑ 45%	$13m ↑ 18%
(2021: $169m)	(2021: $52m)	(2021: $22m)	(2021: $11m)

Nine months ended 30 September 2022

Total operating income

CMB	WPB	GB	MSS
$881m ↑ 16%	$719m ↑ 14%	$144m ↓ 14%	$83m ↑ 24%
(2021: $761m)	(2021: $628m)	(2021: $168m)	(2021: $67m)

Profit before income tax expense

CMB	WPB	GB	MSS
$528m ↑ 3.3%	$208m ↑ 45%	$70m ↓ 36%	$44m ↑ 47%
(2021: $511m)	(2021: $143m)	(2021: $110m)	(2021: $30m)

At 30 September 2022

Customer related lending assets[3]

CMB	WPB	GB	MSS
$36.8bn ↑ 16%	$37.2bn ↑ 3.6%	$4.8bn ↑ 7.5%	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 14 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 of $3m for the quarter and $7m for the nine months ended 30 September 2022 (2021 total operating income: $2m for the quarter and $12m for the nine months ended), profit/(loss) before income tax expense was a loss of $25m for the quarter and $62m for the nine months ended 30 September 2022 (2021 was a loss of: $20m for the quarter and $69m for the nine months ended) 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 lending assets includes loans and advances to customers and customers' liability under acceptances.*

MD&A contents

Basis of preparation

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

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter and nine months ended 30 September 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 and nine months ended 30 September 2022 ('consolidated financial statements') and our *Annual Report and Accounts 2021*. This MD&A is dated 21 October 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 and nine months ended 30 September 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, the United Kingdom Financial Conduct Authority's National Storage Mechanism at www.data.fca.org.uk and the London Stock Exchange at www.londonstockexchange.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') and Canadian Dollar Offered Rate ('CDOR') 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. Furthermore HSBC Group regularly reviews its businesses in all markets and is currently exploring a potential sale of the Group's 100% equity stake in HSBC Bank Canada. 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. 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.

HSBC Holdings plc, the parent company of HSBC Bank Canada, is headquartered in London, UK. HSBC serves customers worldwide from offices in 63 countries and territories in Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,992bn at 30 September 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 Euro denominated covered bonds 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.

Ratio of customer advances to customer accounts is calculated as loans and advances to customers as a percentage of customer accounts.

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

($millions, except where otherwise stated)	Footnotes	Quarter ended 30 Sep 2022	Quarter ended 30 Sep 2021	Nine months ended 30 Sep 2022	Nine months ended 30 Sep 2021
Financial performance for the period					
Total operating income		**665**	560	**1,834**	1,636
Change in expected credit losses and other credit impairment charges - (charge)/release		**(42)**	(3)	**(82)**	53
Operating expenses		**(325)**	(323)	**(964)**	(964)
Profit before income tax expense		**298**	234	**788**	725
Profit attributable to the common shareholder		**206**	159	**542**	496
Basic and diluted earnings per common share ($)		**0.38**	0.29	**0.99**	0.90
Financial ratios (%)	1				
Return on average common shareholder's equity		**17.6**	10.9	**14.5**	11.5
Return on average risk-weighted assets		**2.7**	2.4	**2.5**	2.4
Cost efficiency ratio		**48.9**	57.7	**52.6**	58.9
Operating leverage ratio		**18.1**	16.8	**12.1**	5.9
Net interest margin		**1.62**	1.20	**1.42**	1.19
Change in expected credit losses to average gross loans and advances and acceptances	2	**0.21**	0.02	**0.14**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		**0.08**	0.14	**0.15**	0.09
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**29.0**	45.3	**29.0**	45.3
Net write-offs as a percentage of average loans and advances and acceptances		**0.01**	0.08	**0.23**	0.08

	Footnotes	At 30 Sep 2022	At 31 Dec 2021
Financial position at period end			
Total assets		**134,047**	119,853
Loans and advances to customers		**75,672**	68,699
Customer accounts		**81,500**	73,626
Ratio of customer advances to customer accounts (%)	1	**92.8**	93.3
Common shareholder's equity		**4,636**	5,776
Capital, leverage and liquidity measures			
Common equity tier 1 capital ratio (%)	3	**11.1**	14.0
Tier 1 ratio (%)	3	**13.5**	16.8
Total capital ratio (%)	3	**15.8**	19.3
Leverage ratio (%)	3	**4.3**	5.8
Risk-weighted assets ($m)	3	**44.481**	39,836
Liquidity coverage ratio (%)	4	**153**	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		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Net interest income	**449**	315	**1,155**	903
Net fee income	**194**	197	**587**	589
Net income from financial instruments held for trading	**15**	26	**66**	84
Other items of income	**7**	22	**26**	60
Total operating income	**665**	560	**1,834**	1,636
Change in expected credit losses and other credit impairment charges - (charge)/release	**(42)**	(3)	**(82)**	53
Net operating income	**623**	557	**1,752**	1,689
Total operating expenses	**(325)**	(323)	**(964)**	(964)
Profit before income tax expense	**298**	234	**788**	725
Income tax expense	**(79)**	(63)	**(210)**	(195)
Profit for the period	**219**	171	**578**	530

For the quarter and nine months ended 30 September 2022 compared with the same periods in the prior year, unless otherwise stated.

Profit before income tax expense was $298m, up $64m or 27% for the quarter and $788m, up $63m or 8.7%, for the year-to-date. The increase for the quarter and year-to-date were largely due to strong operating income. Continuing with the momentum since the second half of 2020, we have reached our highest quarterly profit before tax on record[1] and our highest quarterly total operating income in a decade. Profit before income tax expense and total operating income have increased across all our businesses for the quarter and three of four businesses for the year-to-date. This was partly offset by a charge in expected credit losses due to the continued adverse movement in forward-looking macro-economic variables, coupled with a significant charge for a stage 3 loan in the first half of 2022.

Operating income of $665m for the quarter and $1,834m for the year-to-date, represented an increase of $105m or 19% and $198m or 12%, respectively from the prior year. The impact of the central bank rate increases in the year and balance sheet growth drove net interest income higher. Net fee income decreased slightly mainly due to lower advisory fees in Global Banking. This was partly offset by higher card and transaction activity in both Wealth and Personal Banking and Commercial Banking, and an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking. For the year-to-date, the decrease in net fee income was also partly offset by higher average investment funds under management in Wealth. Other operating income and trading income were lower for the quarter and year-to-date.

Expected credit losses resulted in a charge of $42m for the quarter and $82m for the year-to-date. For the quarter, this was primarily due to a charge on performing loans driven by the adverse movement in forward-looking macro-economic variables. For the year-to-date, this was coupled with a significant charge for a material stage 3 loan in the first half of 2022, partly offset by a release in performing loans from COVID-19 related allowances during the first quarter. In 2021, the charge for the quarter was related to two non-performing energy loans, partly offset by a release in performing loans as the forward-looking macro economic variables improved at that time. The release in the prior year-to-date was primarily related to improvements in the forward-looking macro-economic variables on performing loans at that time.

Total operating expenses increased slightly by $2m or 0.6% for the quarter and remained flat for the year-to-date. In the face of inflationary pressures, we continued to prudently manage costs while making investments to grow our business and support regulatory projects. For the year-to-date, increases were partly offset by costs incurred in the prior year to move to hybrid working.

1. *Record quarter surpassing the highest profit before tax reported in the first quarter of 2012.*

Performance by income and expense item

For the quarter and nine months ended 30 September 2022 compared with the same periods in the prior year.

Net interest income

Net interest income increased by $134m or 43% for the quarter due to the impact of the central bank rate increases in the year and our balance sheet growth across all businesses.

Net interest income increased by $252m or 28% for the year-to-date, which was driven by the same factors as described in the quarter.

Summary of interest income by types of assets

		Quarter ended						Nine months ended					
		30 Sep 2022			30 Sep 2021			**30 Sep 2022**			30 Sep 2021		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield	**Average balance**	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnotes	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks	*1*	**6,084**	**39**	**2.53**	16,236	10	0.24	**9,531**	**72**	**1.01**	15,301	27	0.24
Loans and advances to customers	*2*	**74,792**	**715**	**3.80**	66,279	416	2.49	**72,452**	**1,666**	**3.07**	64,010	1,233	2.57
Reverse repurchase agreements - non-trading		**6,014**	**58**	**3.84**	7,237	5	0.28	**7,110**	**90**	**1.70**	6,254	14	0.31
Financial investments	*3*	**22,296**	**116**	**2.04**	14,258	19	0.55	**18,659**	**197**	**1.40**	15,607	71	0.61
Other interest-earning assets	*4*	**842**	**6**	**2.95**	487	1	0.70	**675**	**10**	**2.00**	515	3	0.62
Total interest-earning assets (A)		**110,028**	**934**	**3.38**	104,497	451	1.72	**108,427**	**2,035**	**2.51**	101,687	1,348	1.77
Trading assets and financial assets designated at fair value	*5*	**6,012**	**45**	**3.00**	3,677	7	0.74	**4,464**	**82**	**2.47**	3,598	22	0.80
Non-interest-earning assets	*6*	**11,696**	**—**	**—**	9,331	—	—	**10,983**	**—**	**—**	10,352	—	—
Total		**127,736**	**979**	**3.05**	117,505	458	1.55	**123,874**	**2,117**	**2.28**	115,637	1,370	1.58

1. *'Short-term funds and loans and advances to banks' includes interest-earning cash and balances at central bank 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 and debt instruments measured at amortized costs.*
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 bank, 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						Nine months ended					
		30 Sep 2022			30 Sep 2021			**30 Sep 2022**			30 Sep 2021		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost	**Average balance**	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
	Footnotes	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Deposits by banks	*1*	**472**	**1**	**0.47**	1,137	—	0.07	**1,034**	**1**	**0.13**	1,122	—	0.05
Customer accounts	*2*	**70,085**	**285**	**1.61**	63,030	43	0.27	**66,744**	**454**	**0.91**	62,627	163	0.35
Repurchase agreements - non-trading		**6,031**	**58**	**3.78**	5,483	3	0.25	**6,892**	**87**	**1.69**	4,252	9	0.29
Debt securities in issue and subordinated debt		**17,416**	**125**	**2.85**	16,655	74	1.76	**16,926**	**291**	**2.30**	15,981	223	1.87
Other interest-bearing liabilities	*3*	**2,631**	**16**	**2.56**	2,533	16	2.55	**2,558**	**47**	**2.49**	2,675	50	2.48
Total interest bearing liabilities (B)		**96,635**	**485**	**2.00**	88,838	136	0.61	**94,154**	**880**	**1.25**	86,657	445	0.69
Trading liabilities	*4*	**4,695**	**37**	**3.12**	3,443	8	0.92	**3,822**	**71**	**2.48**	3,402	23	0.90
Non-interest bearing current accounts	*5*	**8,518**	**—**	**—**	8,387	—	—	**8,609**	**—**	**—**	7,939	—	—
Total equity and other non-interest bearing liabilities	*6*	**17,888**	**—**	**—**	16,837	—	—	**17,289**	**—**	**—**	17,639	—	—
Total		**127,736**	**522**	**1.63**	117,505	144	0.49	**123,874**	**951**	**1.03**	115,637	468	0.54
Net interest income (A-B)			**449**			315			**1,155**			903	

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		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Account services	**19**	15	**57**	49
Broking income	**5**	4	**12**	14
Cards	**25**	19	**70**	52
Credit facilities	**88**	90	**256**	258
Funds under management	**54**	57	**169**	163
Imports/exports	**3**	4	**9**	9
Insurance agency commission	**1**	1	**3**	3
Guarantee and other	**11**	11	**37**	36
Remittances	**11**	11	**35**	32
Underwriting and advisory	**6**	13	**21**	55
Fee income	**223**	225	**669**	671
Less: fee expense	**(29)**	(28)	**(82)**	(82)
Net fee income	**194**	197	**587**	589

Net fee income decreased by $3m or 1.5% for the quarter. The decrease in fee income was mainly driven by lower advisory fees in Global Banking largely due to the challenging market conditions and elevated prior year performance. Fees on investment funds under management in Wealth and Personal Banking were lower due to adverse market conditions. Credit facility fees decreased in Global Banking, which was partly offset by an increase in Commercial Banking from higher volumes of bankers' acceptances. These decreases were offset by increased activity in cards and increased transactions in account services in both Wealth and Personal Banking and Commercial Banking. As a result of the activity described above, fee expense increased slightly due to increased activity in cards, partly offset by lower volumes in advisory fees.

Net fee income decreased slightly by $2m or 0.3% for the year-to-date was driven by the same factors as described in the quarter, coupled with higher average investment funds under management in Wealth and Personal Banking for the year-to-date.

