HSBC Bank Canada

Second Quarter 2022 Interim Report

HSBC

HSBC Bank Canada second quarter 2022 performance

Quarter ended 30 June 2022

Total operating income	Profit before income tax expense	Profit attributable to the common shareholder
$599m ↑ 9.5%	$198m ↓ 24%	$133m ↓ 26%
(2021: $547m)	(2021: $259m)	(2021: $179m)

Half-year ended 30 June 2022

Total operating income	Profit before income tax expense	Profit attributable to the common shareholder
$1,169m ↑ 8.6%	$490m ↓ 0.2%	$336m ↓ 0.3%
(2021: $1,076m)	(2021: $491m)	(2021: $337m)

At 30 June 2022

Total assets	Common equity tier 1 ratio[1]
$125.0bn ↑ 4.3%	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:

"We reached our highest quarterly total operating income in a decade with increases in three of our four businesses for the quarter and half-year. While central bank rate increases had a positive impact, the more important story is new business and higher transaction volumes across all our business lines. Our long term growth strategy is unchanged while we continue to manage our business prudently and with a careful eye on near term economic indicators.

"I appreciate the clear vote of confidence from the many long term and new clients who have trusted us to help them fulfil their ambitions in challenging times, and the way our team has consistently shown we are there for them. We are building a sustainable business model which will position us and our clients for long term success. No matter where in the world those ambitions take them – whether they need local solutions, global connections or support on their transition to a low carbon economy – we are uniquely qualified to help them."

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

Select awards and recognition

Best 50 Corporate Citizens	Best International Onboarding Experience	Best Small Business Bank	Gold Social Purpose Business
Corporate Knights Social Purpose Rating (2022)	*Cosmopolitan The Daily Business Awards (2022)*	*Cosmopolitan The Daily Business Awards (2022)*	*Corporate Knights Social - The Social Purpose Transition Pathway (2022)*

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 June 2022

	CMB	WPB	GB	MSS
Total operating income	$293m ↑ 15% (2021: $254m)	$232m ↑ 11% (2021: $209m)	$39m ↓ 25% (2021: $52m)	$31m ↑ 29% (2021: $24m)
Profit before income tax expense	$116m ↓ 39% (2021: $191m)	$65m ↑ 20% (2021: $54m)	$15m ↓ 62% (2021: $39m)	$18m ↑ 80% (2021: $10m)

Half-year ended 30 June 2022

	CMB	WPB	GB	MSS
Total operating income	$573m ↑ 16% (2021: $493m)	$449m ↑ 7.9% (2021: $416m)	$86m ↓ 23% (2021: $112m)	$57m ↑ 27% (2021: $45m)
Profit before income tax expense	$333m ↓ 2.6% (2021: $342m)	$125m ↑ 37% (2021: $91m)	$38m ↓ 57% (2021: $88m)	$31m ↑ 63% (2021: $19m)

At 30 June 2022

	CMB	WPB	GB	MSS
Customer related assets[3]	$35.7bn ↑ 12.1% (At 31 Dec 2021: $31.8bn)	$37.0bn ↑ 3.1% (At 31 Dec 2021: $35.9bn)	$4.7bn ↑ 4.1% (At 31 Dec 2021: $4.5bn)	nil (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 $4m for the quarter and $4m for the half-year ended 30 June 2022 (2021 total operating income: $8m for the quarter and $10m for the half-year ended), profit/(loss) before income tax expense was a loss of $16m for the quarter and $37m for the half-year ended 30 June 2022 (2021 was a loss of: $35m for the quarter and $49m for the half-year 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 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 half-year ended 30 June 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 half-year ended 30 June 2022 ('consolidated financial statements') and our *Annual Report and Accounts 2021*. This MD&A is dated 22 July 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 half-year ended 30 June 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. Our success in delivering our strategic priorities and proactively managing the regulatory environment depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in the highly competitive and active employment market continues to prove challenging. We are monitoring people risks with attention to employee mental health and well-being, particularly in the face of the pandemic. Despite contingency plans we have in place for resilience in the event of sustained and significant operational disruption, our ability to conduct business may be adversely affected by disruption in the infrastructure that supports both our operations and the communities in which we do business, including but not limited to disruption caused by public health emergencies, pandemics, environmental disasters, terrorist acts and geopolitical events. Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2021* for a description of these risk factors, as well as the 'Impact of COVID-19 and our response' section of our *Annual Report and Accounts 2021*. We caution you that the risk factors disclosed above are not exhaustive, and there could be other uncertainties and potential risk factors not considered here which may adversely affect our results and financial condition. Any forward-looking statements in this document are as of the date of this document. We do not undertake any obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required under applicable securities legislation.

Who we are

HSBC Bank Canada is the leading international bank in Canada and celebrated its 40th anniversary in 2021. We help companies and individuals across Canada to do business and manage their finances here and internationally through four businesses: Commercial Banking, Wealth and Personal Banking, Global Banking[1], and Markets and Securities Services[1]. No international bank has our Canadian presence and no domestic bank has our international reach.

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

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

HSBC Holdings plc, the parent company of HSBC Bank Canada, is headquartered in London, UK. HSBC serves customers worldwide from offices in 63 countries and territories in Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,985bn at 30 June 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

($millions, except where otherwise stated)	Footnotes	Quarter ended		Half-year ended	
		30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
Financial performance for the period					
Total operating income		**599**	547	**1,169**	1,076
Change in expected credit losses and other credit impairment charges - (charge)/release		**(82)**	40	**(40)**	56
Operating expenses		**(319)**	(328)	**(639)**	(641)
Profit before income tax expense		**198**	259	**490**	491
Profit attributable to the common shareholder		**133**	179	**336**	337
Basic and diluted earnings per common share ($)		**0.24**	0.32	**0.61**	0.61
Financial ratios (%)	1				
Return on average common shareholder's equity		**11.2**	12.6	**13.3**	11.9
Return on average risk-weighted assets		**1.9**	2.6	**2.4**	2.5
Cost efficiency ratio		**53.3**	60.0	**54.7**	59.6
Operating leverage ratio		**12.3**	1.1	**9.0**	1.1
Net interest margin		**1.37**	1.24	**1.32**	1.18
Change in expected credit losses to average gross loans and advances and acceptances	2	**0.43**	n/a	**0.11**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		**0.35**	0.02	**0.18**	0.07
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**27.9**	38.5	**27.9**	38.5
Net write-offs as a percentage of average loans and advances and acceptances		**0.67**	0.12	**0.35**	0.09

	Footnotes	At	
		30 Jun 2022	31 Dec 2021
Financial position at period end			
Total assets		**125,037**	119,853
Loans and advances to customers		**74,326**	68,699
Customer accounts		**75,260**	73,626
Ratio of customer advances to customer accounts (%)	1	**98.8**	93.3
Common shareholder's equity		**4,667**	5,776
Capital, leverage and liquidity measures			
Common equity tier 1 capital ratio (%)	3	**11.1**	14.0
Tier 1 ratio (%)	3	**13.6**	16.8
Total capital ratio (%)	3	**15.9**	19.3
Leverage ratio (%)	3	**4.5**	5.8
Risk-weighted assets ($m)	3	**43,222**	39,836
Liquidity coverage ratio (%)	4	**141**	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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Net interest income	**369**	306	**706**	588
Net fee income	**196**	196	**393**	392
Net income from financial instruments held for trading	**24**	28	**51**	58
Other items of income	**10**	17	**19**	38
Total operating income	**599**	547	**1,169**	1,076
Change in expected credit losses and other credit impairment charges - (charge)/release	**(82)**	40	**(40)**	56
Net operating income	**517**	587	**1,129**	1,132
Total operating expenses	**(319)**	(328)	**(639)**	(641)
Profit before income tax expense	**198**	259	**490**	491
Income tax expense	**(53)**	(69)	**(131)**	(132)
Profit for the period	**145**	190	**359**	359

For the quarter and half-year ended 30 June 2022 compared with the same periods in the prior year, unless otherwise stated.

Profit before income tax expense was $198m, down $61m or 24% for the quarter and $490m, nominally down by $1m or 0.2%, for the half-year. The decrease for the quarter and half-year were largely due to a significant charge in expected credit losses for stage 3 loans from an aviation loan. Notwithstanding this, operating income remains strong. Continuing with the momentum since the second half of 2020, we have reached our highest total operating income in a decade. Total operating income has increased across three of our four businesses for the quarter and half-year.

Operating income of $599m for the quarter and $1,169m for the half-year, represented an increase of $52m or 9.5% and $93m or 8.6%, respectively from the prior year. Balance sheet growth and the impact of the central bank rate increases in the year drove net interest income higher. Net fee income was relatively flat with increases from higher card and transaction activity in both Wealth and Personal Banking and Commercial Banking, higher average investment funds under management in Wealth and Personal Banking, and an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking. These increases were partly offset by lower advisory fees in Global Banking, in addition to lower gains in other operating income and lower trading income.

Expected credit losses resulted in a charge of $82m for the quarter and $40m for the half-year. For the quarter, this was primarily driven by a significant charge in expected credit losses for stage 3 loans from an aviation loan 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 reflecting the inflationary pressures and supply-chain disruption caused by the pandemic and the Russian invasion of Ukraine. For the half-year, these charges were partly offset by a release in performing loans from COVID-19 related allowances during the first quarter. The release in the prior year periods were primarily related to improvements in the forward-looking macro-economic variables on performing loans at that time.

Total operating expenses decreased by $9m or 2.7% for the quarter and $2m or 0.3% for the half-year mainly due to costs incurred in the prior year to move to hybrid working. In the face of inflationary pressures, we continued to prudently manage costs while strategically making investments to grow our business and support regulatory projects.

Performance by income and expense item

For the quarter and half-year ended 30 June 2022 compared with the same periods in the prior year.

Net interest income

Net interest income increased by $63m or 21% for the quarter as a result of balance sheet growth across all businesses and the impact of the central bank rate increases in the year.

Net interest income increased by $118m or 20% for the half-year, which was driven by the same factors as described in the quarter.

Summary of interest income by types of assets

		Quarter ended						Half-year ended					
		30 Jun 2022			30 Jun 2021			**30 Jun 2022**			30 Jun 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*	**10,002**	**24**	**0.97**	14,397	8	0.24	**11,283**	**33**	**0.59**	14,826	17	0.24
Loans and advances to customers	*2*	**72,940**	**526**	**2.89**	63,763	411	2.58	**71,262**	**951**	**2.69**	62,857	817	2.62
Reverse repurchase agreements - non-trading		**6,919**	**25**	**1.46**	5,765	4	0.31	**7,667**	**32**	**0.85**	5,754	9	0.32
Financial investments	*3*	**17,535**	**52**	**1.19**	14,151	22	0.61	**16,810**	**81**	**0.97**	16,292	52	0.64
Other interest-earning assets	*4*	**685**	**3**	**1.65**	533	1	0.61	**591**	**4**	**1.31**	529	2	0.58
Total interest-earning assets (A)		**108,081**	**630**	**2.34**	98,609	446	1.82	**107,613**	**1,101**	**2.06**	100,258	897	1.80
Trading assets and financial assets designated at fair value	*5*	**4,183**	**25**	**2.40**	3,617	8	0.83	**3,677**	**37**	**2.02**	3,559	15	0.83
Non-interest-earning assets	*6*	**11,669**	**—**	**—**	10,171	—	—	**10,620**	**—**	**—**	10,871	—	—
Total		**123,933**	**655**	**2.13**	112,397	454	1.62	**121,910**	**1,138**	**1.88**	114,688	912	1.60