Net income from financial instruments held for trading

	Quarter ended		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Trading activities	**22**	28	**71**	86
Credit valuation, debit valuation and funding fair value adjustments	**–**	1	**5**	4
Net interest from trading activities	**8**	(1)	**11**	(1)
Hedge ineffectiveness	**(15)**	(2)	**(21)**	(5)
Net income from financial instruments held for trading	**15**	26	**66**	84

Net income from financial instruments held for trading decreased by $11m or 42% for the quarter. The decrease was mainly driven by an unfavourable change in hedge ineffectiveness resulting from cash flow hedge instruments and lower income from trading activity. This was offset by higher net interest income from trading activities due to the higher interest rate environment.

Net income from financial instruments held for trading decreased by $18m or 21% for the year-to-date was driven by the same factors as described in the quarter, coupled with an adverse movement in the value of loan syndication facilities as part of trading activities during the second quarter of 2022.

Other items of income

	Quarter ended		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**–**	1	**(1)**	4
Gains less losses from financial investments	**–**	13	**2**	35
Other operating income	**7**	8	**25**	21
Other items of income	**7**	22	**26**	60

Other items of income decreased by $15m or 68% for the quarter driven by lower gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio.

Other items of income decreased by $34m or 57% for the year-to-date driven by the same factors as described in the quarter, partly offset by gains in other operating income.

Change in expected credit losses

	Quarter ended		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - charge/(release)	**35**	(22)	**(6)**	(102)
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - charge	**7**	25	**88**	49
Change in expected credit loss and other credit impairment charges - charge/(release)	**42**	3	**82**	(53)

The change in expected credit losses for the quarter resulted in a charge of $42m compared to a charge of $3m in the same period in the prior year. The charge for the quarter was primarily driven by the continued adverse movement in forward-looking macro-economic variables in performing loans. In 2021, the charge for the quarter was related to non-performing loans in the energy sector, partly offset by a release in performing loans as the forward-looking macro economic variables continued to improve at that time.

The change in expected credit losses for the year-to-date resulted in a charge of $82m compared to a release of $53m in the same period in the prior year. The charge for the year-to-date was driven by a significant charge in expected credit losses for a material stage 3 loan during the first half of 2022. Change in expected credit losses for performing loans resulted in a release in performing loans mainly from COVID-19 related allowances in the first quarter, 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 in performing loans driven by an adverse movement in forward-looking macro-economic variables. 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 primarily from non-performing loans in the energy sector.

Total operating expenses

	Quarter ended		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Employee compensation and benefits	**148**	145	**451**	456
General and administrative expenses	**146**	150	**426**	405
Depreciation and impairment of property, plant and equipment	**18**	17	**49**	64
Amortization and impairment of intangible assets	**13**	11	**38**	39
Total operating expenses	**325**	323	**964**	964

Total operating expenses increased slightly by $2m or 0.6% for the quarter mainly due to continued investments to grow our business, support regulatory projects, simplify our processes and provide digital services to meet customers' needs. Timing of certain employee compensation and benefit costs, also contributed to the increase. This was partly offset by lower expenses as we prudently manage costs while facing inflationary pressures.

Total operating expenses remained flat for the year-to-date, as we prudently manage costs while facing inflationary pressures. We continued to make investments to grow our business and support regulatory projects, these increases were offset by lower expenses as a result of costs incurred in the prior year to move to hybrid working and reduced costs due to the timing of certain employee compensation and benefit costs.

Income tax expense

The effective tax rate in the third quarter of 2022 was 26.6%. As the statutory tax rate was 26.5%, there has been a nominal increase in tax liabilities. The effective tax rate for the third quarter of 2021 was 27.2%.

Movement in financial position

Summary consolidated balance sheet

	At	
	30 Sep 2022	31 Dec 2021
	$m	$m
Assets		
Cash and balances at central bank	**4,092**	13,955
Trading assets	**7,372**	2,907
Derivatives	**6,751**	2,773
Loans and advances	**76,572**	70,358
Reverse repurchase agreements – non-trading	**8,331**	9,058
Financial investments	**23,279**	14,969
Customers' liability under acceptances	**3,161**	3,548
Other assets	**4,489**	2,285
Total assets	**134,047**	119,853
Liabilities and equity		
Liabilities		
Deposits by banks	**821**	1,313
Customer accounts	**81,500**	73,626
Repurchase agreements – non-trading	**7,723**	8,044
Trading liabilities	**6,347**	3,598
Derivatives	**7,157**	2,978
Debt securities in issue	**14,903**	14,339
Acceptances	**3,170**	3,556
Other liabilities	**6,690**	5,523
Total liabilities	**128,311**	112,977
Total shareholder's equity	**5,736**	6,876
Total liabilities and equity	**134,047**	119,853

Assets

Total assets at 30 September 2022 were $134.0bn, an increase of $14.2bn or 12% from 31 December 2021. This was mainly due to the increase in financial investments of $8.3bn and higher loans and advances of $6.2bn from increased volumes in commercial loans and residential mortgages. Higher volumes in trading assets of $4.5bn, higher derivatives of $4.0bn and an increase in other assets of $2.2bn in settlement balances to facilitate client trades, also contributed to the increase. These increases were partly offset by reduced cash balances at central bank of $9.9bn as we supported growth in other asset classes.

Liabilities

Total liabilities at 30 September 2022 were $128.3bn, an increase of $15.3bn or 14% from 31 December 2021. The increase was primarily from higher volumes in deposits, which contributed to the increase of $7.9bn in customer accounts. The increase in derivatives of $4.2bn, trading liabilities of $2.7bn and other liabilities of $1.2bn correspond with the movement in derivative assets, trading assets and other assets.

Equity

Total equity at 30 September 2022 was $5.7bn, a decrease of $1.1bn or 17% from 31 December 2021. The decrease represents an unrealized loss of $0.7bn recorded on debt instruments at fair value through other comprehensive income and cash flow hedges from the upward shift in the yield curve; $0.6bn return of common share capital to parent; and $0.4bn of dividends on common shares declared in the period. These decreases were partly offset by profits after tax of $0.6bn 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]

	Quarter ended		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Net interest income	**187**	152	**522**	421
Non-interest income	**121**	116	**359**	340
Total operating income	**308**	268	**881**	761
Change in expected credit losses and other credit impairment charges - (charge)/release	**(14)**	1	**(51)**	37
Net operating income	**294**	269	**830**	798
Total operating expenses	**(99)**	(100)	**(302)**	(287)
Profit before income tax expense	**195**	169	**528**	511

Overview

Total operating income increased by $40m or 15% for the quarter, and $120m or 16% for the year-to-date. CMB has maintained positive momentum in 2022 with loans and acceptances increasing by $4.9bn in the first nine months and higher deposit balances compared to the third quarter of 2021. Net interest income has improved due to the impact of the central bank rate increases in the year and higher volumes. Non-interest income has similarly improved with higher volumes of bankers' acceptances, increased activity in corporate credit cards and in domestic and international payments.

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 Payments Solutions[2] ('GPS') 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 in the first quarter of 2022.

Profit before income tax expense increased by $26m or 15% for the quarter, and $17m or 3.3% for the year-to-date, primarily due to higher operating income partly offset by an unfavourable change in expected credit losses.

Financial performance by income and expense item

Net interest income for the quarter increased by $35m or 23%, and $101m or 24% for the year-to-date, due to increased rates as a result of the central bank rate increases in the year and higher average loan and deposit balances.

Non-interest income for the quarter and year-to-date increased by $5m or 4.3% and $19m or 5.6%, respectively, mainly due to higher fee income from higher volumes of bankers' acceptances, increased corporate credit cards activity and higher volumes of domestic and international payments.

Change in expected credit losses resulted in a charge of $14m for the quarter and $51m for the year-to-date. For the quarter, the charge was primarily driven by a charge on performing loans relating to the adverse movement in forward-looking macro-economic variables. For the year-to-date, this was coupled with a significant stage 3 impairment charge on a loan recognized in the first half of 2022, partly offset by a release in performing loans from COVID-19 related allowances in the first quarter. In 2021, the release was primarily driven by the improvement in forward-looking macro-economic variables at that time related to performing loans.

Total operating expenses for the quarter decreased slightly by $1m or 1%, and increased by $15m or 5.2% for the year-to-date, as we make investments to grow our business while prudently managing costs.

1. *For the quarter and nine months ended 30 September 2022 compared with the same periods in the prior year, unless otherwise stated.*
2. *Effective for the third quarter of 2022, Global Liquidity and Cash Management ('GLCM') was renamed as Global Payments Solutions ('GPS').*

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		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Net interest income	**202**	133	**499**	395
Non-interest income	**68**	79	**220**	233
Total operating income	**270**	212	**719**	628
Change in expected credit losses and other credit impairment charges - (charge)/release	**(22)**	8	**(22)**	12
Net operating income	**248**	220	**697**	640
Total operating expenses	**(165)**	(168)	**(489)**	(497)
Profit before income tax expense	**83**	52	**208**	143

Overview

Total operating income increased by $58m or 27% for the quarter, and $91m or 14% for the year-to-date. The increases were driven by strong volume growth in lending and deposit balances and improved margins as a result of the central bank rate increases, partly offset by lower treasury-related income.

We continued to grow our client base, with strategic focus on international clients, as we offer market competitive products to meet our clients' needs. We also continue to invest in our acquisition and distribution channels and digital enhancements to improve the client experience. As a result of these initiatives, we were recognized by Cosmopolitan The Daily for the Best International Onboarding Experience and Best Small Business Bank in Canada during the year.

We had record[2] profit before income tax expense for the quarter and year-to-date. Profit before income tax expense increased by $31m or 60% for the quarter, and $65m or 45% for the year-to-date, due to higher operating income as noted above and lower operating expenses, partly offset by an increase in expected credit losses.

Financial performance by income and expense item

Net interest income increased by $69m or 52% for the quarter, and $104m or 26% for the year-to-date, due to improved margins as a result of the central bank rate increases during the year and higher volumes.

Non-interest income decreased by $11m or 14% for the quarter due to lower treasury-related income and lower fees from investment funds under management, partly offset by higher income from our online brokerage business. For the year-to-date, non-interest income decreased by $13m or 5.6% due to lower treasury-related income, partly offset by higher average investment funds under management and account services fees.

Change in expected credit losses were $30m unfavourable for the quarter, and $34m unfavourable for the year-to-date, as a result of the adverse movement in forward-looking macro-economic variables, partly offset by releases in performing loans from COVID-19 related allowances in the first quarter. Prior year periods had a favourable impact from the improvement in forward-looking macro-economic variables at that time related to performing loans.

Total operating expenses decreased by $3m or 1.8% for the quarter, and decreased by $8m or 1.6% for the year-to-date, due to prudent management of costs while investing to grow our business.

1. *For the quarter and nine months ended 30 September 2022 compared with the same periods in the prior year, unless otherwise stated.*
2. *Record for the quarter and nine months 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		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Net interest income	**45**	24	**99**	69
Non-interest income	**13**	32	**45**	99
Total operating income	**58**	56	**144**	168
Change in expected credit losses and other credit impairment charges - (charge)/release	**(6)**	(12)	**(9)**	4
Net operating income	**52**	44	**135**	172
Total operating expenses	**(20)**	(22)	**(65)**	(62)
Profit before income tax expense	**32**	22	**70**	110

Overview

Total operating income increased by $2m or 3.6% for the quarter, and decreased by $24m or 14% for the year-to-date. Growth in transaction banking activities remain strong, due in part to higher spreads and volume. This was offset by lower revenues from capital market and advisory fees, largely due to the challenging market conditions and elevated prior year performance. For the year-to-date, the decrease was also impacted by the adverse movement in the value of a loan syndication facility.

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.

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 $10m or 45% for the quarter, as a result of higher net interest income and lower charges in expected credit losses. For the year-to-date, profit before income tax expense decreased by $40m or 36% driven mainly by a decrease in non-interest income and an unfavourable change in expected credit losses, partly offset by an increase in net interest income.

Financial performance by income and expense item

Net interest income for the quarter increased by $21m or 88%, and $30m or 43% for the year-to-date. The increase was as a result of the central bank rate increases in the year.

Non-interest income for the quarter decreased by $19m or 59%, and $54m or 55% for the year-to-date. This decrease was primarily due to lower advisory fees largely driven by the challenging market conditions impacting the timing of transactions in the current year compared to prior year's elevated performance, and lower credit facility fees. For the year-to-date, the decrease was also impacted by an adverse movement in the value of a loan syndication facility as part of trading activities.

Change in expected credit losses were $6m favourable for the quarter mainly due to lower charges than the prior year. For the year-to-date, expected credit losses were $13m unfavourable mainly due to prior year's release reflective of the improvement in the forward-looking macro-economic guidance on performing loans at that time, coupled with an impairment in a non-performing energy exposure in the first quarter of 2021.