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						Half-year ended					
		30 Jun 2022			30 Jun 2021			**30 Jun 2022**			30 Jun 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*	**1,298**	**—**	**0.10**	1,140	—	0.03	**1,319**	**—**	**0.07**	1,113	—	0.03
Customer accounts	*2*	**65,890**	**124**	**0.75**	61,758	51	0.33	**65,047**	**169**	**0.52**	62,422	120	0.39
Repurchase agreements - non-trading		**6,860**	**24**	**1.43**	4,013	3	0.30	**7,330**	**29**	**0.81**	3,626	6	0.33
Debt securities in issue and subordinated debt		**17,674**	**97**	**2.20**	14,065	69	1.98	**16,676**	**166**	**2.00**	15,639	149	1.92
Other interest-bearing liabilities	*3*	**2,515**	**16**	**2.43**	2,858	17	2.26	**2,521**	**31**	**2.46**	2,747	34	2.45
Total interest bearing liabilities (B)		**94,237**	**261**	**1.11**	83,834	140	0.67	**92,893**	**395**	**0.86**	85,547	309	0.73
Trading liabilities	*4*	**3,560**	**22**	**2.54**	3,340	8	0.94	**3,378**	**34**	**2.03**	3,380	15	0.89
Non-interest bearing current accounts	*5*	**8,645**	**—**	**—**	7,939	—	—	**8,655**	**—**	**—**	7,712	—	—
Total equity and other non-interest bearing liabilities	*6*	**17,491**	**—**	**—**	17,284	—	—	**16,984**	**—**	**—**	18,049	—	—
Total		**123,933**	**283**	**0.92**	112,397	148	0.53	**121,910**	**429**	**0.71**	114,688	324	0.57
Net interest income (A-B)			**369**			306			**706**			588	

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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Account services	**19**	19	**38**	34
Broking income	**3**	3	**7**	10
Cards	**24**	17	**45**	33
Credit facilities	**86**	84	**168**	168
Funds under management	**57**	54	**115**	106
Imports/exports	**3**	2	**6**	5
Insurance agency commission	**1**	1	**2**	2
Guarantee and other	**12**	13	**26**	25
Remittances	**14**	11	**24**	21
Underwriting and advisory	**5**	17	**15**	42
Fee income	**224**	221	**446**	446
Less: fee expense	**(28)**	(25)	**(53)**	(54)
Net fee income	**196**	196	**393**	392

Net fee income was flat for the quarter. The increase in fee income was mainly driven by increased activity in cards in both Commercial Banking and Wealth and Personal Banking. Credit facility fees increased in Commercial Banking from higher volumes of bankers' acceptances, which was partly offset by a decrease in Global Banking. Higher average investment funds under management in Wealth and Personal Banking, also contributed to the increase. These increases were offset by lower advisory fees in Global Banking as a result of the prior year's elevated performance and the timing of transactions in the current year. As a result of the activity described above, fee expense increased due to increased activity in cards, partly offset by lower volumes in advisory fees.

Net fee income increased slightly by $1m or 0.3% for the half-year, which was driven by the same factors as described in the quarter, coupled with increased transactions in account services in both Commercial Banking and Wealth and Personal Banking.

Net income from financial instruments held for trading

	Quarter ended		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Trading activities	**20**	29	**49**	58
Credit valuation, debit valuation and funding fair value adjustments	**3**	—	**5**	3
Net interest from trading activities	**3**	—	**3**	—
Hedge ineffectiveness	**(2)**	(1)	**(6)**	(3)
Net income from financial instruments held for trading	**24**	28	**51**	58

Net income from financial instruments held for trading decreased by $4m or 14% for the quarter. The decrease was mainly driven by an adverse movement in the value of loan syndication facilities as part of trading activities. This was offset by higher net interest income from trading activities due to the higher interest rate environment and favourable movement in credit and funding fair value adjustments on forward looking scenarios.

Net income from financial instruments held for trading decreased by $7m or 12% for the half-year was driven by the same factors as described in the quarter, coupled with an unfavourable change in hedge ineffectiveness resulting from cash flow hedge instruments.

Other items of income

	Quarter ended		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(1)**	3	**(1)**	3
Gains less losses from financial investments	**—**	7	**2**	22
Other operating income	**11**	7	**18**	13
Other items of income	**10**	17	**19**	38

Other items of income decreased by $7m or 41% for the quarter driven by lower gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio, partly offset by gains in other operating income.

Other items of income decreased by $19m or 50% for the half-year driven by the same factors as described in the quarter.

Change in expected credit losses

	Quarter ended		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - charge/(release)	**16**	(41)	**(41)**	(80)
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - charge	**66**	1	**81**	24
Change in expected credit loss and other credit impairment charges - charge/(release)	**82**	(40)	**40**	(56)

The change in expected credit losses for the quarter resulted in a charge of $82m compared to a release of $40m in the same period in the prior year. The charge for the quarter was primarily driven by a significant charge in expected credit losses for stage 3 loans as a result of further adverse developments from an aviation loan. This loan was written-off during the second quarter of 2022. Change in expected credit losses for performing loans also resulted in a charge driven by an adverse shift in forward-looking macro-economic variables mainly related to inflationary pressures and supply-chain disruption caused by the pandemic and the Russian invasion of Ukraine. In 2021, the release was primarily driven by the improvement in forward-looking macro-economic variables in performing loans at that time.

The change in expected credit losses for the half-year resulted in a charge of $40m compared to a release of $56m in the same period in the prior year. The charge for the half-year was driven by a significant charge in expected credit losses for stage 3 loans as a result of a material aviation 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 improvement in macro-economic variables in four of the scenarios used to estimate expected credit losses. This was partly offset by a charge in the second quarter in performing loans 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. In 2021, the release was primarily driven by the improvement in forward-looking macro-economic variables at that time related to performing loans, partly offset by impairment charges from non-performing loans in the energy and wholesale foods sectors.

Total operating expenses

	Quarter ended		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Employee compensation and benefits	**152**	152	**303**	311
General and administrative expenses	**138**	127	**280**	255
Depreciation and impairment of property, plant and equipment	**16**	30	**31**	47
Amortization and impairment of intangible assets	**13**	19	**25**	28
Total operating expenses	**319**	328	**639**	641

Total operating expenses decreased by $9m or 2.7% for the quarter mainly due to lower expenses as a result of costs incurred in the prior year to move to hybrid working. This was partly offset by continued strategic investments to grow our business, support regulatory projects, simplify our processes and provide digital services to meet customers' needs.

Total operating expenses decreased by $2m or 0.3% for the half-year, as we prudently manage costs while facing inflationary pressures. We continued to strategically 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 second quarter of 2022 was 26.7%. As the statutory tax rate was 26.5%, there has been a nominal increase in tax liabilities. The effective tax rate for the second quarter of 2021 was 26.8%.

Movement in financial position

Summary consolidated balance sheet

	At	
	30 Jun 2022	31 Dec 2021
	$m	$m
Assets		
Cash and balances at central bank	**5,172**	13,955
Trading assets	**5,154**	2,907
Derivatives	**4,836**	2,773
Loans and advances	**74,843**	70,358
Reverse repurchase agreements – non-trading	**6,992**	9,058
Financial investments	**20,385**	14,969
Customers' liability under acceptances	**3,073**	3,548
Other assets	**4,582**	2,285
Total assets	**125,037**	119,853
Liabilities and equity		
Liabilities		
Deposits by banks	**495**	1,313
Customer accounts	**75,260**	73,626
Repurchase agreements – non-trading	**7,327**	8,044
Trading liabilities	**3,585**	3,598
Derivatives	**5,326**	2,978
Debt securities in issue	**16,833**	14,339
Acceptances	**3,081**	3,556
Other liabilities	**7,363**	5,523
Total liabilities	**119,270**	112,977
Total shareholder's equity	**5,767**	6,876
Total liabilities and equity	**125,037**	119,853

Assets

Total assets at 30 June 2022 were $125.0bn, an increase of $5.2bn or 4.3% from 31 December 2021. This was mainly due to the increase in financial investments of $5.4bn and higher loans and advances of $4.5bn from increased volumes in commercial loans and residential mortgages. An increase in other assets of $2.3bn in settlement balances to facilitate client trades, higher volumes in trading assets of $2.2bn and higher derivatives of $2.1bn as a result of mark-to-market changes from interest rates, also contributed to the increase. These increases were partly offset by reduced cash balances at central bank of $8.8bn as we supported growth in other asset classes.

Liabilities

Total liabilities at 30 June 2022 were $119.3bn, an increase of $6.3bn or 5.6% from 31 December 2021. The increase was primarily from an increase in term and wholesale funding of $2.5bn in debt securities in issue, as well as higher volumes in deposits contributed to the increase of $1.6bn in customer accounts. The increase in derivatives of $2.3bn and other liabilities of $1.8bn correspond with the movement in derivative assets and other assets.

Equity

Total equity at 30 June 2022 was $5.8bn, a decrease of $1.1bn or 16% from 31 December 2021. The decrease represents $0.6bn return of common share capital to parent; an unrealized loss of $0.6bn recorded on debt instruments at fair value through other comprehensive income and cash flow hedges from the upward shift in the yield curve; and $0.3bn of dividends on common shares declared in the period. These decreases were partly offset by profits after tax of $0.4bn 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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Net interest income	**173**	142	**335**	269
Non-interest income	**120**	112	**238**	224
Total operating income	**293**	254	**573**	493
Change in expected credit losses and other credit impairment charges - (charge)/release	**(77)**	28	**(37)**	36
Net operating income	**216**	282	**536**	529
Total operating expenses	**(100)**	(91)	**(203)**	(187)
Profit before income tax expense	**116**	191	**333**	342

Overview

Total operating income increased by $39m or 15% for the quarter, and $80m or 16% for the half-year. CMB has maintained positive momentum in 2022 with loans and acceptances increasing by $3.9bn in the first six months and higher deposit balances compared to the second quarter of 2021. Net interest income has improved as a result of higher volumes and the impact of the central bank rate increases in the year. 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 Liquidity and Cash Management ('GLCM') and Global Trade and Receivable Finance ('GTRF'), we are well positioned to deepen client relationships with our award-winning transaction banking capabilities and to support our clients with both their domestic and cross-border banking requirements. With this continued focus, we won Euromoney's Trade Finance Market Leader and Best Service Awards in Canada in the first quarter of 2022.

Profit before income tax expense decreased by $75m or 39% for the quarter, and $9m or 2.6% for the half-year, primarily due to an unfavourable change in expected credit losses and higher operating expenses as we strategically make investments to grow our business. These were partly offset by higher operating income.

Financial performance by income and expense item

Net interest income for the quarter increased by $31m or 22%, and $66m or 25% for the half-year, due to higher average loan and deposit balances and increased rates as a result of the central bank rate increase in the first and second quarters.

Non-interest income for the quarter and half-year increased by $8m or 7.1% and $14m or 6.3%, 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 $77m for the quarter and $37m for the half-year. For the quarter, the charge was primarily driven by a significant stage 3 impairment charge on an aviation loan and a charge on performing loans relating to an adverse shift in forward-looking macro-economic variables. For the half-year, this was 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 increased by $9m or 9.9%, and $16m or 8.6% for the half-year, as we strategically make investments to grow our business while prudently managing costs.

1. For the quarter and half-year ended 30 June 2022 compared with the same periods in the prior year, unless otherwise stated.

Wealth and Personal Banking

Wealth and Personal Banking ('WPB') offers a full range of competitive banking products and services for all Canadians to help them manage their finances, buy their homes, and save and invest for the future. Our business also has 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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Net interest income	**156**	134	**297**	262
Non-interest income	**76**	75	**152**	154
Total operating income	**232**	209	**449**	416
Change in expected credit losses and other credit impairment charges - (charge)/release	**(4)**	7	**–**	4
Net operating income	**228**	216	**449**	420
Total operating expenses	**(163)**	(162)	**(324)**	(329)
Profit before income tax expense	**65**	54	**125**	91

Overview

Total operating income increased by $23m or 11% for the quarter, and $33m or 7.9% for the half-year. 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 our enhancements, we were recognized by Cosmopolitan The Daily for the Best International Onboarding Experience and Best Small Business Bank in Canada.

We had record[2] profit before income tax expense for the half-year. Profit before income tax expense increased by $11m or 20% for the quarter, and $34m or 37% for the half-year, due to higher operating income as noted above, partly offset by an increase in expected credit losses.

Financial performance by income and expense item

Net interest income increased by $22m or 16% for the quarter, and $35m or 13% for the half-year, due to higher volumes and improved margins as a result of the central bank rate increases during the year.