Total operating expenses decreased by $2m or 9.1% for the quarter, and increased by $3m or 4.8% for year-to-date, as we make investments to grow our business while prudently managing costs.

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 and nine months ended 30 September 2022 compared with the same periods 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		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Net interest income	**12**	6	**31**	18
Non-interest income	**14**	16	**52**	49
Total operating income	**26**	22	**83**	67
Total operating expenses	**(13)**	(11)	**(39)**	(37)
Profit before income tax expense	**13**	11	**44**	30

Overview

Total operating income increased by $4m or 18% for the quarter, and $16m or 24% for the year-to-date. The increase was a result of the central bank rate increases in the year 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.

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 $2m or 18% for the quarter, and $14m or 47% for the year-to-date, mainly due to higher operating income, partly offset by higher operating expenses.

Financial performance by income and expense item

Net interest income for the quarter increased by $6m or 100%, and $13m or 72% for the year-to-date, mainly due to central bank rate increases in the year.

Non-interest income for the quarter decreased slightly by $2m or 13% mainly from lower trading income as a result of current market conditions. For the year-to-date, non-interest income increased by $3m or 6.1% mainly due to higher foreign exchange trading income.

Total operating expenses for the quarter increased by $2m or 18%, and $2m or 5.4% for the year-to-date, as we make investments to grow our business while prudently managing costs.

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 and nine months ended 30 September 2022 compared with the same periods 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		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Net interest income	**3**	–	**4**	–
Non-interest income	**–**	2	**3**	12
Net operating income	**3**	2	**7**	12
Total operating expenses	**(28)**	(22)	**(69)**	(81)
Profit/(loss) before income tax expense	**(25)**	(20)	**(62)**	(69)

Overview

Profit before income tax expense decreased by $5m for the quarter. This was mainly due to increased costs to support the business and lower non-interest income, partly offset by increased net interest income as a result of central bank rate increases.

For the year-to-date, profit before income tax increased by $7m for the year-to-date, mainly due to a decrease in operating expenses as a result of costs incurred in the prior year to move to hybrid working and higher net interest income due to central bank rate increases. This was partly offset by lower non-interest income.

1. *For the quarter and nine months ended 30 September 2022 compared with the same periods 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
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**449**	369	337	323	315	306	282	275
Net fee income	**194**	196	197	205	197	196	196	185
Net income from financial instruments held for trading	**15**	24	27	28	26	28	30	30
Other items of income	**7**	10	9	23	22	17	21	14
Total operating income	**665**	599	570	579	560	547	529	504
Change in expected credit losses and other credit impairment charges - release/(charge)	**(42)**	(82)	42	(8)	(3)	40	16	1
Net operating income	**623**	517	612	571	557	587	545	505
Total operating expenses	**(325)**	(319)	(320)	(344)	(323)	(328)	(313)	(345)
Profit before income tax expense	**298**	198	292	227	234	259	232	160
Income tax expense	**(79)**	(53)	(78)	(40)	(63)	(69)	(63)	(35)
Profit for the period	**219**	145	214	187	171	190	169	125
Profit attributable to:								
– common shareholder	**206**	133	203	176	159	179	158	113
– preferred shareholder	**13**	12	11	11	12	11	11	12
Basic and diluted earnings per common share ($)	**0.38**	0.24	0.37	0.32	0.29	0.32	0.29	0.21

Comments on trends over the past eight quarters

Net interest income continued to increase in the third quarter of 2022 mainly due to improvements in net interest margin from improved spread resulting from growth in lending. With continued strong balance sheet growth, the first, second and third quarters of 2022 also benefited from the central bank rate increases in the respective quarters.

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. From the first to third quarter of 2022, net fee income decreased slightly each quarter due to lower fee from investment funds under management as market conditions adversely shifted. From the fourth quarter of 2020, net fee income steadily increased, reaching its highest point on record[1] in the fourth quarter of 2021.

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. The decrease in the third quarter of 2022 was mainly a result of an unfavourable change in hedge ineffectiveness. The decrease in the second quarter of 2022 was a result of an adverse movement in the value of loan syndication facilities.

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.

Expected credit losses for the third quarter of 2022 resulted in a charge primarily in performing loans driven by the continued adverse movement in forward-looking macro-economic variables. Expected credit losses resulted in a charge for the second quarter of 2022 primarily driven by a significant charge in expected credit losses for stage 3 loans that was written-off as a result of further adverse developments. This was coupled with a charge in performing loans driven by an adverse shift in forward-looking macro-economic variables. The release in the first quarter of 2022 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 inflationary pressures on the forward economic outlook. This was coupled with a change in expected credit losses for stage 3 loans which resulted in a charge mainly due to a material loan, partly offset by releases in the energy sector. The charge in the fourth quarter of 2021 was due to an impairment charge from a performing loan, partly offset by releases from non-performing loans in the energy sector. The nominal charge in the third quarter of 2021 was 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 fourth quarter of 2020 through to the second quarter of 2021, although modest in the fourth quarter 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 various sectors in the fourth quarter of 2020.

With regards to operating expenses, our focus has been on growing our business in support of our plan. 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 with the exception of the second quarter of 2022 when we realized a significant charge in expected credit losses, as described above. In the first quarter of 2022, we reached our highest profit before income tax expense in ten years. In the current third quarter of 2022, we have surpassed this record.

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.

Economic momentum slowing

In Canada, we expect gross domestic product ('GDP') growth of 3.3% in 2022, down from our prior forecast of 3.6%. In 2023, we have lowered our GDP growth forecast to 0.9%, down from our prior forecast of 2.2%. We also introduce an economic growth forecast for 2024 1.6%.

A key reason for the more moderate growth trajectory in Canada is that the Bank of Canada ('BoC') is expected to raise its policy rate higher than had been anticipated. We now expect the BoC's policy rate to hit 4.25% in early 2023. This would be up from 0.25% at the start of 2022. We had previously anticipated the BoC pausing at 3.5%.

The BoC is currently in one of its most aggressive tightening cycles, and until recently had raised its policy rate more than any other major central bank.

Aggressive raise in BoC policy rate

One reason, in our view, why the BoC was so aggressive in raising the policy rate is that a key measure of core inflation provided a false sense of security on underlying inflation trends in late 2021 and early 2022. For example, as the BoC began to raise its policy rate in March 2022, Governor Tiff Macklem highlighted that consumer price inflation-common ('CPI-common'), a key measure of core inflation, was "just" 2.3% year-over-year, or slightly above the target rate, but well below other core inflation measures. Through the summer, however, CPI-common, which is estimated using a sophisticated statistical technique, was steadily revised upward. The most recent CPI report, for August, estimates CPI-common to have been 3.8% year-over-year in January 2022, and in line with other measures of core inflation.

In fact, CPI-common is now estimated to have been above 3% year-over-year, or above the top of the BoC's inflation control rate, since August 2021. Hence, rather than underlying inflation seemingly being below target until January 2022, it was in fact above 3%. This suggests that the BoC was slow off the mark to begin its tightening cycle, and aggressive rate hikes were needed to remove stimulus as inflation rose toward its peak of 8.1% year-over-year, and expectations of higher inflation risked becoming entrenched.

Of note, BoC Deputy Governor, Paul Beaudry, recently noted that in hindsight, governments and central banks should have withdrawn stimulus measures earlier.

Housing has borne the brunt of higher rates

The main factor in the downward revisions to GDP growth in 2022 and 2023 is weakness in residential investment. The sharp increase in interest rates in the late first quarter through to the second quarter prompted a significant decline in sales of existing homes and home prices. The pullback, in our view, reflected that the housing market had become overvalued toward the end of the pandemic and vulnerable to rising rates. For example, rising home prices led to housing affordability deteriorating to its worst levels since the early 1990s. In addition, an increasing share of mortgage borrowers were considered to be over-leveraged with loan-to-income levels of more than 450%, and almost 60% of mortgages were entered into with variable rates of interest. These trends could not continue, leaving housing vulnerable to a rebalancing.

The housing adjustment is not over

Following a 27.6% annualized decline in residential investment in the second quarter, we expect additional double-digit declines in both the third and fourth quarters, and for smaller declines through much of 2023. Overall, residential investment is expected to decline by 9.8% in 2022, and 9.3% in 2023, with a small rebound projected for 2024. The adjustment is expected to include a drop in home prices of just over 20% from their peak. Notably, this would still leave home prices above pre-pandemic levels. As long as the BoC is committed to raising rates to reduce inflation, the risks are tilted to the downside.

The broader consumer adjustment is still to come

The impact of higher interest rates on consumer spending is expected to evolve more slowly than the impact on housing. In 2022, we expect consumption growth of 5.6%, reflecting the release of pent-up demand for services, supported by solid income growth linked to the rebound in the job market and elevated household savings. However, consumption growth is expected to slow to 2.0% in 2023 and 1.5% in 2024, as the pent-up demand effect fades and as the effects of higher interest rates and higher prices weigh on demand. Slower growth is also expected due to a weaker job market with the unemployment rate projected to rise from its record low of 4.9% toward 6% through 2023.

Inflation has peaked in Canada

Inflation has already declined from 8.1% year-over-year in June 2022 to 6.9% in September. This is in large part due to a sharp decline in gasoline prices that has lowered annual gasoline price inflation from over 54% to 13.2%. While a relief, gas prices are still well above levels that prevailed before the pandemic. In addition, global supply chain effects have started to fade. This has eased some upward pressure on goods prices. As well, two housing price-linked CPI components have cooled.

As a result, several of the factors that drove inflation upward through 2021 are receding. However, inflation is still well above the BoC's 2% inflation target, and there are many concerns about how quickly inflation might fall going forward.

For example, recent weakness in the Canadian dollar versus the US dollar comes as we enter a period when Canada tends to import more food-stuff from the US. This suggests that inflation in store bought food, which has already hit 11.4% year-over-year, is set to continue to rise and could reach levels observed in the early 1980s of around 15%. As well, the weaker Canadian dollar could offset some of the effects of easing supply chains on goods prices, as many consumer goods are imported into Canada.

Hence, with gas prices still high, food inflation still rising, possible exchange rate pass-through to goods prices, and debt costs increasing, the cost of living squeeze on Canadian households will remain intense.

We do not forecast a recession in 2023, but the risks of one have increased. That is, the path to a soft landing has narrowed. Despite the elevated recession risks, we do not expect the BoC to lower the policy rate until well into 2024.

Fiscal policy set to remain mildly stimulative

While the BoC is trying to slow domestic demand growth, fiscal policy is set to remain somewhat stimulative. Higher commodity prices have boosted federal government revenues, pointing toward downside risks to the projected 2022 budget deficit of 2.0% of GDP. However, the federal government has also announced measures to cushion the blow of high inflation on lower income families and to help address housing affordability challenges. The federal government is also expected to fund a national dental care program. Hence, there is upside risks to expenditure forecasts, which suggests ongoing fiscal deficits for several years.

Canada in a global context

Canada's federal fiscal program is considered mildly stimulative at a time of excess demand and upward pressures on inflation. However, we consider this to be only a modest challenge for the BoC as it attempts to rein in inflation. This stands in contrast to the situation in the United Kingdom ('UK'), where the government just introduced a very stimulative "mini" budget that looks set to boost demand in a supply-constrained economy while the Bank of England is raising rates to slow demand and lower inflation. The fiscal stimulus risks the Bank of England having to raise the policy rate much higher, or to press down harder on the brake. The heightened economic and financial challenges resulted in the British pound falling sharply and bond yields across the yield curve increasing markedly.

In the United States, tight labour markets and sticky inflation have prompted a more hawkish turn by the Federal Reserve ('Fed'). Hence, we now see, the Fed raising its policy rate to a range of 4.5% to 4.75%, versus our prior forecast that the Fed funds rate would peak at 4.0% to 4.25%. The Fed's hawkishness amid signs that inflation has peaked in Canada, is a key factor in the recent weakness in the Canadian dollar versus the US dollar.

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* and updates provided in our *first and second quarter 2022 Interim Reports*. The following is a summary of some key regulatory changes announced in the third quarter of 2022 with the potential to impact our results or operations:

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

In July, OSFI released its final Guideline B-13 Technology and Cyber Risk Management. The Guideline is organized around three domains: Governance and Risk Management, Technology Operations and Resilience, and Cyber Security, which sets out expectations for the sound management of technology and cyber risk for federally regulated financial institutions ('FRFIs'). The Guideline B-13 will be effective on 1 January 2024. We have initially assessed the requirements and do not anticipate any issues in complying with the requirements by the effective date.

In July, OSFI issued its responses to the frequently asked questions ('FAQs') on Basel III reforms, designed to support the implementation in Canada - addressing questions on the final versions of Capital Adequacy Requirements ('CAR') Guideline, Leverage Requirements ('LR') Guideline, and Liquidity Adequacy Requirements ('LAR') Guideline that OSFI published in January 2022. Going forward, OSFI may incorporate additional content into the FAQs. In addition, OSFI published updates to its Basel Capital Adequacy Reporting ('BCAR') 2023 reporting manual as well as its BCAR 2023 Return.

In September, OSFI announced that it has determined that the leverage ratio exclusion of central bank reserves is no longer necessary or fit-for-purpose. Starting 1 April 2023, deposit taking institutions ('DTIs') will be required to include central bank reserves in their leverage ratio exposure measures.

Also in September, OSFI published the comprehensive Net Cumulative Cash Flow ('NCCF') return template inline with the previously announced changes in the LAR.

Government and Other Regulators

Privacy

In June, the Government of Canada introduced Bill C-27, Digital Charter Implementation Act. The Bill introduces significant reform of federal private-sector privacy law, which includes the Personal Information Protection and Electronic Documents Act ('PIPEDA') that regulate the processing of personal information and enacts a new Consumer Privacy Protection Act ('CPPA'); and the Personal Information and Data Protection Tribunal Act ('PIDPTA'). The Bill would also introduce rules to regulate "high-impact" artificial intelligence systems in the private sector under the new Artificial Intelligence and Data Act ('AIDA'). These new Acts aim to create new regulations for responsible development and use of artificial intelligence, as well as strengthen Canada's data privacy framework.

Canadian tax measures

On 9 August, the Department of Finance released draft legislation which included an additional 1.5% tax for Banks and Life Insurance groups on its taxable income, subject to a $100m exemption to be allocable between group members. The additional tax would apply to taxation years that end after 7 April 2022; therefore, the tax will be prorated for a taxation year that includes 7 April 2022. The bank is monitoring the status of the draft legislation, which is open to public comments until 30 September 2022.

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 the 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 30 September 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 30 September 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 and preferred 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.

Included in the 'Factors that may affect future results' section on page 36 is a summary of the strategic review of HSBC Bank Canada.

Credit risk

Credit risk is the risk of financial loss if a customer or counterparty fails to meet a payment obligation under a 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 during the year, except for an update to 'Renegotiated loans and forbearance' policy as described in the 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 related) 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 30 September 2022 is comprised of $329m in respect of assets held at amortized cost, $29m in respect of loan commitments and financial guarantees and $1m in respect of performance guarantee contracts.

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

		At			
		30 Sep 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		**75,976**	**(304)**	69,033	(334)
– personal		**36,601**	**(95)**	35,341	(75)
– corporate and commercial		**39,375**	**(209)**	33,692	(259)
Loans and advances to banks at amortized cost		**900**	**—**	1,659	—
Other financial assets measured at amortized cost		**27,130**	**(25)**	28,134	(28)
– cash and balances at central bank		**4,092**	**—**	13,955	—
– items in the course of collection from other banks		**17**	**—**	9	—
– reverse repurchase agreements - non-trading		**8,331**	**—**	9,058	—
– financial investments		**7,902**	**—**	—	—
– customers' liability under acceptances		**3,170**	**(9)**	3,556	(8)
– other assets, prepayments and accrued income	1	**3,618**	**(16)**	1,556	(20)
Total gross carrying amount on-balance sheet		**104,006**	**(329)**	98,826	(362)
Loans and other credit related commitments		**46,241**	**(27)**	46,737	(31)
– personal		**8,175**	**(1)**	8,141	(2)
– corporate and commercial		**38,066**	**(26)**	38,596	(29)
Financial guarantees	2	**1,942**	**(2)**	1,949	(4)
– personal		**7**	**—**	7	—
– corporate and commercial		**1,935**	**(2)**	1,942	(4)
Total nominal amount off-balance sheet	3	**48,183**	**(29)**	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	**15,368**	**—**	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 the 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	65,424	10,218	334	75,976	(45)	(163)	(96)	(304)	0.1	1.6	28.7	0.4
– personal	33,962	2,539	100	36,601	(13)	(66)	(16)	(95)	—	2.6	16.0	0.3
– corporate and commercial	31,462	7,679	234	39,375	(32)	(97)	(80)	(209)	0.1	1.3	34.2	0.5
Loans and advances to banks at amortized cost	900	—	—	900	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	26,791	323	16	27,130	(3)	(6)	(16)	(25)	—	1.9	100.0	0.1
Loan and other credit-related commitments	42,319	3,803	119	46,241	(8)	(18)	(1)	(27)	—	0.5	0.8	0.1
– personal	7,995	141	39	8,175	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	34,324	3,662	80	38,066	(7)	(18)	(1)	(26)	—	0.5	1.3	0.1
Financial guarantees[2]	1,856	70	16	1,942	(1)	(1)	—	(2)	0.1	1.4	—	0.1
– personal	7	—	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,849	70	16	1,935	(1)	(1)	—	(2)	0.1	1.4	—	0.1
At 30 Sep 2022	**137,290**	**14,414**	**485**	**152,189**	**(57)**	**(188)**	**(113)**	**(358)**	**—**	**1.3**	**23.3**	**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 the clients default.*
2. *Excludes performance guarantee contracts.*

Measurement uncertainty and sensitivity analysis of ECL estimates*

As at the third quarter of 2022, ECL impairment allowances reflect a higher level of measurement uncertainty as economic recovery remains volatile, with greater weighting given to downside economic forecasts than in the fourth quarter of 2021. This reflected increased risks and uncertainties in the broader macroeconomic and geopolitical environment.

As a result of this uncertainty, management judgments and estimates continue to reflect a degree of caution both in the selection of economic scenarios and their weightings, and in the use of management judgmental adjustments, which reflect how economic conditions interact with modelled outcomes, and are described in more detail below.

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

Methodology

In the third quarter, four 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-based scenarios: a Central that represents a baseline expectation; and two outer scenarios that reflect Upside and Downside deviations from the central view. The fourth scenario, Downside 2, represents management's view of severe downside risks.

In the first and second quarters of 2022, management chose to use an additional fifth scenario, known as Downside 1, which was designed to capture the implications of a sustained global supply shock that keeps inflation elevated for a long period, raises unemployment and depresses GDP growth. These inflation expectations have now been crystallized in the Central scenario.

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 very high degree of uncertainty in the current environment. Global economic conditions continue to be buffeted by high inflation, energy price fluctuations and adherence to stringent pandemic-related public health policies in Asia. Aggressive monetary policies and rapid changes to fiscal policy are also making conditions for estimating future economic outcomes challenging. Global economic growth is slowing and economic forecasts in the third quarter have deteriorated. Growth also faces an increasing headwind from a global tightening of interest rates. The implications for interest rate sensitive sectors has been negative, and house price forecasts in particular, have been lowered. Geopolitical risks also present downside threats. These risks include a prolonged and escalating Russia-Ukraine war, continued differences between the US and China over a range of strategic issues and the evolution of the UK’s relationship with the EU.

Key sources of ongoing uncertainty in Canada include inflation, higher interest rates and the housing market. Downside risks to growth stem from further cost-push inflation from either added supply chain issues or wage increases caused by pressures such as inflation or a tight labour market, and the success of current monetary policies in bringing inflation back towards the Bank of Canada inflation-control target. The cost of borrowing has overtaken low supply as the dominant factor affecting housing market activity and house prices. Downside risk in the housing market includes a sharper slowdown than expected including a more severe price correction.

The four scenarios used for the purpose of calculating ECL at 30 September 2022 are summarized below:

- The consensus Central scenario: This scenario features an initial period of below trend growth in most markets as inflation and tighter monetary policy cause a squeeze on business margins and households' real disposable income. Growth returns to its long-term expected trend in later years as central banks bring growth back to target.
- The consensus Upside scenario: This scenario features stronger economic activity in the near term, compared with the consensus Central scenario. In this scenario, growth accelerates, employment falls further and equity markets and house prices see stronger gains than in the Central scenario.
- The consensus Downside scenario: This scenario features weaker economic activity compared with the Central scenario, driven by a temporary demand shock that causes a moderate global recession. In this scenario, GDP contracts, unemployment rises, and equity markets and house prices fall. This scenario is structured so that inflation and commodity prices fall, before gradually recovering towards their long-run expected trends.
- The Downside 2 scenario: This scenario reflects management’s view of the tail of the economic distribution. It incorporates the simultaneous crystallization of a number of risks that drive inflation and interest rates substantially higher than in the Central scenario. The narrative features an escalation of the Russia-Ukraine war, worsening of supply chain disruptions and the emergence of a vaccine-resistant Covid-19 strain, which cause a deep global recession with a rapid increase in unemployment and a sharp decline in house prices.

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

Macroeconomic projections[1, 2]

	Central scenario	Consensus upside			Consensus downside			Downside 2		
	Five-year average	Five-year average	Best outcome		Five-year average	Worst outcome		Five-year average	Worst outcome	
30 September 2022										
GDP growth (%)	**1.8**	**3.0**	**4.7**	**(3Q23)**	**0.7**	**(2.6)**	**(3Q23)**	**0.6**	**(4.4)**	**(3Q23)**
Unemployment rate (%)	**5.7**	**5.3**	**4.6**	**(2Q23)**	**6.2**	**6.7**	**(3Q23)**	**9.2**	**11.3**	**(1Q24)**
House Price Index (%)	**0.3**	**2.4**	**5.8**	**(3Q24)**	**(2.0)**	**(24.5)**	**(2Q23)**	**(4.2)**	**(40.3)**	**(3Q23)**
Brent oil prices (US$/barrel)	**76.9**	**107.6**	**164.5**	**(3Q23)**	**61.1**	**41.7**	**(3Q23)**	**78.0**	**65.0**	**(2Q24)**
Inflation rate	**2.6**	**3.6**	**3.9**	**(4Q23)**	**2.2**	**7.6**	**(4Q22)**	**2.5**	**8.1**	**(4Q22)**
Probability (%)	**65**	**5**			**20**			**10**		
31 December 2021										
GDP growth (%)	2.5	4.0	9.1	(3Q22)	1.6	(0.5)	(4Q22)	0.4	(13.9)	(4Q22)
Unemployment rate (%)	5.9	5.5	5.0	(2Q23)	6.4	7.3	(3Q22)	9.4	11.5	(2Q23)
House Price Index (%)	3.3	5.8	16.0	(4Q22)	1.7	(2.3)	(4Q22)	(2.2)	(23.8)	(1Q23)
Brent oil prices (US$/barrel)	66.1	79.1	101.8	(2Q22)	54.3	34.9	(4Q22)	40.0	26.4	(1Q23)
Inflation rate	2.2	2.5	2.7	(4Q23)	1.9	3.1	(1Q22)	0.9	3.0	(1Q22)
Probability (%)	75	10			10			5		

1. *Macroeconomic projections at 30 September 2022 are based on average 4Q2022-3Q2027 (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 due to high inflation and rising interest rates which arose during the first nine months of 2022, management has assigned higher weights to downside scenarios. At 30 September 2022, the consensus upside and central scenarios had a combined weighting of 70% (31 December 2021: 85%) and the downside scenarios have a combined weighting of 30% (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. This includes refining model inputs and outputs and using post model adjustments based on management judgment and higher level quantitative analysis for impacts that are difficult to model.

At 30 September 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 portfolio risk outlook is not expected to improve or 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 30 September 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	**15**	**93**	**108**
Adjustments for forward economic guidance and late breaking events	**34**	**—**	**34**
30 September 2022	**49**	**93**	**142**
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.

Where management identifies the potential need for ECL adjustments, management applies the ECL adjustments according to the stage distribution of the exposures. In addition, to the extent that the adjustments are driven by or attributable to changes in the assessment of credit risk, management's process incorporates consideration of the appropriate staging either on an individual loan by loan level to the extent possible or at industry segment levels where necessary.

When we apply these management judgmental adjustments, we assess whether a significant change in credit risk has occurred. In such instances on an individual or portfolio basis where a significant change in credit risk has been identified, we have migrated the related exposures between stages 1 and 2 based on whether the change is positive or negative from the model. The corresponding ECL adjustment is based on the stage distribution of the portfolio with stage 1 exposures measured on a 12-month ECL and stage 2 exposures measured on a lifetime ECL basis.

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, and it is possible that actual outcomes could differ significantly from the scenarios outlined in the ECL sensitivities. 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 loss given default of a particular portfolio was sensitive to these changes. The wholesale and retail sensitivity analysis for each scenario is stated inclusive of management judgmental adjustments, as appropriate.