Non-interest income increased slightly by $1m or 1.3% for the quarter, and decreased by $2m or 1.3% for the half-year. This was mainly due to lower treasury-related income, partly offset by higher average investment funds under management and transaction activity fees.

Change in expected credit losses were $11m unfavourable for the quarter, and $4m unfavourable for the half-year, as a result of an adverse shift in forward-looking macro-economic variables, partly offset by releases in performing loans from COVID-19 related allowances. Prior year periods had favourable impact from improvement in forward-looking macro-economic variables at that time related to performing loans.

Total operating expenses nominally increased by $1m or 0.6% for the quarter, and decreased by $5m or 2% for the half-year, due to prudent management of costs while strategically investing to grow our business.

1. *For the quarter and half-year ended 30 June 2022 compared with the same periods in the prior year, unless otherwise stated.*
2. *Record for the six 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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Net interest income	**29**	23	**54**	45
Non-interest income	**10**	29	**32**	67
Total operating income	**39**	52	**86**	112
Change in expected credit losses and other credit impairment charges - (charge)/release	**(1)**	5	**(3)**	16
Net operating income	**38**	57	**83**	128
Total operating expenses	**(23)**	(18)	**(45)**	(40)
Profit before income tax expense	**15**	39	**38**	88

Overview

Total operating income decreased by $13m or 25% for the quarter, and $26m or 23% for the half-year. We continued to build on a strong pipeline in the first half of 2022. However, the prior year's elevated performance and the timing of transactions in the current year contributed to a decrease in advisory fees. The decrease in operating income was also impacted by the adverse movement in the value of a loan syndication facility, partly offset by improved performance in the transaction banking portfolio and improved margins from the central bank rate increases in the first half of 2022.

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

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

Profit before income tax expense decreased by $24m or 62% for the quarter, and $50m or 57% for the half-year. For both periods, this was 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 $6m or 26%, and $9m or 20% for the half-year. The increase was as a result of the central bank rate increases in the first and second quarter.

Non-interest income for the quarter decreased by $19m or 66%, and $35m or 52% for the half-year. This decrease was primarily due to lower advisory as a result of prior year's elevated performance and the timing of transactions in the current year and lower credit facility fees. 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 unfavourable for the quarter and $19m unfavourable for the half-year. This was mainly due to prior year's release reflective of the improvement in the forward-looking macro-economic guidance on performing loans at that time. For the half year, this was coupled with an impairment in a non-performing energy exposure in the first quarter of 2022.

Total operating expenses increased by $5m or 28% for the quarter, and $5m or 13% for half-year, as we strategically 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 half-year ended 30 June 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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Net interest income	**10**	7	**19**	12
Non-interest income	**21**	17	**38**	33
Total operating income	**31**	24	**57**	45
Total operating expenses	**(13)**	(14)	**(26)**	(26)
Profit before income tax expense	**18**	10	**31**	19

Overview

Total operating income increased by $7m or 29% for the quarter, and $12m or 27% for the half-year. The increase was a result of the central bank rate increases in the first and second quarter, as well as higher foreign exchange trading income.

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

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

Profit before income tax expense increased by $8m or 80% for the quarter, and $12m or 63% for the half-year, mainly due to higher operating income and lower operating expenses.

Financial performance by income and expense item

Net interest income for the quarter increased by $3m or 43%, and $7m or 58% for the half-year, mainly due to central bank rate increases in the first and second quarter.

Non-interest income for the quarter increased by $4m or 24%, and $5m or 15% for the half-year, driven by higher foreign exchange trading income.

Total operating expenses for the quarter decreased by $1m or 7%, and was flat to the half-year, due to prudent management of 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 half-year ended 30 June 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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Net interest income	**1**	—	**1**	—
Non-interest income	**3**	8	**3**	10
Net operating income	**4**	8	**4**	10
Total operating expenses	**(20)**	(43)	**(41)**	(59)
Profit/(loss) before income tax expense	**(16)**	(35)	**(37)**	(49)

1. *For the quarter and half-year ended 30 June 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.*

Overview

Profit before income tax expense increased by $19m for the quarter, and $12m for the half-year, mainly due to a decrease in operating expenses as a result of costs incurred in the prior year to move to hybrid working. This was partly offset by lower non-interest income.

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2022		2021				2020	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**369**	337	323	315	306	282	275	244
Net fee income	**196**	197	205	197	196	196	185	172
Net income from financial instruments held for trading	**24**	27	28	26	28	30	30	29
Other items of income	**10**	9	23	22	17	21	14	27
Total operating income	**599**	570	579	560	547	529	504	472
Change in expected credit losses and other credit impairment charges - release/(charge)	**(82)**	42	(8)	(3)	40	16	1	2
Net operating income	**517**	612	571	557	587	545	505	474
Total operating expenses	**(319)**	(320)	(344)	(323)	(328)	(313)	(345)	(317)
Profit before income tax expense	**198**	292	227	234	259	232	160	157
Income tax expense	**(53)**	(78)	(40)	(63)	(69)	(63)	(35)	(45)
Profit for the period	**145**	214	187	171	190	169	125	112
Profit attributable to:								
– common shareholder	**133**	203	176	159	179	158	113	101
– preferred shareholder	**12**	11	11	12	11	11	12	11
Basic and diluted earnings per common share ($)	**0.24**	0.37	0.32	0.29	0.32	0.29	0.21	0.18

Comments on trends over the past eight quarters

Net interest income continued to increase in the second 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 and second 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. In the fourth quarter of 2021, net fee income continued to increase from the third quarter of 2020, reaching its highest point on record[1]. During the third quarter of 2020, customer activity decreased due to COVID-19.

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 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 resulted in a charge for the second quarter of 2022 primarily driven by a significant charge in expected credit losses for stage 3 loans from an aviation loan 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 mainly related to inflationary pressures and supply-chain disruption caused by the pandemic and the Russian invasion of Ukraine. 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 aviation 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 in the aviation sector, 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 third quarter of 2020 through to the second quarter of 2021, although modest in the third and fourth quarters of 2020, as forward-looking macro-economic variables improved. This was partly offset by increased impairment charges from a non-performing loan in the energy sector in the first quarter of 2021 and non-performing loans in the energy and various other sectors in second half of 2020.

With regards to operating expenses, our focus has been on growing our business in support of our strategic plan, and we continue to make these investments in 2022. This is balanced with prudent management of costs in response to the current economic environment. From 2020 onward, we further streamlined our processes and prioritized digital solutions to assist our customers.

As a result of the trends above, profit before income tax expense has been improving with the exception of the second quarter of 2022 when we realized a significant charge in expected credit losses for a stage 3 aviation loan that was written off in the second quarter. In the first quarter of 2022, we reached our highest profit before income tax expense in ten years, since the first quarter of 2012.

1. *Record quarter since net fee income began to be reported separately in 2012.*

Economic review and outlook

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

Inflation nears a 40-year high; rates to rise

Consumer price inflation ('CPI') hit 8.1% year-over-year in June, its highest reading since January 1983, and it might not have peaked. Inflation pressures are also broadening with over 73% of CPI components rising at a pace of more than 3% year-over-year. These developments highlight the urgency for policymakers to continue to take steps to dampen inflationary pressures.

Bank of Canada ('BoC') officials have said that they are prepared to act forcefully to bring inflation back to target, a point made by Senior Deputy Governor Carolyn Rogers on 22 June, and reinforced when the BoC lifted its policy rate by 100 basis points ('bps') to 2.5% on 13 July. That was the largest increase in the policy rate since August 1998.

BoC Governor Tiff Macklem said that the large rate hike was needed because the rate of inflation had increased, inflation pressures were broadening with domestic demand turning into a key driver, and the Governing Council wanted to front-load rate hikes in the hopes of avoiding even higher rates down the road. Governor Macklem also indicated that the Governing Council foresees the policy rate rising to the top end, if not "slightly above" the neutral range of 2% to 3%.

We now forecast the policy rate rising by an additional 100bps to 3.5% by year-end 2022, with increases spread over the September, October, and December meetings, and to 4.0% in the first half of 2023.

What is driving inflation

There is a strong global component to inflation related to supply chain bottlenecks, elevated oil prices, and the war in Ukraine. In Canada, these effects are reflected in upward pressures on price of goods inflation, which has increased to 11.2% year-over-year, its highest level since late 1981.

However, domestic inflation tailwinds are also becoming stronger, and have recently become a dominant inflation driver. The Canadian economy is now in excess demand, amid a strong labour market with the unemployment rate at a record low of 4.9%, and with some upward pressure on wages emerging. As a result, the core inflation measure most closely aligned with domestic economic conditions, CPI-common, hit 4.6% year-over-year in May, its highest level since the start of the inflation targeting era in early 1991. Governor Macklem has said that the pace of growth of domestic demand must be brought into alignment with supply.

An important aspect of moderating domestic demand growth and reducing inflation is a slower housing market. This is because two of the largest contributions to the annual rate of inflation are closely linked to the housing market: rising cost pressures for home construction and the sharp increase in existing home prices during the pandemic. However, a slower housing market is only one aspect of a needed slowdown in domestic demand.

Currency weakness presents another challenge to bringing inflation back to target, by exacerbating the upward pressure on imported goods prices. Historically, the Canadian dollar would strengthen alongside rising commodity prices, such as oil, helping to blunt the impact of rising import prices. However, as the Canadian dollar has not responded to recent commodity price gains, import price inflation is passing through to consumers, exacerbating upward pressures on prices.

Many countries face inflation challenges

Many countries face inflation challenges similar to those observed in Canada. This has increased the pressure on central banks to take actions to lower inflation. In the US, for example, inflation hit 8.6% year-over-year in May, its highest level since December 1981, prompting the Federal Reserve to lift its policy rate by 75bps on 15 June. That was the largest rate increase by the Fed in 28 years. There is also a strong chance of another 75bps rate hike in August, with additional rate hikes to follow.

Other central banks have also raised interest rates amid concerns about elevated inflation including the Reserve Bank of Australia, Norway's Norges Bank, and Sweden's Riksbank. We also now expect more rate hikes by the Bank of England before year-end, and the European Central Bank has signaled that higher rates are on the horizon.

Monetary policy stimulus to be reduced quickly

In our view, key considerations about how far the BoC might raise the policy rate include the evolution of the housing market and the household sector's ability to manage an increase in debt service costs. For example, there are already signs that the housing market is cooling, with some relevant interest rates having increased to their highest level in a decade and set to rise further. We think these concerns might limit how far the BoC can hike rates.

That said, if inflation remains elevated, particularly if inflation expectations become embedded at higher levels, the BoC might continue to raise the policy rate further above the neutral range given its mandate to bring inflation back into the 1% to 3% control range.

Recession: not inevitable, but the risks are rising

A concern in Canada and elsewhere, is whether central banks can bring inflation back to target without causing a recession that leads to an increase in unemployment. Governor Macklem has indicated that a soft landing would feature a decline in job vacancies, which rose over one million in April. A reduction in vacancies as domestic demand slows would not necessarily require an increase in unemployment.

Engineering a soft landing becomes more challenging with inflation higher, broader, more persistent, and if inflation expectations reflect a higher inflation outlook, necessitating a higher policy rate. Governor Macklem said that the scope for a soft landing had narrowed, suggesting that the risks of a recession have increased.

Recession risks in the US have also increased, amid Federal Reserve rate hikes to combat elevated inflation readings that hit 9.1% year-over-year in June. In Europe, another development is under close scrutiny, the flow of gas from Russia. If these gas flows are shutoff, the European Union ('EU') would tumble into recession. Hence, in many countries, discussion of recession risks has become more prominent.

In Canada, a recession is not inevitable. We expect gross domestic product ('GDP') growth of 3.6% in 2022, and 2.2% in 2023. This view does not include any quarters of negative growth, although the response of the housing market and the economy to the 100bps rate hike on 13 July will be closely monitored. A particular area of concern will be consumption spending growth, given that incomes are being squeezed by a higher cost of living as well as rising rates. Notably, consumer confidence and housing market optimism were already declining quickly even prior to the 13 July rate hike.