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

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

Wholesale portfolio analysis

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

IFRS 9 ECL sensitivity to future economic conditions[1]

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

	30 Sep 2022	31 Dec 2021
	$m	$m
Reported ECL	**167**	192
100% consensus central scenario	**49**	125
100% consensus upside scenario	**34**	78
100% consensus downside scenario	**108**	192
100% downside 2	**1,451**	1,431
Gross carrying amount/nominal amount[3]	**112,287**	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]

	30 Sep 2022	31 Dec 2021
	$m	$m
Reported ECL	**88**	71
100% consensus central scenario	**83**	69
100% consensus upside scenario	**72**	66
100% consensus downside scenario	**101**	74
100% downside 2	**201**	112
Gross carrying amount	**36,744**	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							
		30 Sep 2022				30 Sep 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		**51**	**150**	**82**	**283**	70	165	146	381
Transfers of financial instruments:	2	**26**	**(25)**	**(1)**	**—**	19	(23)	4	—
– transfers from stage 1 to stage 2		**(6)**	**6**	**—**	**—**	(6)	6	—	—
– transfers from stage 2 to stage 1		**31**	**(31)**	**—**	**—**	25	(25)	—	—
– transfers to stage 3		**—**	**(1)**	**1**	**—**	—	(4)	4	—
– transfers from stage 3		**1**	**1**	**(2)**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	**(7)**	**8**	**—**	**1**	(13)	4	—	(9)
New financial assets originated or purchased		**7**	**—**	**—**	**7**	5	—	—	5
Changes to risk parameters		**(22)**	**52**	**17**	**47**	(16)	4	26	14
Asset derecognized (including final repayments)		**(1)**	**(4)**	**—**	**(5)**	—	(3)	(2)	(5)
Assets written off		**—**	**—**	**(4)**	**(4)**	—	—	(14)	(14)
Foreign exchange		**—**	**1**	**3**	**4**	—	1	2	3
Balance at the end of the period		**54**	**182**	**97**	**333**	65	148	162	375
ECL charge/(release) for the period		**(23)**	**56**	**17**	**50**	(24)	5	24	5
Recoveries		**—**	**—**	**(1)**	**(1)**	—	—	(2)	(2)
Total ECL charge/(release) for the period		**(23)**	**56**	**16**	**49**	(24)	5	22	3

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

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

		Nine months ended							
		30 Sep 2022				30 Sep 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	**73**	**(92)**	**19**	**—**	109	(115)	6	—
– transfers from stage 1 to stage 2		**(11)**	**11**	**—**	**—**	(10)	10	—	—
– transfers from stage 2 to stage 1		**81**	**(81)**	**—**	**—**	118	(118)	—	—
– transfers to stage 3		**—**	**(27)**	**27**	**—**	—	(9)	9	—
– transfers from stage 3		**3**	**5**	**(8)**	**—**	1	2	(3)	—
Net remeasurement of ECL arising from transfer of stage	2	**(36)**	**15**	**—**	**(21)**	(47)	11	—	(36)
New financial assets originated or purchased		**18**	**—**	**—**	**18**	12	—	—	12
Changes to risk parameters		**(76)**	**109**	**81**	**114**	(63)	12	57	6
Asset derecognized (including final repayments)		**(3)**	**(14)**	**(1)**	**(18)**	(2)	(9)	(7)	(18)
Assets written off		**—**	**—**	**(134)**	**(134)**	—	—	(43)	(43)
Foreign exchange		**—**	**1**	**4**	**5**	—	—	1	1
Balance at the end of the period		**54**	**182**	**97**	**333**	65	148	162	375
ECL charge/(release) for the period		**(97)**	**110**	**80**	**93**	(100)	14	50	(36)
Recoveries		**—**	**—**	**(5)**	**(5)**	—	—	(5)	(5)
Total ECL charge/(release) for the period		**(97)**	**110**	**75**	**88**	(100)	14	45	(41)

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

	At	Nine months ended	At	Nine months ended
	30 Sep 2022	**30 Sep 2022**	30 Sep 2021	30 Sep 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	**333**	**88**	375	(41)
Other financial assets measured at amortized cost	**25**	**1**	31	(11)
Performance guarantee contracts	**1**	**(7)**	8	(1)
Debt instruments measured at FVOCI	**—**	**—**	—	—
Total allowance for ECL / Total income statement ECL charge/(release) for the period	**359**	**82**	414	(53)

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]	16,158	—	—	—	—	16,158	—	16,158
– stage 1	16,158	—	—	—	—	16,158	—	16,158
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	37,473	20,428	14,624	3,117	334	75,976	(304)	75,672
– stage 1	37,464	18,309	9,434	217	—	65,424	(45)	65,379
– stage 2	9	2,119	5,190	2,900	—	10,218	(163)	10,055
– stage 3	—	—	—	—	334	334	(96)	238
Loans and advances to banks at amortized cost	891	—	9	—	—	900	—	900
– stage 1	891	—	9	—	—	900	—	900
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	23,960	2,072	1,006	76	16	27,130	(25)	27,105
– stage 1	23,960	1,969	858	4	—	26,791	(3)	26,788
– stage 2	—	103	148	72	—	323	(6)	317
– stage 3	—	—	—	—	16	16	(16)	—
Total gross carrying amount on-balance sheet	78,482	22,500	15,639	3,193	350	120,164	(329)	119,835
Percentage of total credit quality	65.3 %	18.7 %	13.0 %	2.7 %	0.3 %	100.0 %		
Loan and other credit-related commitments	17,375	19,809	8,168	770	119	46,241	(27)	46,214
– stage 1	17,322	18,506	6,361	130	—	42,319	(8)	42,311
– stage 2	53	1,303	1,807	640	—	3,803	(18)	3,785
– stage 3	—	—	—	—	119	119	(1)	118
Financial guarantees[2]	1,134	428	303	61	16	1,942	(2)	1,940
– stage 1	1,134	428	275	19	—	1,856	(1)	1,855
– stage 2	—	—	28	42	—	70	(1)	69
– stage 3	—	—	—	—	16	16	—	16
Total nominal amount off-balance sheet	18,509	20,237	8,471	831	135	48,183	(29)	48,154
At 30 Sep 2022	96,991	42,737	24,110	4,024	485	168,347	(358)	167,989

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			
		30 Sep 2022		31 Dec 2021	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial					
– agriculture, forestry and fishing		**900**	**(1)**	646	(3)
– mining and quarrying	1	**1,719**	**(34)**	1,211	(69)
– manufacture		**7,167**	**(33)**	5,406	(31)
– electricity, gas, steam and air-conditioning supply		**244**	**(10)**	250	(19)
– water supply, sewerage, waste management and remediation		**131**	**—**	118	(1)
– construction		**1,064**	**(5)**	869	(12)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**7,139**	**(30)**	6,024	(27)
– aviation, transportation and storage		**2,791**	**(11)**	2,860	(29)
– accommodation and food		**1,644**	**(20)**	1,485	(26)
– publishing, audiovisual and broadcasting		**845**	**(4)**	775	(1)
– real estate		**10,610**	**(37)**	9,692	(19)
– professional, scientific and technical activities		**869**	**(2)**	725	(1)
– administrative and support services		**811**	**(13)**	837	(9)
– education		**115**	**—**	39	—
– health and care		**411**	**(4)**	259	—
– arts, entertainment and recreation		**254**	**—**	285	(2)
– other services		**283**	**(1)**	220	(2)
– government		**31**	**—**	32	—
– non-bank financial institutions		**2,347**	**(4)**	1,959	(8)
Total		**39,375**	**(209)**	33,692	(259)
By geography	2				
Canada		**36,642**	**(202)**	31,569	(235)
– British Columbia		**10,488**	**(30)**	9,323	(31)
– Ontario		**13,836**	**(92)**	12,077	(78)
– Alberta		**5,357**	**(47)**	4,783	(91)
– Quebec		**4,827**	**(18)**	3,656	(18)
– Saskatchewan and Manitoba		**1,391**	**(13)**	1,153	(16)
– Atlantic provinces		**743**	**(2)**	577	(1)
United States of America		**1,472**	**(5)**	1,103	(6)
Other		**1,261**	**(2)**	1,020	(18)
Total		**39,375**	**(209)**	33,692	(259)

1. *Mining and quarrying includes energy related exposures which constitute approximately 60% of the gross carrying amount and 72% of the allowance for ECL at 30 September 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]

	Footnote	Quarter ended							
		30 Sep 2022				30 Sep 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
		$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**39**	**101**	**67**	**207**	58	113	127	298
Transfers of financial instruments:	2	**8**	**(8)**	**—**	**—**	6	(6)	—	—
– transfers from stage 1 to stage 2		**(5)**	**5**	**—**	**—**	(5)	5	—	—
– transfers from stage 2 to stage 1		**13**	**(13)**	**—**	**—**	11	(11)	—	—
– transfers to stage 3		**—**	**—**	**—**	**—**	—	—	—	—
– transfers from stage 3		**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	**—**	**4**	**—**	**4**	(4)	3	—	(1)
New financial assets originated or purchased		**5**	**—**	**—**	**5**	4	—	—	4
Changes to risk parameters		**(12)**	**19**	**12**	**19**	(8)	(4)	21	9
Asset derecognized (including final repayments)		**—**	**(1)**	**—**	**(1)**	—	—	(1)	(1)
Assets written off		**—**	**—**	**(1)**	**(1)**	—	—	(11)	(11)
Foreign exchange		**—**	**1**	**3**	**4**	—	1	2	3
Balance at the end of the period		**40**	**116**	**81**	**237**	56	107	138	301
ECL charge/(release) for the period		**(7)**	**22**	**12**	**27**	(8)	(1)	20	11
Recoveries		**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period		**(7)**	**22**	**12**	**27**	(8)	(1)	20	11

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

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

	Footnote	Nine months ended							
		30 Sep 2022				30 Sep 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
		$m	**$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	**22**	**(45)**	**23**	**—**	69	(69)	—	—
– transfers from stage 1 to stage 2		**(9)**	**9**	**—**	**—**	(8)	8	—	—
– transfers from stage 2 to stage 1		**31**	**(31)**	**—**	**—**	76	(76)	—	—
– transfers to stage 3		**—**	**(23)**	**23**	**—**	—	(1)	1	—
– transfers from stage 3		**—**	**—**	**—**	**—**	1	—	(1)	—
Net remeasurement of ECL arising from transfer of stage	2	**(10)**	**7**	**—**	**(3)**	(32)	7	—	(25)
New financial assets originated or purchased		**14**	**—**	**—**	**14**	9	—	—	9
Changes to risk parameters		**(52)**	**41**	**73**	**62**	(29)	(26)	46	(9)
Asset derecognized (including final repayments)		**(1)**	**(7)**	**—**	**(8)**	(1)	(1)	(4)	(6)
Assets written off		**—**	**—**	**(125)**	**(125)**	—	—	(34)	(34)
Foreign exchange		**—**	**1**	**4**	**5**	—	—	1	1
Balance at the end of the period		**40**	**116**	**81**	**237**	56	107	138	301
ECL charge/(release) for the period		**(49)**	**41**	**73**	**65**	(53)	(20)	42	(31)
Recoveries		**—**	**—**	**(1)**	**(1)**	—	—	—	—
Total ECL charge/(release) for the period		**(49)**	**41**	**72**	**64**	(53)	(20)	42	(31)

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 $55m or 19% as compared to 31 December 2021, and the wholesale lending change in ECL for nine months ended 30 September 2022 resulted in an income statement charge of $64m.

The charge for the nine months ended 30 September 2022 was primarily driven by a significant expected credit loss charge on a material stage 3 loan. This loan was written-off during the second quarter of 2022 after further adverse developments. Change in expected credit losses for performing loans resulted in a release in performing loans mainly from COVID-19 related allowances in the first quarter, supported by a relative improvements in macro-economic variables used to estimate expected credit losses. This was partly offset by charge in the second and third quarter, driven by an adverse shift in forward-looking macro-economic variables reflecting the effects of inflationary pressures and supply-chain disruption caused by the pandemic and the Russian invasion of Ukraine.

The ECL charge for the nine months ended 30 September 2022 of $64m presented in the above table consisted of $62m charge relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages, $3m release relating to the net remeasurement impact of stage transfers and a charge of $6m relating to underlying net volume movement. There were $1m of recoveries during the nine months ended 30 September 2022.

The total ECL coverage for loans and advances to customers for corporate and commercial at 30 September 2022 was 0.5%, a decrease of 0.3% as compared to 31 December 2021.