High household debt levels remain a downside risk to the outlook for consumer spending. For example, though the household debt service ratio was 13.5% of disposable income in the first quarter of 2022, we could see it rise toward its peak of just over 15% in coming quarters given the sharp increase in interest rates. Some households face a significant financial squeeze, but we think that most households will be able to adapt given elevated savings and solid income growth. We estimate savings to be $125bn to $150bn above normal levels and there is a possibility of these savings being used to cushion the impact of higher interest rates and higher prices on consumption.

Fiscal policy set to remain mildly stimulative

At present, while monetary policy tightens quickly, fiscal policy is likely to remain somewhat stimulative. For example, program spending is projected to average 15.4% of GDP over the next three years, compared to an average of 13.4% of GDP since the 2008/09 global financial crisis. This will boost domestic demand even as the BoC attempts to rein in spending. Meantime, a big-ticket item, the national pharmacare plan, has yet to be reflected in the fiscal outlook. To some extent, government spending could result in the BoC raising the policy rate higher than it would if fiscal policy were to provide greater assistance to slowing inflation pressures.

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

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

Climate Risk Management: draft guideline B-15

In May, OSFI issued the draft version of Guideline B-15, which proposes a prudential framework that is more climate sensitive and recognizes the impact of climate change on managing risk. The draft Guideline sets the stage for OSFI's expectations of federally regulated financial institutions. OSFI is also introducing mandatory climate-related financial disclosures aligned with the international Task Force on Climate-related Financial Disclosures ('TCFD') framework. These disclosures will incentivize improvements in the quality of the institutions' governance and risk management practices related to climate. Federally Regulated Financial Institutions ('FRFIs') are expected to implement the disclosures required by this Guideline effective fiscal periods ending on or after 1 October 2023. We continue to monitor these rapidly evolving developments of climate change regulations, frameworks and guidance that will apply to us.

Advisory clarification on the treatment of innovative real estate secured lending products: guideline B-20

In June, OSFI released a new advisory, Clarification on the Treatment of Innovative Real Estate Secured Lending Products under Guideline B-20. The advisory complements existing expectations under Guideline B-20, which articulates OSFI's expectations regarding underwriting practices and procedures for reverse residential mortgages, residential mortgages with shared equity features and combined loan plans. This advisory applies to all federally-regulated financial institutions ('FRFIs') that are engaged in residential mortgage underwriting and/or the acquisition of residential mortgage loan assets in Canada.

Government and Other Regulators

Anti-Money Laundering and Terrorist Financing Supervision

In April, the Government of Canada published the Regulations Amending the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations and the Proceeds of Crime (Money Laundering) and Terrorist Financing Administrative Monetary Penalties Regulations. The Amending Regulations make crowdfunding platform services subject to existing requirements of the Proceeds of Crime (Money Laundering) and Terrorist Financing Act for money services businesses and foreign money services businesses, as applicable. In addition, the regulatory amendments will extend Anti-Money Laundering / Anti-Terrorist Financing ('AML'/'ATF') Regime obligations to a broader range of payment service providers, which includes the removal of exemptions for the payment processing of credit, debit, and prepaid products under the definition of electronic funds transfer in order to extend regulatory obligations to payment service providers engaged in the business of those activities.

In June, The Cullen Commission report on Money Laundering in British Columbia was published with 101 recommendations. While critical of the effectiveness of the federal AML regime, the report recognized the efforts of the banking sector in helping to combat money laundering. One recommendation already underway which will benefit banks is the establishment of a federal beneficial ownership registry. Other key recommendations which may impact the banking industry include: enabling more information sharing within the industry to help combat money laundering, and new provincial AML agencies to enhance investigation and oversight activities.

Climate

In March, the Government of Canada introduced Bill S-243: an Act to enact the Climate-Aligned Finance Act, if passed, it will require financial institutions to include certain climate-related disclosures and commitments. The proposed National Instrument 51-107 - Disclosure of Climate-related Matters issued by the Canadian Securities Administrators intends to introduce climate-related disclosure requirements for reporting issuers in Canada. We continue to monitor these rapidly evolving developments of climate change regulations, frameworks and guidance that will apply to us.

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 acting 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 June 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 June 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.

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 in the first half of 2022, 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 June 2022 is comprised of $285m in respect of assets held at amortized cost, $23m in respect of loan commitments and financial guarantees and $7m in respect of performance guarantee contracts.

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

	Footnotes	At 30 Jun 2022 Gross carrying/ nominal amount	At 30 Jun 2022 Allowance for ECL	At 31 Dec 2021 Gross carrying/ nominal amount	At 31 Dec 2021 Allowance for ECL
		$m	$m	$m	$m
Loans and advances to customers at amortized cost		74,586	(260)	69,033	(334)
– personal		36,415	(75)	35,341	(75)
– corporate and commercial		38,171	(185)	33,692	(259)
Loans and advances to banks at amortized cost		517	—	1,659	—
Other financial assets measured at amortized cost		23,424	(25)	28,134	(28)
– cash and balances at central bank		5,172	—	13,955	—
– items in the course of collection from other banks		16	—	9	—
– reverse repurchase agreements - non-trading		6,992	—	9,058	—
– financial investments		4,484	—	—	—
– customers' liability under acceptances		3,081	(8)	3,556	(8)
– other assets, prepayments and accrued income	1	3,679	(17)	1,556	(20)
Total gross carrying amount on-balance sheet		98,527	(285)	98,826	(362)
Loans and other credit related commitments		45,487	(22)	46,737	(31)
– personal		8,314	(1)	8,141	(2)
– corporate and commercial		37,173	(21)	38,596	(29)
Financial guarantees	2	1,851	(1)	1,949	(4)
– personal		7	—	7	—
– corporate and commercial		1,844	(1)	1,942	(4)
Total nominal amount off-balance sheet	3	47,338	(23)	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	15,891	—	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	66,770	7,522	294	74,586	(42)	(136)	(82)	(260)	0.1	1.8	27.9	0.3
– personal	34,646	1,662	107	36,415	(11)	(49)	(15)	(75)	–	2.9	14.0	0.2
– corporate and commercial	32,124	5,860	187	38,171	(31)	(87)	(67)	(185)	0.1	1.5	35.8	0.5
Loans and advances to banks at amortized cost	517	–	–	517	–	–	–	–	–	–	–	–
Other financial assets measured at amortized cost	23,231	176	17	23,424	(3)	(5)	(17)	(25)	–	2.8	100.0	0.1
Loan and other credit-related commitments	41,256	4,064	167	45,487	(8)	(14)	–	(22)	–	0.3	–	–
– personal	8,136	137	41	8,314	(1)	–	–	(1)	–	–	–	–
– corporate and commercial	33,120	3,927	126	37,173	(7)	(14)	–	(21)	–	0.4	–	0.1
Financial guarantees[2]	1,777	43	31	1,851	(1)	–	–	(1)	0.1	–	–	0.1
– personal	7	–	–	7	–	–	–	–	–	–	–	–
– corporate and commercial	1,770	43	31	1,844	(1)	–	–	(1)	0.1	–	–	0.1
At 30 Jun 2022	**133,551**	**11,805**	**509**	**145,865**	**(54)**	**(155)**	**(99)**	**(308)**	**–**	**1.3**	**19.4**	**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*

There continues to be a high degree of uncertainty in relation to economic scenarios. Heightened geopolitical risks, ongoing risks relating to new COVID-19 variants and public health policy responses, and the effects of supply chain disruption are contributing to an environment of increasing interest rates and inflation, and higher risks of global stagflation. As a result, the level and speed of recovery from the global pandemic remains volatile.

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

Five economic scenarios have been used to capture the current economic environment and to articulate management's view of the range of potential outcomes.

Of the four standard scenarios, three are drawn from consensus forecasts and distributional estimates. The fourth scenario, Downside 2, represents management's view of severe downside risks. In the second quarter of 2022, management has chosen to use an additional fifth scenario, known as Downside 1, to ensure that current supply-side risks are sufficiently reflected in forward economic guidance. The scenario is 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.

The use of an additional scenario is in line with the bank's forward economic guidance methodology. Management may include additional scenarios when consensus scenarios are determined to inadequately capture the economic risks faced by the bank. Unlike the consensus scenarios, these additional scenarios are driven by narrative assumptions aligned to an identified risk and may incorporate shocks that drive economic activity permanently away from the long-term trend.

Description of economic scenarios

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

Economic forecasts are subject to a high degree of uncertainty in the current environment. Risks to the outlook are dominated by the actions of the central bank as they raise interest rates to bring inflation back to target and curtail a rise in inflation expectations. The implications of the war in Ukraine and the progression and management of the pandemic in Asia also remain key sources of uncertainty. Other geopolitical risks, such as the evolution of the UK's relationship with the EU and differences between the US and China over a range of strategic issues, also present downside risks.

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

- The consensus central scenario: This is the most likely scenario and assumes lower GDP forecasts and peak inflation in 2022. It decelerates back towards the central bank target by the first half of 2024 and assumes COVID risks continue to diminish. China health policy remains stringent and current sanctions regime continues.
- The consensus upside scenario: This scenario assumes temporary upside demand shock and inflation accelerates above the central scenario. COVID case rates fall and normalization accelerates globally, re-opening is accelerated in China. There is an easing of geopolitical tensions resulting in a faster resolution of supply chain issues.
- The consensus downside scenario: This scenario assumes temporary downside demand shock, inflation drops below the central scenario and converges to the central bank target at a slightly faster rate. COVID cases rise, restrictions are tightened and confidence is dented by the resurgence of cases. Geopolitical tensions escalate and Ukraine-Russia war intensifies.
- The downside 1 scenario: This scenario assumes a supply shock, triggered by an intensification of the war and sanctions, causing a global recession. Inflation peaks in 2022, but remains high for a sustained period amid a supply shock and wage price spiral. Convergence to central scenario occurs after 2024. COVID risks gradually diminish and war is intensive and prolonged but does not spill over into other countries.
- The downside 2 scenario: This scenario assumes a global recession where inflation rises, then falls. A supply shock drives inflation higher for 4 quarters, before weaker demand causes inflation to drop sharply. It incorporates the crystallization of a number of risks simultaneously, including further escalation of the Ukraine-Russia war, worsening of supply chain disruptions and the emergence of a vaccine-resistant COVID-19 variant that necessitates a stringent public health policy response.

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 1			Downside 2		
	Five-year average	Five-year average	Best outcome		Five-year average	Worst outcome		Five-year average	Worst outcome		Five-year average	Worst outcome	
30 June 2022													
GDP growth (%)	**2.2**	**3.3**	**5.9**	**(2Q23)**	**1.0**	**(0.8)**	**(2Q23)**	**1.3**	**(0.6)**	**(4Q23)**	**0.8**	**(3.4)**	**(3Q23)**
Unemployment rate (%)	**5.5**	**5.1**	**4.4**	**(1Q23)**	**6.1**	**6.6**	**(2Q24)**	**7.8**	**8.0**	**(2Q24)**	**9.0**	**11.1**	**(4Q23)**
House Price Index (%)	**2.6**	**4.1**	**18.2**	**(3Q22)**	**1.0**	**(9.0)**	**(2Q23)**	**1.8**	**(8.2)**	**(4Q23)**	**(3.3)**	**(30.1)**	**(3Q23)**
Brent oil prices (US$/barrel)	**85.6**	**118.5**	**187.9**	**(1Q23)**	**71.1**	**57.4**	**(1Q23)**	**96.0**	**114.4**	**(3Q22)**	**89.3**	**74.0**	**(2Q24)**
Inflation rate	**2.5**	**3.4**	**3.8**	**(2Q24)**	**1.7**	**4.3**	**(3Q22)**	**3.0**	**6.3**	**(4Q22)**	**2.4**	**7.2**	**(4Q22)**
Probability (%)	**60**	**5**			**15**			**10**			**10**		
31 December 2021													
GDP growth (%)	2.5	4.0	9.1	(3Q22)	1.6	(0.5)	(4Q22)	—	—	—	0.4	(13.9)	(4Q22)
Unemployment rate (%)	5.9	5.5	5.0	(2Q23)	6.4	7.3	(3Q22)	—	—	—	9.4	11.5	(2Q23)
House Price Index (%)	3.3	5.8	16.0	(4Q22)	1.7	(2.3)	(4Q22)	—	—	—	(2.2)	(23.8)	(1Q23)
Brent oil prices (US$/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 June 2022 are based on average 3Q2022-2Q2027 (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 in the first half of 2022, management have assigned higher weights to downside scenarios. At 30 June 2022, the consensus upside and central scenarios had a combined weighting of 65% (31 December 2021: 85%) and the downside scenarios have a combined weighting of 35% (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 June 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 June 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	**11**	**116**	**127**
Adjustments for forward economic guidance and late breaking events	**20**	**—**	**20**
30 June 2022	**31**	**116**	**147**
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. 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 is stated inclusive of management judgmental adjustments, as appropriate to each scenario.