Personal lending

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

		At			
		30 Sep 2022		31 Dec 2021	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Residential mortgages		**33,682**	**(52)**	32,406	(36)
Home equity lines of credit		**1,429**	**(9)**	1,404	(8)
Personal revolving loan facilities		**443**	**(10)**	471	(11)
Retail card		**379**	**(14)**	354	(12)
Run-off consumer loan portfolio		**27**	**(3)**	33	(4)
Other personal loan facilities		**641**	**(7)**	673	(4)
Total		**36,601**	**(95)**	35,341	(75)
By geography	1, 2				
Canada		**36,581**	**(95)**	35,322	(75)
– British Columbia		**15,682**	**(36)**	15,722	(32)
– Ontario		**16,791**	**(44)**	15,576	(30)
– Alberta		**1,830**	**(6)**	1,802	(6)
– Quebec		**1,649**	**(5)**	1,603	(4)
– Saskatchewan and Manitoba		**335**	**(2)**	342	(1)
– Atlantic provinces		**287**	**(2)**	273	(2)
– Territories		**7**	**—**	4	—
Other		**20**	**—**	19	—
Total		**36,601**	**(95)**	35,341	(75)

1. Geographic distribution is based on the property address for real estate secured lending and customer address for others.
2. Prior year amounts have been reclassified to conform to the current year presentation.

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

		Quarter ended							
		30 Sep 2022				30 Sep 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		**12**	**49**	**15**	**76**	12	52	19	83
Transfers of financial instruments:	2	**18**	**(17)**	**(1)**	**—**	13	(17)	4	—
– transfers from stage 1 to stage 2		**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**18**	**(18)**	**—**	**—**	14	(14)	—	—
– transfers to stage 3		**—**	**(1)**	**1**	**—**	—	(4)	4	—
– transfers from stage 3		**1**	**1**	**(2)**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	**(7)**	**4**	**—**	**(3)**	(9)	1	—	(8)
New financial assets originated or purchased		**2**	**—**	**—**	**2**	1	—	—	1
Changes to risk parameters		**(10)**	**33**	**5**	**28**	(8)	8	5	5
Asset derecognized (including final repayments)		**(1)**	**(3)**	**—**	**(4)**	—	(3)	(1)	(4)
Assets written off		**—**	**—**	**(3)**	**(3)**	—	—	(3)	(3)
Balance at the end of the period		**14**	**66**	**16**	**96**	9	41	24	74
ECL charge/(release) for the period		**(16)**	**34**	**5**	**23**	(16)	6	4	(6)
Recoveries		**—**	**—**	**(1)**	**(1)**	—	—	(2)	(2)
Total ECL charge/(release) for the period		**(16)**	**34**	**4**	**22**	(16)	6	2	(8)

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

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

		Nine months ended							
		30 Sep 2022				30 Sep 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	**51**	**(47)**	**(4)**	**—**	40	(46)	6	—
– transfers from stage 1 to stage 2		**(2)**	**2**	**—**	**—**	(2)	2	—	—
– transfers from stage 2 to stage 1		**50**	**(50)**	**—**	**—**	42	(42)	—	—
– transfers to stage 3		**—**	**(4)**	**4**	**—**	—	(8)	8	—
– transfers from stage 3		**3**	**5**	**(8)**	**—**	—	2	(2)	—
Net remeasurement of ECL arising from transfer of stage	2	**(26)**	**8**	**—**	**(18)**	(15)	4	—	(11)
New financial assets originated or purchased		**4**	**—**	**—**	**4**	3	—	—	3
Changes to risk parameters		**(24)**	**68**	**8**	**52**	(34)	38	11	15
Asset derecognized (including final repayments)		**(2)**	**(7)**	**(1)**	**(10)**	(1)	(8)	(3)	(12)
Assets written off		**—**	**—**	**(9)**	**(9)**	—	—	(9)	(9)
Foreign exchange		**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period		**14**	**66**	**16**	**96**	9	41	24	74
ECL charge/(release) for the period		**(48)**	**69**	**7**	**28**	(47)	34	8	(5)
Recoveries		**—**	**—**	**(4)**	**(4)**	—	—	(5)	(5)
Total ECL charge/(release) for the period		**(48)**	**69**	**3**	**24**	(47)	34	3	(10)

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 increased by $19m or 25% during the nine months ended 30 September 2022. and resulted in an income statement charge of $24m. The charge during the nine months ended 30 September 2022 was driven adverse movement in forward-looking macro-economic variables, partly offset by releases in performing loans from COVID-19 related allowances in the first quarter.

The ECL charge for the nine months ended 30 September 2022 of $24m presented in the above table consisted of $18m release relating to the net remeasurement impact of stage transfers and $6m release relating to underlying net volume movement, offset by a charge of $52m relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages. There were recoveries of $4m during the nine months ended 30 September 2022.

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 line 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	**1,459**	**10 %**	**13,263**	**90 %**	**14,722**	**686**	**100 %**
Western Canada[4]	**828**	**44 %**	**1,074**	**56 %**	**1,902**	**143**	**100 %**
Ontario	**2,628**	**16 %**	**13,460**	**84 %**	**16,088**	**556**	**100 %**
Quebec and Atlantic provinces	**737**	**42 %**	**1,013**	**58 %**	**1,750**	**70**	**100 %**
At 30 Sep 2022	**5,652**	**16 %**	**28,810**	**84 %**	**34,462**	**1,455**	**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 30 Sep 2022	**17.3 %**	**64.9 %**	**17.8 %**
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	**57.6 %**	**51.6 %**
Western Canada[4]	**66.0 %**	**66.1 %**
Ontario	**61.7 %**	**59.6 %**
Quebec and Atlantic provinces	**64.8 %**	**60.5 %**
Total Canada for the three months ended 30 Sep 2022	**61.6 %**	**56.6 %**
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			
		30 Sep 2022		31 Dec 2021	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial		**234**	**(80)**	212	(105)
– agriculture, forestry and fishing		**3**	**—**	3	(1)
– mining and quarrying	1	**95**	**(17)**	108	(42)
– manufacture		**24**	**(17)**	25	(13)
– electricity, gas, steam and air-conditioning supply		**19**	**(10)**	20	(19)
– construction		**6**	**(2)**	9	(7)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**35**	**(16)**	35	(14)
– aviation, transportation and storage		**4**	**(2)**	4	(2)
– accommodation and food		**—**	**—**	1	(1)
– publishing, audiovisual and broadcasting		**7**	**(4)**	—	—
– real estate		**1**	**(1)**	1	(1)
– administrative and support services		**15**	**(8)**	4	(4)
– health and care		**24**	**(3)**	—	—
– non-bank financial institutions		**1**	**—**	2	(1)
Households	2	**100**	**(16)**	130	(22)
Loans and advances to banks		**—**	**—**	—	—
Total		**334**	**(96)**	342	(127)

1. *Mining and quarrying includes energy related exposures which constitute approximately 60% of the gross carrying amount and 53% of the allowance for ECL at 30 September 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').

The final version of the Basel III Reforms guidance was released by OSFI in January 2022 and the bank continues to evaluate and prepare for the impact of these changes on our capital and liquidity requirements.

Assessment of interest rate risk in the banking book

The Global Treasury 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 third 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. 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. Compared to the previous quarter, the bank's average LCR for the three months ended 30 September 2022 increased to 153% from 141%. This was predominately due to an increase in HQLA in the quarter driven by an increase in customer deposits in excess of an increase in customer loans and debt maturities.

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 and recent market volatility.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Sep 2022	30 Jun 2022
Total HQLA[2] ($m)	**28,600**	26,837
Total net cash outflows[2] ($m)	**18,692**	19,097
Liquidity coverage ratio (%)	**153**	141

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 and in preparation for this, system and data enhancements are currently being implemented. 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 the Markets Treasury department 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 bank 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.

Our liquid assets as at 30 September 2022 decreased by $1bn from 31 December 2021 due to an increase in customer loans and a decrease in short and long term funding, partly offset by an increase in customer deposits.

Liquid assets[1]

	At	
	30 Sep 2022	31 Dec 2021
	$m	$m
Level 1	**27,155**	28,182
Level 2a	**1,877**	1,949
Level 2b	**110**	50
Total	**29,142**	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 30 September 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. Effective 1 January 2022, the capital instrument has been fully phased out.

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	
		30 Sep 2022	31 Dec 2021
	Footnotes	**$m**	$m
Gross common equity	*1*	**4,636**	5,776
Regulatory adjustments		**283**	(186)
Common equity tier 1 capital	*2*	**4,919**	5,590
Additional tier 1 eligible capital	*3*	**1,100**	1,100
Tier 1 capital		**6,019**	6,690
Tier 2 capital	*2, 4*	**1,018**	1,014
Total capital		**7,037**	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. The impact is $17m as at 30 September 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	
		30 Sep 2022	31 Dec 2021
	Footnotes	**$m**	$m
Risk-weighted assets ('RWA')	*1, 2*	**44,481**	39,836
		%	%
Actual regulatory capital ratios	*3, 4*		
– common equity tier 1 capital ratio		**11.1**	14.0
– tier 1 capital ratio		**13.5**	16.8
– total capital ratio		**15.8**	19.3
– leverage ratio	*5, 6*	**4.3**	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 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. On 13 September 2022, OSFI confirmed that the exclusion of central bank reserves from the leverage ratio exposure measure for the bank will not be extended past 31 March 2023.*
7. *OSFI target capital ratios including mandated capital conservation buffer.*

At 30 September 2022, our common equity tier 1 ('CET1') capital ratio decreased to 11.1% from 14.0% at 31 December 2021, reflecting an increase in RWAs and a decrease in CET1 capital of $671m. The decrease in CET1 capital was mainly a result of the return of $600m of common share capital to HSBC Overseas Holdings (UK) Limited in March 2022 and a decrease of $260m in the fair value through other comprehensive income reserve. These decreases were partly offset by $162m capital generation through profits, net of common and preferred share dividends.

Outstanding shares and dividends

		Nine months ended			Year ended		
		30 Sep 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	0.69259	548,668	1,125	0.79283	548,668	1,725
Class 1 preferred shares	3						
– Series H		0.68966	20,000	500	0.76505	20,000	500
– Series I		0.86250	14,000	350	1.15000	14,000	350
– Series K		1.02189	10,000	250	1.36252	10,000	250

1. *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
2. *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 third quarter 2022

During the third quarter of 2022, the bank declared regular quarterly dividends of $13m for the third quarter of 2022 on all series of outstanding HSBC Bank Canada Class 1 preferred shares and a second interim dividend of $90m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2022.

Dividends declared in the fourth quarter 2022

On 21 October 2022, the bank declared regular quarterly dividends for the fourth 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 31 December 2022 or the first business day thereafter to the shareholder of record on 15 December 2022.

As the quarterly dividends on preferred shares for the fourth quarter of 2022 were declared after 30 September 2022, the amounts have not been included in the balance sheet as a liability. At this time, no dividends have been declared on HSBC Bank Canada common shares during the fourth quarter.

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):

		30 Sep 2022			30 Sep 2021	
		Economic value of equity	Earnings at risk		Economic value of equity	Earnings at risk
	Footnote	$m	$m		$m	$m
100 basis points increase		(146)	180	100 basis points increase	(391)	216
100 basis points decrease	1	140	(191)	25 basis points decrease	94	(63)

1. *With interest rates normalizing during 2022 from their previous historic lows, starting in the second quarter of 2022, economic value of equity and earnings at risk sensitivity for a down shock scenario are measured using a 100 basis points decrease. The prior period reflects a 25 basis points decrease.*

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 $35m at the year-to-date ended 30 September 2022 increased by $17m from the prior year, due to increased volatility in interest rates. Over the same period, the average total VaR of $28m increased by $9m, also due to increased volatility in markets during the current period. Total VaR is largely driven by non-trading VaR.

The bank has remained within contained levels of risk. The interest rate risk is the major driver for VaR and has remained at similar levels during the current period. The average trading VaR during the period has remained relatively flat at $1.4m, while trading VaR at the period-end has increased by $1.4m.