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 Jun 2022	31 Dec 2021
	$m	$m
Reported ECL	**147**	192
100% consensus central scenario	**37**	125
100% consensus upside scenario	**24**	78
100% consensus downside scenario	**66**	192
100% downside 1	**110**	—
100% downside 2	**908**	1,431
Gross carrying amount/nominal amount[3]	**108,230**	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 Jun 2022	31 Dec 2021
	$m	$m
Reported ECL	**67**	71
100% consensus central scenario	**61**	69
100% consensus upside scenario	**59**	66
100% consensus downside scenario	**66**	74
100% downside 1	**72**	—
100% downside 2	**102**	112
Gross carrying amount	**36,302**	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 Jun 2022				30 Jun 2021			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**67**	**114**	**141**	**322**	49	220	160	429
Transfers of financial instruments:	*2*	**20**	**(19)**	**(1)**	**—**	59	(60)	1	—
– transfers from stage 1 to stage 2		**(3)**	**3**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**22**	**(22)**	**—**	**—**	59	(59)	—	—
– transfers to stage 3		**—**	**(1)**	**1**	**—**	—	(3)	3	—
– transfers from stage 3		**1**	**1**	**(2)**	**—**	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	*2*	**(11)**	**4**	**—**	**(7)**	(20)	2	—	(18)
New financial assets originated or purchased		**7**	**—**	**—**	**7**	4	—	—	4
Changes to risk parameters		**(32)**	**54**	**67**	**89**	(21)	7	9	(5)
Asset derecognized (including final repayments)		**(1)**	**(4)**	**—**	**(5)**	(1)	(4)	(4)	(9)
Assets written off		**—**	**—**	**(126)**	**(126)**	—	—	(19)	(19)
Foreign exchange		**1**	**1**	**1**	**3**	—	—	(1)	(1)
Balance at the end of the period		**51**	**150**	**82**	**283**	70	165	146	381
ECL charge/(release) for the period		**(37)**	**54**	**67**	**84**	(38)	5	5	(28)
Recoveries		**—**	**—**	**(3)**	**(3)**	—	—	(1)	(1)
Total ECL charge/(release) for the period		**(37)**	**54**	**64**	**81**	(38)	5	4	(29)

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]

		Half-year ended							
		30 Jun 2022				30 Jun 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*	**47**	**(67)**	**20**	**—**	90	(92)	2	—
– transfers from stage 1 to stage 2		**(5)**	**5**	**—**	**—**	(4)	4	—	—
– transfers from stage 2 to stage 1		**50**	**(50)**	**—**	**—**	93	(93)	—	—
– transfers to stage 3		**—**	**(26)**	**26**	**—**	—	(5)	5	—
– transfers from stage 3		**2**	**4**	**(6)**	**—**	1	2	(3)	—
Net remeasurement of ECL arising from transfer of stage	*2*	**(29)**	**7**	**—**	**(22)**	(34)	7	—	(27)
New financial assets originated or purchased		**11**	**—**	**—**	**11**	7	—	—	7
Changes to risk parameters		**(54)**	**57**	**64**	**67**	(47)	8	31	(8)
Asset derecognized (including final repayments)		**(2)**	**(10)**	**(1)**	**(13)**	(2)	(6)	(5)	(13)
Assets written off		**—**	**—**	**(130)**	**(130)**	—	—	(29)	(29)
Foreign exchange		**—**	**—**	**1**	**1**	—	(1)	(1)	(2)
Balance at the end of the period		**51**	**150**	**82**	**283**	70	165	146	381
ECL charge/(release) for the period		**(74)**	**54**	**63**	**43**	(76)	9	26	(41)
Recoveries		**—**	**—**	**(4)**	**(4)**	—	—	(3)	(3)
Total ECL charge/(release) for the period		**(74)**	**54**	**59**	**39**	(76)	9	23	(44)

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	Half-year ended	At	Half-year ended
	30 Jun 2022	**30 Jun 2022**	30 Jun 2021	30 Jun 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	**283**	**39**	381	(44)
Other financial assets measured at amortized cost	**25**	**1**	32	(10)
Performance guarantee contracts	**7**	**—**	8	(1)
Debt instruments measured at FVOCI	**—**	**—**	—	(1)
Total allowance for ECL / Total income statement ECL charge/(release) for the period	**315**	**40**	421	(56)

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]	16,515	—	—	—	—	16,515	—	16,515
– stage 1	16,515	—	—	—	—	16,515	—	16,515
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	38,072	21,536	13,029	1,655	294	74,586	(260)	74,326
– stage 1	37,837	18,869	9,782	282	—	66,770	(42)	66,728
– stage 2	235	2,667	3,247	1,373	—	7,522	(136)	7,386
– stage 3	—	—	—	—	294	294	(82)	212
Loans and advances to banks at amortized cost	517	—	—	—	—	517	—	517
– stage 1	517	—	—	—	—	517	—	517
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	20,270	2,028	1,047	62	17	23,424	(25)	23,399
– stage 1	20,270	2,028	925	8	—	23,231	(3)	23,228
– stage 2	—	—	122	54	—	176	(5)	171
– stage 3	—	—	—	—	17	17	(17)	—
Total gross carrying amount on-balance sheet	75,374	23,564	14,076	1,717	311	115,042	(285)	114,757
Percentage of total credit quality	65.5 %	20.5 %	12.2 %	1.5 %	0.3 %	100.0 %		
Loan and other credit-related commitments	17,477	18,907	8,213	723	167	45,487	(22)	45,465
– stage 1	17,241	17,201	6,690	124	—	41,256	(8)	41,248
– stage 2	236	1,706	1,523	599	—	4,064	(14)	4,050
– stage 3	—	—	—	—	167	167	—	167
Financial guarantees[2]	1,069	427	255	69	31	1,851	(1)	1,850
– stage 1	1,069	415	252	41	—	1,777	(1)	1,776
– stage 2	—	12	3	28	—	43	—	43
– stage 3	—	—	—	—	31	31	—	31
Total nominal amount off-balance sheet	18,546	19,334	8,468	792	198	47,338	(23)	47,315
At 30 Jun 2022	93,920	42,898	22,544	2,509	509	162,380	(308)	162,072

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 Jun 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		**838**	**—**	646	(3)
– mining and quarrying	1	**1,569**	**(31)**	1,211	(69)
– manufacture		**6,600**	**(24)**	5,406	(31)
– electricity, gas, steam and air-conditioning supply		**228**	**(11)**	250	(19)
– water supply, sewerage, waste management and remediation		**136**	**—**	118	(1)
– construction		**962**	**(12)**	869	(12)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**7,217**	**(20)**	6,024	(27)
– aviation, transportation and storage		**3,055**	**(8)**	2,860	(29)
– accommodation and food		**1,601**	**(20)**	1,485	(26)
– publishing, audiovisual and broadcasting		**762**	**—**	775	(1)
– real estate		**10,305**	**(37)**	9,692	(19)
– professional, scientific and technical activities		**840**	**(2)**	725	(1)
– administrative and support services		**856**	**(14)**	837	(9)
– education		**114**	**—**	39	—
– health and care		**414**	**—**	259	—
– arts, entertainment and recreation		**254**	**(1)**	285	(2)
– other services		**105**	**(1)**	220	(2)
– government		**34**	**—**	32	—
– non-bank financial institutions		**2,281**	**(4)**	1,959	(8)
Total		**38,171**	**(185)**	33,692	(259)
By geography	2				
Canada		**35,902**	**(180)**	31,569	(235)
– British Columbia		**10,578**	**(23)**	9,323	(31)
– Ontario		**13,733**	**(86)**	12,077	(78)
– Alberta		**5,105**	**(43)**	4,783	(91)
– Quebec		**4,491**	**(12)**	3,656	(18)
– Saskatchewan and Manitoba		**1,233**	**(15)**	1,153	(16)
– Atlantic provinces		**762**	**(1)**	577	(1)
United States of America		**1,302**	**(4)**	1,103	(6)
Other		**967**	**(1)**	1,020	(18)
Total		**38,171**	**(185)**	33,692	(259)

1. *Mining and quarrying includes energy related exposures which constitute approximately 59% of the gross carrying amount and 92% of the allowance for ECL at 30 June 2022 (31 December 2021: Gross carrying amount was 86% and allowance for ECL was 96%).*
2. *Provincial geographic distribution is based on the address of the originating branch and foreign geographic distribution is based on the country of incorporation.*

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

		Quarter ended							
		30 Jun 2022				30 Jun 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		**56**	**67**	**125**	**248**	36	160	142	338
Transfers of financial instruments:	2	**1**	**(1)**	**–**	**–**	41	(41)	–	–
– transfers from stage 1 to stage 2		**(3)**	**3**	**–**	**–**	(1)	1	–	–
– transfers from stage 2 to stage 1		**4**	**(4)**	**–**	**–**	41	(41)	–	–
– transfers to stage 3		**–**	**–**	**–**	**–**	–	(1)	1	–
– transfers from stage 3		**–**	**–**	**–**	**–**	1	–	(1)	–
Net remeasurement of ECL arising from transfer of stage	2	**(2)**	**2**	**–**	**–**	(17)	1	–	(16)
New financial assets originated or purchased		**6**	**–**	**–**	**6**	3	–	–	3
Changes to risk parameters		**(23)**	**34**	**64**	**75**	(4)	(6)	5	(5)
Asset derecognized (including final repayments)		**–**	**(2)**	**–**	**(2)**	(1)	(1)	(3)	(5)
Assets written off		**–**	**–**	**(123)**	**(123)**	–	–	(16)	(16)
Foreign exchange		**1**	**1**	**1**	**3**	–	–	(1)	(1)
Balance at the end of the period		**39**	**101**	**67**	**207**	58	113	127	298
ECL charge/(release) for the period		**(19)**	**34**	**64**	**79**	(19)	(6)	2	(23)
Recoveries		**–**	**–**	**(1)**	**(1)**	–	–	–	–
Total ECL charge/(release) for the period		**(19)**	**34**	**63**	**78**	(19)	(6)	2	(23)

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

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

		Half-year ended							
		30 Jun 2022				30 Jun 2021			
		Non-credit impaired		Credit-impaired		Non-credit impaired		Credit-impaired	
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Footnote	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of the period		**67**	**119**	**106**	**292**	40	196	129	365
Transfers of financial instruments:	2	**14**	**(37)**	**23**	**–**	63	(63)	–	–
– transfers from stage 1 to stage 2		**(4)**	**4**	**–**	**–**	(3)	3	–	–
– transfers from stage 2 to stage 1		**18**	**(18)**	**–**	**–**	65	(65)	–	–
– 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)**	**3**	**–**	**(7)**	(28)	4	–	(24)
New financial assets originated or purchased		**9**	**–**	**–**	**9**	5	–	–	5
Changes to risk parameters		**(40)**	**22**	**61**	**43**	(21)	(22)	25	(18)
Asset derecognized (including final repayments)		**(1)**	**(6)**	**–**	**(7)**	(1)	(1)	(3)	(5)
Assets written off		**–**	**–**	**(124)**	**(124)**	–	–	(23)	(23)
Foreign exchange		**–**	**–**	**1**	**1**	–	(1)	(1)	(2)
Balance at the end of the period		**39**	**101**	**67**	**207**	58	113	127	298
ECL charge/(release) for the period		**(42)**	**19**	**61**	**38**	(45)	(19)	22	(42)
Recoveries		**–**	**–**	**(1)**	**(1)**	–	–	–	–
Total ECL charge/(release) for the period		**(42)**	**19**	**60**	**37**	(45)	(19)	22	(42)

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 $85m or 29% as compared to 31 December 2021, and the wholesale lending change in ECL for the half-year ended 30 June 2022 resulted in an income statement charge of $37m.

The charge for the half-year was driven by a significant charge in expected credit losses for stage 3 loans as a result of a material aviation 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 improvement in macro-economic variables in four of the scenarios used to estimate expected credit losses. This was partly offset by a charge in the second quarter in performing loans 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 half-year ended 30 June 2022 of $37m presented in the above table consisted of $43m charge relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages, $7m release relating to the net remeasurement impact of stage transfers and a charge of $2m relating to underlying net volume movement. There were $1m of recoveries during the half-year ended 30 June 2022.

The total ECL coverage for loans and advances to customers for corporate and commercial at 30 June 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 Jun 2022		31 Dec 2021	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Residential mortgages		**33,336**	**(33)**	32,406	(36)
Home equity lines of credit		**1,433**	**(8)**	1,404	(8)
Personal revolving loan facilities		**450**	**(10)**	471	(11)
Other personal loan facilities		**803**	**(7)**	673	(4)
Retail card		**364**	**(14)**	354	(12)
Run-off consumer loan portfolio		**29**	**(3)**	33	(4)
Total		**36,415**	**(75)**	35,341	(75)
By geography	1, 2				
Canada		**36,396**	**(74)**	35,322	(75)
– British Columbia		**15,791**	**(29)**	15,722	(32)
– Ontario		**16,532**	**(30)**	15,576	(30)
– Alberta		**1,812**	**(7)**	1,802	(6)
– Quebec		**1,634**	**(5)**	1,603	(4)
– Saskatchewan and Manitoba		**337**	**(1)**	342	(1)
– Atlantic provinces		**284**	**(2)**	273	(2)
– Territories		**6**	**—**	4	—
Other		**19**	**(1)**	19	—
Total		**36,415**	**(75)**	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 Jun 2022				30 Jun 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**	**47**	**16**	**74**	13	60	18	91
Transfers of financial instruments:	2	**19**	**(18)**	**(1)**	**—**	18	(19)	1	—
– transfers from stage 1 to stage 2		**—**	**—**	**—**	**—**	—	—	—	—
– transfers from stage 2 to stage 1		**18**	**(18)**	**—**	**—**	18	(18)	—	—
– transfers to stage 3		**—**	**(1)**	**1**	**—**	—	(2)	2	—
– transfers from stage 3		**1**	**1**	**(2)**	**—**	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	2	**(9)**	**2**	**—**	**(7)**	(3)	1	—	(2)
New financial assets originated or purchased		**1**	**—**	**—**	**1**	1	—	—	1
Changes to risk parameters		**(9)**	**20**	**3**	**14**	(17)	13	4	—
Asset derecognized (including final repayments)		**(1)**	**(2)**	**—**	**(3)**	—	(3)	(1)	(4)
Assets written off		**—**	**—**	**(3)**	**(3)**	—	—	(3)	(3)
Balance at the end of the period		**12**	**49**	**15**	**76**	12	52	19	83
ECL charge/(release) for the period		**(18)**	**20**	**3**	**5**	(19)	11	3	(5)
Recoveries		**—**	**—**	**(2)**	**(2)**	—	—	(1)	(1)
Total ECL charge/(release) for the period		**(18)**	**20**	**1**	**3**	(19)	11	2	(6)

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]

		Half-year ended							
		30 Jun 2022				30 Jun 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	**33**	**(30)**	**(3)**	**—**	27	(29)	2	—
– transfers from stage 1 to stage 2		**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**32**	**(32)**	**—**	**—**	28	(28)	—	—
– transfers to stage 3		**—**	**(3)**	**3**	**—**	—	(4)	4	—
– transfers from stage 3		**2**	**4**	**(6)**	**—**	—	2	(2)	—
Net remeasurement of ECL arising from transfer of stage	2	**(19)**	**4**	**—**	**(15)**	(6)	3	—	(3)
New financial assets originated or purchased		**2**	**—**	**—**	**2**	2	—	—	2
Changes to risk parameters		**(14)**	**35**	**3**	**24**	(26)	30	6	10
Asset derecognized (including final repayments)		**(1)**	**(4)**	**(1)**	**(6)**	(1)	(5)	(2)	(8)
Assets written off		**—**	**—**	**(6)**	**(6)**	—	—	(6)	(6)
Foreign exchange		**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period		**12**	**49**	**15**	**76**	12	52	19	83
ECL charge/(release) for the period		**(32)**	**35**	**2**	**5**	(31)	28	4	1
Recoveries		**—**	**—**	**(3)**	**(3)**	—	—	(3)	(3)
Total ECL charge/(release) for the period		**(32)**	**35**	**(1)**	**2**	(31)	28	1	(2)

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

The personal lending allowance for ECL decreased by $1m or 1% during the half-year ended 30 June 2022. The ECL charge for the half-year ended 30 June 2022 of $2m presented in the above table consisted of $15m release relating to the net remeasurement impact of stage transfers and $4m release relating to underlying net volume movement, offset by a charge of $24m relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages. There were recoveries of $3m during the first half of the year.

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

Mortgages and home equity lines of credit

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

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

Insurance and geographic distribution[1, 5]

	Residential mortgages					HELOC[2]	
	Insured[3]		**Uninsured[3]**		**Total**		**Uninsured**
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**1,472**	**10 %**	**13,324**	**90 %**	**14,796**	**687**	**100 %**
Western Canada[4]	**838**	**44 %**	**1,061**	**56 %**	**1,899**	**146**	**100 %**
Ontario	**2,656**	**17 %**	**13,203**	**83 %**	**15,859**	**546**	**100 %**
Quebec and Atlantic provinces	**732**	**42 %**	**1,016**	**58 %**	**1,748**	**68**	**100 %**
At 30 Jun 2022	**5,698**	**17 %**	**28,604**	**83 %**	**34,302**	**1,447**	**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 Jun 2022	**17.2 %**	**63.6 %**	**19.2 %**
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	**60.1 %**	**53.6 %**
Western Canada[4]	**67.5 %**	**66.6 %**
Ontario	**61.0 %**	**56.7 %**
Quebec and Atlantic provinces	**65.4 %**	**60.6 %**
Total Canada for the three months ended 30 Jun 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 Jun 2022		31 Dec 2021	
		Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	Footnotes	$m	$m	$m	$m
Corporate and commercial		**187**	**(67)**	212	(105)
– agriculture, forestry and fishing		**3**	**—**	3	(1)
– mining and quarrying	1	**67**	**(15)**	108	(42)
– manufacture		**25**	**(15)**	25	(13)
– electricity, gas, steam and air-conditioning supply		**19**	**(11)**	20	(19)
– construction		**9**	**(4)**	9	(7)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**35**	**(14)**	35	(14)
– aviation, transportation and storage		**11**	**—**	4	(2)
– accommodation and food		**—**	**—**	1	(1)
– real estate		**1**	**(1)**	1	(1)
– administrative and support services		**16**	**(7)**	4	(4)
– non-bank financial institutions		**1**	**—**	2	(1)
Households	2	**107**	**(15)**	130	(22)
Loans and advances to banks		**—**	**—**	—	—
Total		**294**	**(82)**	342	(127)

1. *Mining and quarrying includes energy related exposures which constitute approximately 83% of the gross carrying amount and 84% of the allowance for ECL at 30 June 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 Asset, Liability and Capital Management ('ALCM') team uses a number of measures to monitor and control interest rate risk in the banking book, including: net interest income sensitivity and economic value of equity sensitivity.

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

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

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

Liquidity and funding risk

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

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

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

Management of liquidity and funding risk

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

The bank's OSFI LCR is summarized in the following table. Compared to the previous quarter the bank's average LCR for the three months ended 30 June 2022 increased to 141% from 140%. 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. Average HQLA decrease of $0.9 billion was offset almost entirely by average net cash outflows decrease of $0.7bn quarter on quarter. Average net cash outflows decrease driven predominately by a decrease in contingent outflows on derivatives. Our liquid assets as at 30 June 2022 decreased by $4bn from 31 December 2021 primarily due to an increase in customer loans and a decrease in short term borrowings offset by an increase in customer deposits and an increase in long-term funding.

The bank continues to closely monitor liquidity for changes in customers' needs as well as for any changes in the market driven by COVID-19 and recent volatility in the market.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Jun 2022	31 Mar 2022
Total HQLA[2] ($m)	**26,837**	27,691
Total net cash outflows[2] ($m)	**19,097**	19,752
Liquidity coverage ratio (%)	**141**	140

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

As a basis to determine the bank's stable funding requirement, the bank calculates the NSFR on a Prudential Regulation Authority ('PRA') basis. The bank will implement the OSFI NSFR in 2023. The NSFR requires banks to maintain a stable funding profile relative to the composition of their assets and off-balance sheet activities and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

Liquid assets

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

The table below shows the estimated liquidity value unweighted (before assumed haircuts) of assets categorized as liquid and used for the purpose of calculating the OSFI LCR metric. The level of liquid assets reported reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets. HQLA is substantially comprised of Level 1 assets, such as cash, deposits with central 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.

Liquid assets[1]

	At	
	30 Jun 2022	31 Dec 2021
	$m	$m
Level 1	**24,236**	28,182
Level 2a	**1,863**	1,949
Level 2b	**116**	50
Total	**26,215**	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 June 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 Jun 2022	31 Dec 2021
	Footnotes	**$m**	$m
Gross common equity	1	**4,667**	5,776
Regulatory adjustments		**122**	(186)
Common equity tier 1 capital	2	**4,789**	5,590
Additional tier 1 eligible capital	3	**1,100**	1,100
Tier 1 capital		**5,889**	6,690
Tier 2 capital	2 , 4	**1,003**	1,014
Total capital		**6,892**	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 $8m as at 30 June 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 Jun 2022	31 Dec 2021
	Footnotes	**$m**	$m
Risk-weighted assets ('RWA')	1, 2	**43,222**	39,836
		%	%
Actual regulatory capital ratios	3, 4		
– common equity tier 1 capital ratio		**11.1**	14.0
– tier 1 capital ratio		**13.6**	16.8
– total capital ratio		**15.9**	19.3
– leverage ratio	5, 6	**4.5**	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; however, central bank reserves will continue to be excluded from the leverage ratio exposure measure for the bank.*
7. *OSFI target capital ratios including mandated capital conservation buffer.*

At 30 June 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 $800m. 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 $271m in the fair value through other comprehensive income reserve. These decreases were partly offset by $46m capital generation through profits, net of common and preferred share dividends.

Outstanding shares and dividends

		Half-year ended			Year ended		
		30 Jun 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	**0.52855**	**548,668**	**1,125**	0.79283	548,668	1,725
Class 1 preferred shares	3						
– Series H		**0.41114**	**20,000**	**500**	0.76505	20,000	500
– Series I		**0.57500**	**14,000**	**350**	1.15000	14,000	350
– Series K		**0.68126**	**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 second quarter 2022

During the second quarter of 2022, the bank declared regular quarterly dividends of $12m for the second quarter of 2022 on all series of outstanding HSBC Bank Canada Class 1 preferred shares and a first interim dividend of $90m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2022.

Dividends declared in the third quarter 2022

On 22 July 2022, the bank declared regular quarterly dividends for the third quarter of 2022 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 30 September 2022 or the first business day thereafter to the shareholder of record on 15 September 2022.

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

As the quarterly dividends on preferred shares for the third quarter of 2022 and the second interim dividend on common shares for 2022 were declared after 30 June 2022, the amounts have not been included in the balance sheet as a liability.