Total VaR*

	Nine months ended	
	30 Sep 2022	30 Sep 2021
	$m	$m
At period end	**35.0**	18.4
Average	**28.0**	18.8
Minimum	**17.1**	13.5
Maximum	**36.1**	23.6

Non-trading VaR*

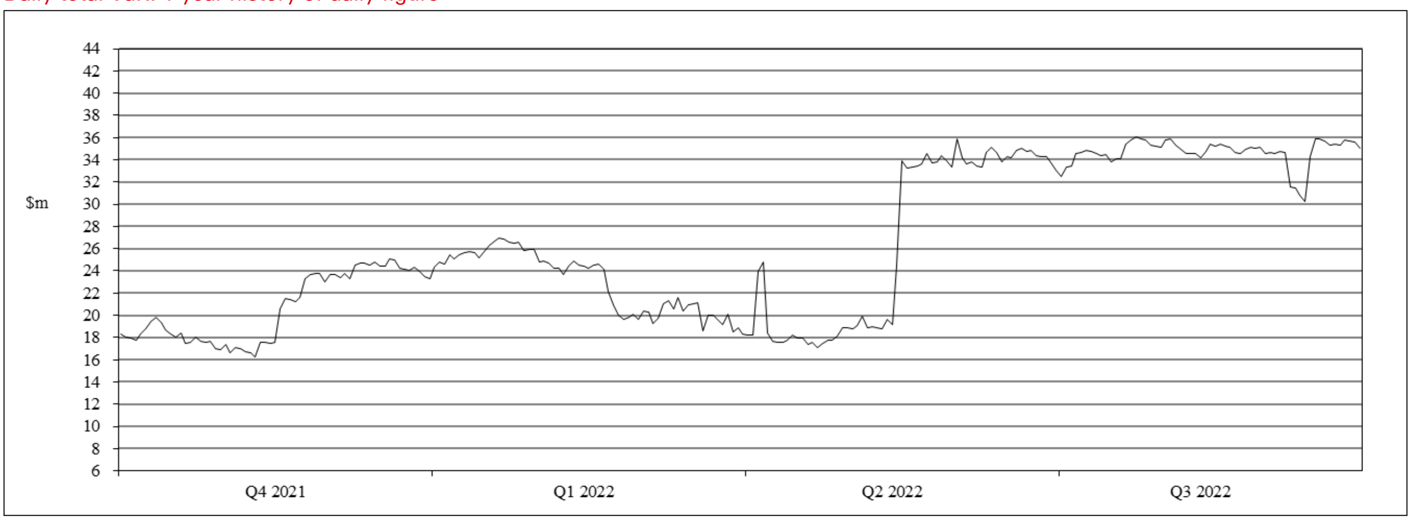
	Nine months ended	
	30 Sep 2022	30 Sep 2021
	$m	$m
At period end	**35.0**	18.2
Average	**28.1**	19.1
Minimum	**17.6**	14.1
Maximum	**36.6**	24.6

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 - Sep 2022						
At period end	**—**	**2.0**	**—**	**1.5**	**(1.1)**	**2.4**
Average	**—**	**1.1**	**—**	**0.8**	**(0.5)**	**1.4**
Minimum	**—**	**0.5**	**—**	**0.2**	**—**	**0.5**
Maximum	**—**	**3.3**	**—**	**2.1**	**—**	**4.1**
January - Sep 2021						
At period end	—	0.8	—	0.9	(0.7)	1.0
Average	—	1.3	—	0.6	(0.4)	1.5
Minimum	—	0.5	—	0.2	—	0.6
Maximum	—	3.4	—	1.9	—	3.5

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 figure[1]



1. *The total VaR increase in the second quarter of 2022 was due to an increase in market volatility in interest rates. The total VaR shows a trending decrease in the first quarter of 2022 was due to the reduction in interest rate risk. The total VaR shows a trending increase in the fourth quarter of 2021 was largely due to increased market volatility.*

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 the first nine months of 2022, the IBOR program has been actively executing the transition plan 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 observe market developments for products relating to risk-free rate 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.

On 16 May 2022, Refinitiv Benchmark Services (UK) Limited ('RBSL'), the administrator of the Canadian Dollar Offered Rate ('CDOR'), announced that it will cease the calculation and publication of CDOR after 28 June 2024. This decision aligns with the recommendation made by the Bank of Canada's Canadian Alternative Reference Rate ('CARR') working group in December 2021, and follows a broad public consultation from RBSL regarding that recommendation. Concurrently, OSFI published their expectation that Federally Regulated Financial Institutions transition all new derivatives and securities to an alternative benchmark rate by 30 June 2023 and all loan agreements by 28 June 2024.

The potential replacement rate, the reformed Canadian Overnight Repo Rate Average ('CORRA'), began its daily publishing on 15 June 2020.

Furthermore, certain CDOR linked financial instruments presented in 'Financial instruments impacted by IBOR reform' section of our *Annual Report and Accounts 2021*, will reach their contractual maturity date prior to 30 June 2024.

Strategic Review

The HSBC Group regularly reviews its businesses in all markets and is currently exploring a potential sale of the Group's 100% equity stake in HSBC Bank Canada. No decisions have been made and updates will be provided as required.

Consolidated Financial Statements

Consolidated income statement

		Quarter ended		Nine months ended	
		30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	Notes	**$m**	$m	**$m**	$m
Net interest income		**449**	315	**1,155**	903
– interest income		**934**	451	**2,035**	1,348
– interest expense		**(485)**	(136)	**(880)**	(445)
Net fee income	2	**194**	197	**587**	589
– fee income		**223**	225	**669**	671
– fee expense		**(29)**	(28)	**(82)**	(82)
Net income from financial instruments held for trading		**15**	26	**66**	84
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**–**	1	**(1)**	4
Gains less losses from financial investments		**–**	13	**2**	35
Other operating income		**7**	8	**25**	21
Total operating income		**665**	560	**1,834**	1,636
Change in expected credit losses and other credit impairment charges - (charge)/release		**(42)**	(3)	**(82)**	53
Net operating income		**623**	557	**1,752**	1,689
Employee compensation and benefits	3	**(148)**	(145)	**(451)**	(456)
General and administrative expenses		**(146)**	(150)	**(426)**	(405)
Depreciation and impairment of property, plant and equipment		**(18)**	(17)	**(49)**	(64)
Amortization and impairment of intangible assets		**(13)**	(11)	**(38)**	(39)
Total operating expenses		**(325)**	(323)	**(964)**	(964)
Profit before income tax expense		**298**	234	**788**	725
Income tax expense		**(79)**	(63)	**(210)**	(195)
Profit for the period		**219**	171	**578**	530
Profit attributable to:					
– the common shareholder		**206**	159	**542**	496
– the preferred shareholder		**13**	12	**36**	34
Profit for the period		**219**	171	**578**	530
Average number of common shares outstanding (000's)		**548,668**	548,668	**548,668**	548,668
Basic and diluted earnings per common share ($)		**$ 0.38**	$ 0.29	**$ 0.99**	$ 0.90

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

Consolidated statement of comprehensive income

	Quarter ended		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Profit for the period	**219**	171	**578**	530
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	**13**	(21)	**(259)**	(89)
– fair value (losses)/gains	**18**	(15)	**(350)**	(85)
– fair value gains transferred to the income statement on disposal	**—**	(13)	**(2)**	(35)
– expected credit losses recognized in the income statement - (release)/charge	**—**	—	**—**	(1)
– income taxes	**(5)**	7	**93**	32
Cash flow hedges	**(159)**	(31)	**(483)**	(87)
– fair value losses	**(272)**	(34)	**(748)**	(67)
– fair value losses/(gains) reclassified to the income statement	**56**	(9)	**91**	(52)
– income taxes	**57**	12	**174**	32
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**1**	27	**42**	39
– before income taxes	**1**	37	**57**	53
– income taxes	**—**	(10)	**(15)**	(14)
Equity instruments designated at fair value through other comprehensive income	**(2)**	—	**(1)**	1
– fair value (losses)/gains	**(2)**	—	**(1)**	1
Other comprehensive loss for the period, net of tax	**(147)**	(25)	**(701)**	(136)
Total comprehensive income for the period	**72**	146	**(123)**	394
Attributable to:				
– the common shareholder	**59**	134	**(159)**	360
– the preferred shareholder	**13**	12	**36**	34
Total comprehensive income for the period	**72**	146	**(123)**	394

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	
		30 Sep 2022	31 Dec 2021
	Notes	$m	$m
Assets			
Cash and balances at central bank		4,092	13,955
Items in the course of collection from other banks		17	9
Trading assets	5	7,372	2,907
Other financial assets mandatorily measured at fair value through profit or loss		18	18
Derivatives	6	6,751	2,773
Loans and advances to banks		900	1,659
Loans and advances to customers		75,672	68,699
Reverse repurchase agreements – non-trading		8,331	9,058
Financial investments	7	23,279	14,969
Other assets	8	3,256	1,377
Prepayments and accrued income		374	186
Customers' liability under acceptances		3,161	3,548
Current tax assets		221	148
Property, plant and equipment		317	263
Goodwill and intangible assets		196	181
Deferred tax assets		90	103
Total assets		**134,047**	119,853
Liabilities and equity			
Liabilities			
Deposits by banks		821	1,313
Customer accounts		81,500	73,626
Repurchase agreements – non-trading		7,723	8,044
Items in the course of transmission to other banks		156	253
Trading liabilities	9	6,347	3,598
Derivatives	6	7,157	2,978
Debt securities in issue	10	14,903	14,339
Other liabilities	11	4,733	3,517
Acceptances		3,170	3,556
Accruals and deferred income		537	401
Retirement benefit liabilities		208	267
Subordinated liabilities		1,011	1,011
Provisions		45	74
Total liabilities		**128,311**	112,977
Equity			
Common shares		1,125	1,725
Preferred shares		1,100	1,100
Other reserves		(766)	(23)
Retained earnings		4,277	4,074
Total shareholder's equity		**5,736**	6,876
Total liabilities and equity		**134,047**	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

	Nine months ended	
	30 Sep 2022	30 Sep 2021
	$m	$m
Profit before income tax expense	**788**	725
Adjustments for non-cash items:		
Depreciation, amortization and impairment	**87**	103
Share-based payment expense	**3**	4
Change in expected credit losses and other credit impairment charges	**82**	(53)
Charge for defined benefit pension plans	**8**	10
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**(188)**	(2)
Change in net trading securities and net derivatives	**(2,175)**	(342)
Change in loans and advances to customers	**(7,069)**	(6,129)
Change in reverse repurchase agreements – non-trading	**(2,015)**	474
Change in other assets	**(1,615)**	(587)
Change in accruals and deferred income	**136**	(131)
Change in deposits by banks	**(492)**	786
Change in customer accounts	**7,874**	(709)
Change in repurchase agreements – non-trading	**(321)**	4,722
Change in debt securities in issue	**564**	(891)
Change in other liabilities	**890**	1,027
Tax paid	**(21)**	(214)
Net cash from operating activities	**(3,464)**	(1,207)
Purchase of financial investments	**(10,350)**	(3,048)
Proceeds from the sale and maturity of financial investments	**1,687**	8,239
Purchase of intangibles and property, plant and equipment	**(94)**	(64)
Net cash from investing activities	**(8,757)**	5,127
Return of capital to parent	**(600)**	—
Dividends paid to shareholder	**(404)**	(378)
Lease principal payments	**(36)**	(35)
Net cash from financing activities	**(1,040)**	(413)
Net increase in cash and cash equivalents	**(13,261)**	3,507
Cash and cash equivalents at the beginning of the period	**19,759**	17,279
Cash and cash equivalents at the end of the period	**6,498**	20,786
Cash and cash equivalents comprise:		
Cash and balances at central bank	**4,092**	15,153
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(139)**	(326)
Loans and advances to banks of one month or less	**900**	1,776
Non-trading reverse repurchase agreements with banks of one month or less	**1,645**	4,183
Cash and cash equivalents at the end of the period	**6,498**	20,786
Interest:		
Interest paid	**(708)**	(583)
Interest received	**1,852**	1,356

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	**—**	**578**	**—**	**—**	**—**	**578**
Other comprehensive income/(loss), net of tax	**—**	**42**	**(260)**	**(483)**	**(743)**	**(701)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**(259)**	**—**	**(259)**	**(259)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**(1)**	**—**	**(1)**	**(1)**
– cash flow hedges	**—**	**—**	**—**	**(483)**	**(483)**	**(483)**
– remeasurement of defined benefit plans	**—**	**42**	**—**	**—**	**—**	**42**
Total comprehensive income for the period	**—**	**620**	**(260)**	**(483)**	**(743)**	**(123)**
Dividends on common shares	**—**	**(380)**	**—**	**—**	**—**	**(380)**
Dividends on preferred shares	**—**	**(36)**	**—**	**—**	**—**	**(36)**
Return of capital to parent	**(600)**	**—**	**—**	**—**	**—**	**(600)**
Movement in respect of share-based payment arrangements	**—**	**(1)**	**—**	**—**	**—**	**(1)**
At 30 Sep 2022	**2,225**	**4,277**	**(282)**	**(484)**	**(766)**	**5,736**

			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	—	530	—	—	—	530
Other comprehensive income/(loss), net of tax	—	39	(88)	(87)	(175)	(136)
– debt instruments at fair value through other comprehensive income	—	—	(89)	—	(89)	(89)
– equity instruments designated at fair value through other comprehensive income	—	—	1	—	1	1
– cash flow hedges	—	—	—	(87)	(87)	(87)
– remeasurement of defined benefit plans	—	39	—	—	—	39
Total comprehensive income for the period	—	569	(88)	(87)	(175)	394
Dividends on common shares	—	(355)	—	—	—	(355)
Dividends on preferred shares	—	(34)	—	—	—	(34)
Return of capital to parent	—	—	—	—	—	—
Movement in respect of share-based payment arrangements	—	—	—	—	—	—
At 30 Sep 2021	2,825	3,988	20	54	74	6,887