Interest rate risk

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

Refer to the 'Structural Interest Rate Risk' section of our *Annual Report and Accounts 2021* for a discussion of how the bank manages structural interest rate risk as well as an explanation of our monitoring measures.

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

		30 Jun 2022			30 Jun 2021	
		Economic value of equity	**Earnings at risk**		Economic value of equity	Earnings at risk
	Footnote	**$m**	**$m**		$m	$m
100 basis points increase		**(163)**	**176**	100 basis points increase	(353)	249
100 basis points decrease	1	**152**	**(221)**	25 basis points decrease	78	(68)

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 $34m at the half-year ended 30 June 2022 increased by $16m from the prior year, due to increased volatility in interest rates. Over the same period, the average total VaR of $25m increased by $5m, 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 reduction in interest rate risk in the trading book during the current period drove the trading VaR decrease. The average trading VaR during the period decreased by $0.3m, while trading VaR at the period-end has remained the same at $1m.

Total VaR*

	Half-year ended	
	30 Jun 2022	30 Jun 2021
	$m	$m
At period end	**33.7**	18.1
Average	**24.7**	19.6
Minimum	**17.1**	13.5
Maximum	**35.9**	23.6

Non-trading VaR*

	Half-year ended	
	30 Jun 2022	30 Jun 2021
	$m	$m
At period end	**34.2**	16.8
Average	**24.9**	20.3
Minimum	**17.8**	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 - June 2022						
At period end	**—**	**0.8**	**—**	**0.5**	**(0.3)**	**1.0**
Average	**—**	**0.9**	**—**	**0.9**	**(0.5)**	**1.2**
Minimum	**—**	**0.5**	**—**	**0.2**	**—**	**0.5**
Maximum	**—**	**1.9**	**—**	**1.6**	**—**	**2.2**
January - June 2021						
At period end	—	0.8	—	0.8	(0.6)	1.0
Average	—	1.4	—	0.6	(0.5)	1.5
Minimum	—	0.5	—	0.3	—	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 decrease in the first quarter of 2022 was due to the reduction in interest rate risk. The total VaR increase in the fourth quarter of 2021 was largely due to increased market volatility. The total VaR increase in the third quarter of 2021 was due to covered bond issuance in EUR which increased interest rate risk.*

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 half 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 develop and implement products that are exposed to US dollar LIBOR transition and 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.

Consolidated Financial Statements

Consolidated income statement

		Quarter ended		Half-year ended	
		30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	Notes	**$m**	$m	**$m**	$m
Net interest income		**369**	306	**706**	588
– interest income		**630**	446	**1,101**	897
– interest expense		**(261)**	(140)	**(395)**	(309)
Net fee income	2	**196**	196	**393**	392
– fee income		**224**	221	**446**	446
– fee expense		**(28)**	(25)	**(53)**	(54)
Net income from financial instruments held for trading		**24**	28	**51**	58
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**(1)**	3	**(1)**	3
Gains less losses from financial investments		**—**	7	**2**	22
Other operating income		**11**	7	**18**	13
Total operating income		**599**	547	**1,169**	1,076
Change in expected credit losses and other credit impairment charges - (charge)/release		**(82)**	40	**(40)**	56
Net operating income		**517**	587	**1,129**	1,132
Employee compensation and benefits	3	**(152)**	(152)	**(303)**	(311)
General and administrative expenses		**(138)**	(127)	**(280)**	(255)
Depreciation and impairment of property, plant and equipment		**(16)**	(30)	**(31)**	(47)
Amortization and impairment of intangible assets		**(13)**	(19)	**(25)**	(28)
Total operating expenses		**(319)**	(328)	**(639)**	(641)
Profit before income tax expense		**198**	259	**490**	491
Income tax expense		**(53)**	(69)	**(131)**	(132)
Profit for the period		**145**	190	**359**	359
Profit attributable to:					
– the common shareholder		**133**	179	**336**	337
– the preferred shareholder		**12**	11	**23**	22
Profit for the period		**145**	190	**359**	359
Average number of common shares outstanding (000's)		**548,668**	548,668	**548,668**	548,668
Basic and diluted earnings per common share ($)		**$ 0.24**	$ 0.32	**$ 0.61**	$ 0.61

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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Profit for the period	**145**	190	**359**	359
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	**(90)**	—	**(272)**	(68)
– fair value (losses)/gains	**(122)**	8	**(368)**	(70)
– fair value gains transferred to the income statement on disposal	**—**	(7)	**(2)**	(22)
– expected credit losses recognized in the income statement - (release)/charge	**—**	(1)	**—**	(1)
– income taxes	**32**	—	**98**	25
Cash flow hedges	**(145)**	(20)	**(324)**	(56)
– fair value losses	**(211)**	(5)	**(476)**	(33)
– fair value losses/(gains) reclassified to the income statement	**13**	(22)	**35**	(43)
– income taxes	**53**	7	**117**	20
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**17**	(4)	**41**	12
– before income taxes	**23**	(6)	**56**	16
– income taxes	**(6)**	2	**(15)**	(4)
Equity instruments designated at fair value through other comprehensive income	**—**	1	**1**	1
– fair value gains	**—**	1	**1**	1
Other comprehensive loss for the period, net of tax	**(218)**	(23)	**(554)**	(111)
Total comprehensive income for the period	**(73)**	167	**(195)**	248
Attributable to:				
– the common shareholder	**(85)**	156	**(218)**	226
– the preferred shareholder	**12**	11	**23**	22
Total comprehensive income for the period	**(73)**	167	**(195)**	248

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 Jun 2022	31 Dec 2021
	Notes	**$m**	$m
Assets			
Cash and balances at central bank		**5,172**	13,955
Items in the course of collection from other banks		**16**	9
Trading assets	*5*	**5,154**	2,907
Other financial assets mandatorily measured at fair value through profit or loss		**19**	18
Derivatives	*6*	**4,836**	2,773
Loans and advances to banks		**517**	1,659
Loans and advances to customers		**74,326**	68,699
Reverse repurchase agreements – non-trading		**6,992**	9,058
Financial investments	*7*	**20,385**	14,969
Other assets	*8*	**3,448**	1,377
Prepayments and accrued income		**246**	186
Customers' liability under acceptances		**3,073**	3,548
Current tax assets		**257**	148
Property, plant and equipment		**328**	263
Goodwill and intangible assets		**188**	181
Deferred tax assets		**80**	103
Total assets		**125,037**	119,853
Liabilities and equity			
Liabilities			
Deposits by banks		**495**	1,313
Customer accounts		**75,260**	73,626
Repurchase agreements – non-trading		**7,327**	8,044
Items in the course of transmission to other banks		**441**	253
Trading liabilities	*9*	**3,585**	3,598
Derivatives	*6*	**5,326**	2,978
Debt securities in issue	*10*	**16,833**	14,339
Other liabilities	*11*	**5,272**	3,517
Acceptances		**3,081**	3,556
Accruals and deferred income		**381**	401
Retirement benefit liabilities		**209**	267
Subordinated liabilities		**1,011**	1,011
Provisions		**49**	74
Total liabilities		**119,270**	112,977
Equity			
Common shares		**1,125**	1,725
Preferred shares		**1,100**	1,100
Other reserves		**(618)**	(23)
Retained earnings		**4,160**	4,074
Total shareholder's equity		**5,767**	6,876
Total liabilities and equity		**125,037**	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

	Half-year ended	
	30 Jun 2022	30 Jun 2021
	$m	$m
Profit before income tax expense	**490**	491
Adjustments for non-cash items:		
Depreciation, amortization and impairment	**56**	75
Share-based payment expense	**2**	3
Change in expected credit losses and other credit impairment charges	**40**	(56)
Charge for defined benefit pension plans	**5**	6
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**(60)**	18
Change in net trading securities and net derivatives	**(2,419)**	(1,015)
Change in loans and advances to customers	**(5,679)**	(4,045)
Change in reverse repurchase agreements – non-trading	**2,131**	1,408
Change in other assets	**(1,753)**	(397)
Change in accruals and deferred income	**(20)**	(159)
Change in deposits by banks	**(818)**	509
Change in customer accounts	**1,634**	(1,766)
Change in repurchase agreements – non-trading	**(717)**	1,431
Change in debt securities in issue	**2,494**	(3,563)
Change in other liabilities	**1,372**	491
Tax paid	**(20)**	(154)
Net cash from operating activities	**(3,262)**	(6,723)
Purchase of financial investments	**(6,774)**	(1,243)
Proceeds from the sale and maturity of financial investments	**989**	7,230
Purchase of intangibles and property, plant and equipment	**(59)**	(32)
Net cash from investing activities	**(5,844)**	5,955
Return of capital to parent	**(600)**	—
Dividends paid to shareholder	**(313)**	(277)
Lease principal payments	**(24)**	(24)
Net cash from financing activities	**(937)**	(301)
Net increase in cash and cash equivalents	**(10,043)**	(1,069)
Cash and cash equivalents at the beginning of the period	**19,759**	17,279
Cash and cash equivalents at the end of the period	**9,716**	16,210
Cash and cash equivalents comprise:		
Cash and balances at central bank	**5,172**	13,404
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(425)**	(253)
Loans and advances to banks of one month or less	**517**	1,188
Non-trading reverse repurchase agreements with banks of one month or less	**4,452**	1,790
T-Bills and certificates of deposits less than three months	**—**	81
Cash and cash equivalents at the end of the period	**9,716**	16,210
Interest:		
Interest paid	**(338)**	(439)
Interest received	**1,043**	924

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	**—**	**359**	**—**	**—**	**—**	**359**
Other comprehensive income/(loss), net of tax	**—**	**41**	**(271)**	**(324)**	**(595)**	**(554)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**(272)**	**—**	**(272)**	**(272)**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**1**	**—**	**1**	**1**
– cash flow hedges	**—**	**—**	**—**	**(324)**	**(324)**	**(324)**
– remeasurement of defined benefit plans	**—**	**41**	**—**	**—**	**—**	**41**
Total comprehensive income for the period	**—**	**400**	**(271)**	**(324)**	**(595)**	**(195)**
Dividends on common shares	**—**	**(290)**	**—**	**—**	**—**	**(290)**
Dividends on preferred shares	**—**	**(23)**	**—**	**—**	**—**	**(23)**
Return of capital to parent	**(600)**	**—**	**—**	**—**	**—**	**(600)**
Shares issued under employee remuneration and share plan	**—**	**(1)**	**—**	**—**	**—**	**(1)**
At 30 Jun 2022	**2,225**	**4,160**	**(293)**	**(325)**	**(618)**	**5,767**

			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	—	359	—	—	—	359
Other comprehensive income/(loss), net of tax	—	12	(67)	(56)	(123)	(111)
– debt instruments at fair value through other comprehensive income	—	—	(68)	—	(68)	(68)
– equity instruments designated at fair value through other comprehensive income	—	—	1	—	1	1
– cash flow hedges	—	—	—	(56)	(56)	(56)
– remeasurement of defined benefit plans	—	12	—	—	—	12
Total comprehensive income for the period	—	371	(67)	(56)	(123)	248
Dividends on common shares	—	(255)	—	—	—	(255)
Dividends on preferred shares	—	(22)	—	—	—	(22)
Return of capital to parent	—	—	—	—	—	—
Shares issued under employee remuneration and share plan	—	(1)	—	—	—	(1)
At 30 Jun 2021	2,825	3,901	41	85	126	6,852

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 June 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 Jun 2022						30 Jun 2021					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**[1]	**Markets and Securities Services**[1]	**Corporate Centre**[2]	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking[1]	Markets and Securities Services[1]	Corporate Centre[2]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Account services	**12**	**5**	**2**	**—**	**—**	**19**	11	6	2	—	—	19
Broking income	**—**	**3**	**—**	**—**	**—**	**3**	—	3	—	—	—	3
Cards	**8**	**15**	**1**	**—**	**—**	**24**	5	12	—	—	—	17
Credit facilities	**78**	**—**	**8**	**—**	**—**	**86**	72	—	12	—	—	84
Funds under management	**—**	**57**	**—**	**—**	**—**	**57**	—	54	—	—	—	54
Imports/exports	**2**	**—**	**1**	**—**	**—**	**3**	2	—	—	—	—	2
Insurance agency commission	**—**	**1**	**—**	**—**	**—**	**1**	—	1	—	—	—	1
Guarantees and other	**8**	**2**	**1**	**1**	**—**	**12**	8	2	4	(1)	—	13
Remittances	**9**	**2**	**3**	**—**	**—**	**14**	7	1	3	—	—	11
Underwriting and advisory	**—**	**—**	**5**	**1**	**(1)**	**5**	1	—	10	6	—	17
Fee income	**117**	**85**	**21**	**2**	**(1)**	**224**	106	79	31	5	—	221
Less: fee expense	**(5)**	**(21)**	**(1)**	**(1)**	**—**	**(28)**	(5)	(16)	(2)	(2)	—	(25)
Net fee income	**112**	**64**	**20**	**1**	**(1)**	**196**	101	63	29	3	—	196

	Half-year ended											
	30 Jun 2022						30 Jun 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	**24**	**9**	**5**	**—**	**—**	**38**	21	9	4	—	—	34
Broking income	**—**	**7**	**—**	**—**	**—**	**7**	—	9	—	1	—	10
Cards	**14**	**30**	**1**	**—**	**—**	**45**	9	24	—	—	—	33
Credit facilities	**152**	**—**	**16**	**—**	**—**	**168**	141	—	27	—	—	168
Funds under management	**—**	**115**	**—**	**—**	**—**	**115**	—	106	—	—	—	106
Imports/exports	**5**	**—**	**1**	**—**	**—**	**6**	5	—	—	—	—	5
Insurance agency commission	**—**	**2**	**—**	**—**	**—**	**2**	—	2	—	—	—	2
Guarantee and other	**18**	**4**	**4**	**—**	**—**	**26**	16	3	7	(1)	—	25
Remittances	**16**	**3**	**5**	**—**	**—**	**24**	14	2	5	—	—	21
Underwriting and advisory	**—**	**—**	**12**	**6**	**(3)**	**15**	1	—	32	9	—	42
Fee income	**229**	**170**	**44**	**6**	**(3)**	**446**	207	155	75	9	—	446
Less: fee expense	**(9)**	**(40)**	**(2)**	**(2)**	**—**	**(53)**	(8)	(33)	(10)	(3)	—	(54)
Net fee income	**220**	**130**	**42**	**4**	**(3)**	**393**	199	122	65	6	—	392

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		Half-year ended	
	30 Jun 2022	30 Jun 2021	**30 Jun 2022**	30 Jun 2021
	$m	$m	**$m**	$m
Defined benefit plans	**5**	5	**9**	10
– pension plans	**3**	3	**6**	7
– non-pension plans	**2**	2	**3**	3
Defined contribution pension plans	**9**	9	**15**	17
Total	**14**	14	**24**	27

During the year, the bank's pension plans purchased a buy-in annuity policy for $331m which resulted in a $4m of 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 Jun 2022						30 Jun 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	**173**	**156**	**29**	**10**	**1**	**369**	142	134	23	7	—	306
Net fee income	**112**	**64**	**20**	**1**	**(1)**	**196**	101	63	29	3	—	196
Net income from financial instruments held for trading	**9**	**7**	**(10)**	**19**	**(1)**	**24**	9	7	—	14	(2)	28
Other income	**(1)**	**5**	**—**	**1**	**5**	**10**	2	5	—	—	10	17
Total operating income	**293**	**232**	**39**	**31**	**4**	**599**	254	209	52	24	8	547
Change in expected credit losses and other credit impairment charges - (charge)/ release	**(77)**	**(4)**	**(1)**	**—**	**—**	**(82)**	28	7	5	—	—	40
Net operating income	**216**	**228**	**38**	**31**	**4**	**517**	282	216	57	24	8	587
– external	**224**	**237**	**21**	**31**	**4**	**517**	281	224	49	25	8	587
– inter-segment	**(8)**	**(9)**	**17**	**—**	**—**	**—**	1	(8)	8	(1)	—	—
Total operating expenses	**(100)**	**(163)**	**(23)**	**(13)**	**(20)**	**(319)**	(91)	(162)	(18)	(14)	(43)	(328)
Profit/(loss) before income tax expense	**116**	**65**	**15**	**18**	**(16)**	**198**	191	54	39	10	(35)	259

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

	Half-year ended											
	30 Jun 2022						30 Jun 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	**335**	**297**	**54**	**19**	**1**	**706**	269	262	45	12	—	588
Net fee income	**220**	**130**	**42**	**4**	**(3)**	**393**	199	122	65	6	—	392
Net income from financial instruments held for trading	**18**	**12**	**(10)**	**33**	**(2)**	**51**	18	18	—	26	(4)	58
Other income	**—**	**10**	**—**	**1**	**8**	**19**	7	14	2	1	14	38
Total operating income	**573**	**449**	**86**	**57**	**4**	**1,169**	493	416	112	45	10	1,076
Change in expected credit losses and other credit impairment charges - (charge)/ release	**(37)**	**—**	**(3)**	**—**	**—**	**(40)**	36	4	16	—	—	56
Net operating income	**536**	**449**	**83**	**57**	**4**	**1,129**	529	420	128	45	10	1,132
– external	**540**	**472**	**55**	**58**	**4**	**1,129**	538	424	113	46	11	1,132
– inter-segment	**(4)**	**(23)**	**28**	**(1)**	**—**	**—**	(9)	(4)	15	(1)	(1)	—
Total operating expenses	**(203)**	**(324)**	**(45)**	**(26)**	**(41)**	**(639)**	(187)	(329)	(40)	(26)	(59)	(641)
Profit/(loss) before income tax expense	**333**	**125**	**38**	**31**	**(37)**	**490**	342	91	88	19	(49)	491

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

Balance sheet information

	Commercial Banking	**Wealth and Personal Banking**	**Global Banking[1]**	**Markets and Securities Services[1]**	**Corporate Centre[1]**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 30 Jun 2022						
Loans and advances to customers	**33,371**	**37,020**	**3,935**	**—**	**—**	**74,326**
Customers' liability under acceptances	**2,307**	**12**	**754**	**—**	**—**	**3,073**
Total external assets	**45,467**	**49,842**	**9,221**	**19,999**	**508**	**125,037**
Customer accounts	**27,031**	**41,117**	**6,979**	**133**	**—**	**75,260**
Acceptances	**2,315**	**12**	**754**	**—**	**—**	**3,081**
Total external liabilities	**36,678**	**52,535**	**11,273**	**18,444**	**340**	**119,270**
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

		At	
		30 Jun 2022	31 Dec 2021
	Footnote	$m	$m
Debt securities		5,128	2,907
– Canadian and Provincial Government bonds	1	4,345	2,536
– treasury and other eligible bills		395	165
– other debt securities		388	206
Loans and advances to customers		26	—
At the end of the period		5,154	2,907
Trading assets			
– not subject to repledge or resale by counterparties		1,788	1,087
– which may be repledged or resold by counterparties		3,366	1,820
At the end of the period		5,154	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	159,574	2,361	1,539	–	1,539	1,470	123	1,593
Interest rate	281,839	30,546	3,027	270	3,297	3,240	488	3,728
Commodity and other	42	–	–	–	–	5	–	5
At 30 Jun 2022	441,455	32,907	4,566	270	4,836	4,715	611	5,326
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 Jun 2022			31 Dec 2021		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Interest rate	14,159	247	54	8,704	42	62
Total	14,159	247	54	8,704	42	62

Cash flow hedging instrument by hedged risk

	At					
	30 Jun 2022			31 Dec 2021		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Foreign exchange	2,361	–	123	1,143	1	36
Interest rate	16,387	23	434	8,710	79	55
Total	18,748	23	557	9,853	80	91

7 Financial investments

Carrying amount of financial investments

		At	
		30 Jun 2022	31 Dec 2021
	Footnote	**$m**	$m
Financial investments measured at fair value through other comprehensive income		**15,901**	14,969
– Canadian and Provincial Government bonds	1	**10,761**	9,760
– international Government bonds	1	**2,761**	2,375
– other debt securities issued by banks and other financial institutions		**1,979**	2,430
– treasury and other eligible bills		**390**	393
– equity securities		**10**	11
Debt instruments measured at amortized cost		**4,484**	–
– Canadian and Provincial Government bonds		**3,645**	–
– international Government bonds		**839**	–
At the end of the period		**20,385**	**14,969**
Financial investments			
– not subject to repledge or resale by counterparties		**15,187**	13,637
– which may be repledged or resold by counterparties		**714**	1,332
At the end of the period		**15,901**	14,969

1. *Includes government guaranteed bonds.*

8 Other assets

	At	
	30 Jun 2022	31 Dec 2021
	$m	$m
Accounts receivable	**913**	462
Settlement accounts	**1,753**	494
Cash collateral	**770**	413
Other	**12**	8
At the end of the period	**3,448**	1,377

9 Trading liabilities

	At	
	30 Jun 2022	31 Dec 2021
	$m	$m
Net short positions in securities	**3,585**	3,598
At the end of the period	**3,585**	3,598

10 Debt securities in issue

	At	
	30 Jun 2022	31 Dec 2021
	$m	$m
Bonds and medium term notes	**11,591**	8,743
Covered bonds	**4,933**	3,614
Money market instruments	**309**	1,982
At the end of the period	**16,833**	14,339

Term to maturity

	At	
	30 Jun 2022	31 Dec 2021
	$m	$m
Less than 1 year	**7,682**	5,583
1-5 years	**7,696**	8,756
5-10 years	**1,455**	–
At the end of the period	**16,833**	14,339

11 Other liabilities

	At	
	30 Jun 2022	31 Dec 2021
	$m	$m
Mortgages sold with recourse	**1,991**	2,163
Lease liabilities	**269**	225
Accounts payable	**485**	640
Settlement accounts	**2,194**	371
Cash collateral	**302**	67
Other	**26**	45
Share based payment related liability	**5**	6
At the end of the period	**5,272**	3,517

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 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 Jun 2022				
Assets				
Trading assets	**4,774**	**354**	**26**	**5,154**
Other financial assets mandatorily measured at fair value through profit or loss	**–**	**19**	**–**	**19**
Derivatives	**–**	**4,836**	**–**	**4,836**
Financial investments	**15,891**	**10**	**–**	**15,901**
Liabilities				
Trading liabilities	**3,372**	**213**	**–**	**3,585**
Derivatives	**–**	**5,321**	**5**	**5,326**
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 Jun 2022			
Transfer from Level 1 to Level 2	**–**	**–**	**–**
Transfer from Level 2 to Level 1	**–**	**–**	**–**
Quarter ended 30 Jun 2021			
Transfer from Level 1 to Level 2	–	15	–
Transfer from Level 2 to Level 1	–	–	–

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

Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of financial instruments not carried at fair value are explained on page 107 of the *Annual Report and Accounts 2021*.

Fair values of financial instruments not carried at fair value

		At			
		30 Jun 2022		31 Dec 2021	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	1	**74,326**	**73,835**	68,699	68,734
Financial investments – at amortized cost		**4,484**	**4,472**	—	—
Liabilities					
Customer accounts		**75,260**	**75,292**	73,626	73,736
Debt securities in issue		**16,833**	**16,520**	14,339	14,466
Subordinated liabilities		**1,011**	**1,007**	1,011	1,074

1. *Loans and advances to customers specifically relating to Canada: carrying amount $70,177m and fair value $69,713m (31 December 2021: carrying amount $64,909m and fair value $64,942m).*

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

13 Legal proceedings and regulatory matters

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

14 Events after the reporting period

On 22 July 2022, the bank declared regular quarterly dividends for the third quarter of 2022 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 30 September 2022 or the first business day thereafter to the shareholder of record on 15 September 2022.

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

As the quarterly dividends on preferred shares for the third quarter of 2022 and the second interim dividend on common shares for 2022 were declared after 30 June 2022, the amounts have not been included in the balance sheet as a liability.

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

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

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