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 30 September 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											
	30 Sep 2022						30 Sep 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	**11**	**5**	**3**	**—**	**—**	**19**	10	3	2	—	—	15
Broking income	**—**	**3**	**2**	**—**	**—**	**5**	—	4	—	—	—	4
Cards	**8**	**17**	**—**	**—**	**—**	**25**	6	13	—	—	—	19
Credit facilities	**80**	**—**	**8**	**—**	**—**	**88**	74	—	16	—	—	90
Funds under management	**—**	**54**	**—**	**—**	**—**	**54**	—	57	—	—	—	57
Imports/exports	**3**	**—**	**—**	**—**	**—**	**3**	3	—	1	—	—	4
Insurance agency commission	**—**	**1**	**—**	**—**	**—**	**1**	—	1	—	—	—	1
Guarantees and other	**9**	**1**	**3**	**(2)**	**—**	**11**	6	2	2	1	—	11
Remittances	**8**	**1**	**2**	**—**	**—**	**11**	7	2	2	—	—	11
Underwriting and advisory	**1**	**—**	**2**	**4**	**(1)**	**6**	—	—	11	2	—	13
Fee income	**120**	**82**	**20**	**2**	**(1)**	**223**	106	82	34	3	—	225
Less: fee expense	**(6)**	**(21)**	**(1)**	**(1)**	**—**	**(29)**	(3)	(19)	(4)	(2)	—	(28)
Net fee income	**114**	**61**	**19**	**1**	**(1)**	**194**	103	63	30	1	—	197

	Nine months ended											
	30 Sep 2022						30 Sep 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	**35**	**14**	**8**	**—**	**—**	**57**	31	12	6	—	—	49
Broking income	**—**	**10**	**2**	**—**	**—**	**12**	—	13	—	1	—	14
Cards	**22**	**47**	**1**	**—**	**—**	**70**	15	37	—	—	—	52
Credit facilities	**232**	**—**	**24**	**—**	**—**	**256**	215	—	43	—	—	258
Funds under management	**—**	**169**	**—**	**—**	**—**	**169**	—	163	—	—	—	163
Imports/exports	**8**	**—**	**1**	**—**	**—**	**9**	8	—	1	—	—	9
Insurance agency commission	**—**	**3**	**—**	**—**	**—**	**3**	—	3	—	—	—	3
Guarantee and other	**27**	**5**	**7**	**(2)**	**—**	**37**	22	5	9	—	—	36
Remittances	**24**	**4**	**7**	**—**	**—**	**35**	21	4	7	—	—	32
Underwriting and advisory	**1**	**—**	**14**	**10**	**(4)**	**21**	1	—	43	11	—	55
Fee income	**349**	**252**	**64**	**8**	**(4)**	**669**	313	237	109	12	—	671
Less: fee expense	**(15)**	**(61)**	**(3)**	**(3)**	**—**	**(82)**	(11)	(52)	(14)	(5)	—	(82)
Net fee income	**334**	**191**	**61**	**5**	**(4)**	**587**	302	185	95	7	—	589

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		Nine months ended	
	30 Sep 2022	30 Sep 2021	**30 Sep 2022**	30 Sep 2021
	$m	$m	**$m**	$m
Defined benefit plans	**5**	5	**14**	15
– pension plans	**3**	3	**9**	10
– non-pension plans	**2**	2	**5**	5
Defined contribution pension plans	**9**	9	**24**	27
Total	**14**	14	**38**	42

During the year, the bank's pension plans purchased a buy-in annuity policy for $331m which resulted in a $4m remeasurement of the net defined benefit plans recognized in the consolidated statement of comprehensive income.

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											
	30 Sep 2022						30 Sep 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	187	202	45	12	3	449	152	133	24	6	—	315
Net fee income	114	61	19	1	(1)	194	103	63	30	1	—	197
Net income from financial instruments held for trading	6	4	(6)	13	(2)	15	9	5	—	14	(2)	26
Other income	1	3	—	—	3	7	4	11	2	1	4	22
Total operating income	308	270	58	26	3	665	268	212	56	22	2	560
Change in expected credit losses and other credit impairment charges - (charge)/ release	(14)	(22)	(6)	—	—	(42)	1	8	(12)	—	—	(3)
Net operating income	294	248	52	26	3	623	269	220	44	22	2	557
– external	312	263	15	29	4	623	266	234	32	22	3	557
– inter-segment	(18)	(15)	37	(3)	(1)	—	3	(14)	12	—	(1)	—
Total operating expenses	(99)	(165)	(20)	(13)	(28)	(325)	(100)	(168)	(22)	(11)	(22)	(323)
Profit/(loss) before income tax expense	195	83	32	13	(25)	298	169	52	22	11	(20)	234

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.*

Profit for the period

	Nine months ended											
	30 Sep 2022						30 Sep 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	**522**	**499**	**99**	**31**	**4**	**1,155**	421	395	69	18	—	903
Net fee income	**334**	**191**	**61**	**5**	**(4)**	**587**	302	185	95	7	—	589
Net income from financial instruments held for trading	**24**	**16**	**(16)**	**46**	**(4)**	**66**	27	23	—	40	(6)	84
Other income	**1**	**13**	**—**	**1**	**11**	**26**	11	25	4	2	18	60
Total operating income	**881**	**719**	**144**	**83**	**7**	**1,834**	761	628	168	67	12	1,636
Change in expected credit losses and other credit impairment charges - (charge)/ release	**(51)**	**(22)**	**(9)**	**—**	**—**	**(82)**	37	12	4	—	—	53
Net operating income	**830**	**697**	**135**	**83**	**7**	**1,752**	798	640	172	67	12	1,689
– external	**852**	**735**	**70**	**87**	**8**	**1,752**	804	659	145	68	13	1,689
– inter-segment	**(22)**	**(38)**	**65**	**(4)**	**(1)**	**—**	(6)	(19)	27	(1)	(1)	—
Total operating expenses	**(302)**	**(489)**	**(65)**	**(39)**	**(69)**	**(964)**	(287)	(497)	(62)	(37)	(81)	(964)
Profit/(loss) before income tax expense	**528**	**208**	**70**	**44**	**(62)**	**788**	511	143	110	30	(69)	725

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[2]**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 30 Sep 2022						
Loans and advances to customers	**34,024**	**37,212**	**4,436**	**—**	**—**	**75,672**
Customers' liability under acceptances	**2,740**	**12**	**409**	**—**	**—**	**3,161**
Total external assets	**47,648**	**50,961**	**9,045**	**25,764**	**629**	**134,047**
Customer accounts	**29,528**	**42,719**	**9,027**	**226**	**—**	**81,500**
Acceptances	**2,749**	**12**	**409**	**—**	**—**	**3,170**
Total external liabilities	**39,495**	**53,262**	**12,356**	**22,938**	**260**	**128,311**
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 30 Sep 2022 $m	31 Dec 2021 $m
Debt securities		**7,346**	2,907
– Canadian and Provincial Government bonds	1	**6,544**	2,536
– treasury and other eligible bills		**346**	165
– other debt securities		**456**	206
Loans and advances to customers		**26**	—
At the end of the period		**7,372**	2,907
Trading assets			
– not subject to repledge or resale by counterparties		**2,497**	1,087
– which may be repledged or resold by counterparties		**4,875**	1,820
At the end of the period		**7,372**	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	**148,039**	**2,350**	**2,759**	**–**	**2,759**	**2,611**	**212**	**2,823**
Interest rate	**261,966**	**29,090**	**3,585**	**407**	**3,992**	**3,701**	**626**	**4,327**
Commodity and other	**45**	**–**	**–**	**–**	**–**	**7**	**–**	**7**
At 30 Sep 2022	**410,050**	**31,440**	**6,344**	**407**	**6,751**	**6,319**	**838**	**7,157**
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 and other	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 30 Sep 2022			31 Dec 2021		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Interest rate	**13,703**	**407**	**33**	8,704	42	62
Total	**13,703**	**407**	**33**	8,704	42	62

Cash flow hedging instrument by hedged risk

	At 30 Sep 2022			31 Dec 2021		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Foreign exchange	**2,350**	**–**	**212**	1,143	1	36
Interest rate	**15,387**	**–**	**593**	8,710	79	55
Total	**17,737**	**–**	**805**	9,853	80	91

7 Financial investments

Carrying amount of financial investments

	Footnote	At 30 Sep 2022 $m	31 Dec 2021 $m
Financial investments measured at fair value through other comprehensive income		**15,377**	14,969
– Canadian and Provincial Government bonds	1	**10,719**	9,760
– international Government bonds	1	**2,877**	2,375
– other debt securities issued by banks and other financial institutions		**1,584**	2,430
– treasury and other eligible bills		**189**	393
– equity securities		**8**	11
Debt instruments measured at amortized cost		**7,902**	—
– Canadian and Provincial Government bonds		**5,304**	—
– international Government bonds		**2,023**	—
– other debt securities issued by banks and other financial institutions		**575**	0
At the end of the period		**23,279**	14,969
Financial investments			
– not subject to repledge or resale by counterparties		**21,738**	13,637
– which may be repledged or resold by counterparties		**1,541**	1,332
At the end of the period		**23,279**	14,969

1. *Includes government guaranteed bonds.*

8 Other assets

	At 30 Sep 2022 $m	31 Dec 2021 $m
Accounts receivable	**707**	462
Settlement accounts	**1,659**	494
Cash collateral	**882**	413
Other	**8**	8
At the end of the period	**3,256**	1,377

9 Trading liabilities

	At 30 Sep 2022 $m	31 Dec 2021 $m
Net short positions in securities	**6,347**	3,598
At the end of the period	**6,347**	3,598

10 Debt securities in issue

	At 30 Sep 2022 $m	31 Dec 2021 $m
Bonds and medium term notes	**10,575**	8,743
Covered bonds	**3,720**	3,614
Money market instruments	**608**	1,982
At the end of the period	**14,903**	14,339

Term to maturity

	At 30 Sep 2022 $m	31 Dec 2021 $m
Less than 1 year	**7,382**	5,583
1-5 years	**7,521**	8,756
At the end of the period	**14,903**	14,339

11 Other liabilities

	At	
	30 Sep 2022	31 Dec 2021
	$m	$m
Mortgages sold with recourse	**2,020**	2,163
Lease liabilities	**252**	225
Accounts payable	**908**	640
Settlement accounts	**1,366**	371
Cash collateral	**149**	67
Share based payment related liability	**7**	6
Other	**31**	45
At the end of the period	**4,733**	3,517

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 September 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 30 Sep 2022				
Assets				
Trading assets	**7,023**	**323**	**26**	**7,372**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**18**	**—**	**18**
Derivatives	**—**	**6,751**	**—**	**6,751**
Financial investments	**15,369**	**8**	**—**	**15,377**
Liabilities				
Trading liabilities	**6,077**	**270**	**—**	**6,347**
Derivatives	**—**	**7,150**	**7**	**7,157**
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 30 Sep 2022			
Transfer from Level 1 to Level 2	**1**	**—**	**—**
Transfer from Level 2 to Level 1	**—**	**—**	**—**
Quarter ended 30 Sep 2021			
Transfer from Level 1 to Level 2	—	13	—
Transfer from Level 2 to Level 1	—	58	—

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			
		30 Sep 2022		31 Dec 2021	
		Carrying amount	Fair value	Carrying amount	Fair value
	Footnote	$m	$m	$m	$m
Assets					
Loans and advances to customers	1	**75,672**	**74,744**	68,699	68,734
Financial investments – at amortized cost		**7,902**	**7,754**	—	—
Liabilities					
Customer accounts		**81,500**	**81,464**	73,626	73,736
Debt securities in issue		**14,903**	**14,426**	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 $71,290m and fair value $70,416m (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

Dividends

On 21 October 2022, the bank declared regular quarterly dividends for the fourth 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 31 December 2022 or the first business day thereafter to the shareholder of record on 15 December 2022.

As the quarterly dividends on preferred shares for the fourth quarter of 2022 were declared after 30 September 2022, the amounts have not been included in the balance sheet as a liability.

Strategic Review

The HSBC Group regularly reviews its businesses in all markets and is currently exploring a potential sale of the Group's 100% equity stake in HSBC Bank Canada. No decisions have been made and updates will be provided as required.

There have been no other material events after the reporting period which would require disclosure or adjustment to the 30 September 2022 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 21 October 2022 and authorized for issue.

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