HSBC Bank Canada

Third Quarter 2023 Interim Report

HSBC

HSBC Bank Canada third quarter 2023 performance

Quarter ended 30 September 2023

Total operating income

$660m ↓ 0.8%

(2022: $665m)

Profit before income tax expense

$282m ↓ 5.4%

(2022: $298m)

Profit attributable to the common shareholder

$184m ↓ 11%

(2022: $206m)

Nine months ended 30 September 2023

Total operating income

$2,018m ↑ 10%

(2022: $1,834m)

Profit before income tax expense

$893m ↑ 13%

(2022: $788m)

Profit attributable to the common shareholder

$587m ↑ 8.3%

(2022: $542m)

At 30 September 2023

Total assets

$120.5bn ↓ 6.1%

(At 31 Dec 2022: $128.3bn)

Common equity tier 1 ratio[1]

13.8% ↑ 220 bps

(At 31 Dec 2022: 11.6%)

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

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

"Performance in the third quarter remained resilient. Core business activity remained strong with increased average loan and deposit balances positively impacting the quarter. Total operating income dropped slightly compared to the third quarter of 2022 due to the impact of higher cost of liabilities from rising interest rates and more challenging market conditions. Total operating income increased 10% for the year-to-date.

"While inflation is moderating, and we expect a soft landing for the economy, financial headwinds are getting stronger. As we have for over 40 years, we'll continue to provide the support that our clients have come to expect through both good and challenging times."

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')

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')

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

Quarter ended 30 September 2023

Total operating income

CMB		WPB		GB		MSS	
$304m (2022: $308m)	↓ 1.3%	$279m (2022: $270m)	↑ 3.3%	$49m (2022: $58m)	↓ 16%	$24m (2022: $26m)	↓ 7.7%

Profit before income tax expense

CMB		WPB		GB		MSS	
$185m (2022: $195m)	↓ 5.1%	$98m (2022: $83m)	↑ 18%	$32m (2022: $32m)	—%	$13m (2022: $13m)	—%

Nine months ended 30 September 2023

Total operating income

CMB		WPB		GB		MSS	
$925m (2022: $881m)	↑ 5%	$855m (2022: $719m)	↑ 19%	$158m (2022: $144m)	↑ 9.7%	$66m (2022: $83m)	↓ 20%

Profit before income tax expense

CMB		WPB		GB		MSS	
$587m (2022: $528m)	↑ 11%	$307m (2022: $208m)	↑ 48%	$107m (2022: $70m)	↑ 53%	$30m (2022 $44m)	↓ 32%

At 30 September 2023

Customer related lending assets[2]

CMB		WPB		GB		MSS
$36.4bn (At 31 Dec 2022: $36.8bn)	↓ 1.1%	$36.2bn (At 31 Dec 2022: $36.7bn)	↓ 1.4%	$4.0bn (At 31 Dec 2022: $4.5bn)	↓ 10%	nil (At 31 Dec 2022: 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 15 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 $14m for the nine months ended 30 September 2023 (2022 total operating income: $3m for the quarter and $7m for the nine months ended), profit/(loss) before income tax expense was a loss of $46m for the quarter and $138m for the nine months ended 30 September 2023 (2022 was a loss of: $25m for the quarter and $62m for the nine months ended) and customer assets of nil (2022: nil).*
2. *Customer related lending assets includes loans and advances to customers and customers' liability under acceptances.*

MD&A contents

Basis of preparation

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

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter and nine months ended 30 September 2023, compared to the same periods in the preceding year. The MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes for the quarter and nine months ended 30 September 2023 ('consolidated financial statements') and our *Annual Report and Accounts 2022*. This MD&A is dated 26 October 2023, the date that our consolidated financial statements and MD&A were approved by our Board of Directors ('the Board'). The references to 'notes' throughout this MD&A refer to notes on the consolidated financial statements for the quarter and nine months ended 30 September 2023.

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 2022 audited annual consolidated financial statements. The bank's 2022 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 and on the Canadian Securities Administrators' website at www.sedar.com. The documents are also filed with the bank's Supplementary Prospectus on the United Kingdom Financial Conduct Authority's ('FCA') 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 2022*. 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 of the MD&A of our *Annual Report and Accounts 2022* 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, climate risk (inclusive of transition and physical risk impacts), 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, interbank offered rate ('IBOR') including Canadian Dollar Offered Rate ('CDOR') transition, changes in accounting standards, changes in tax rates, tax law and policy, and its interpretation of taxing authorities, risk of fraud by employees or others, unauthorized transactions by employees and human error. Furthermore, on 29 November 2022, the HSBC Group announced an agreement to sell its 100% equity stake in HSBC Bank Canada (and its subsidiaries) as well as subordinated debt held by HSBC Group to Royal Bank of Canada ('RBC'). On 1 September 2023, the Competition Bureau of Canada issued its report and finding of no competition concerns regarding the proposed sale - the first of several reviews needed to close the transaction and complete the sale. Subject to remaining regulatory and governmental review and approvals, we expect the sale to complete in the first quarter of 2024. Risks relating to the effective migration and transition of HSBC Bank Canada's customers, data, systems, processes and people to RBC will be managed through our established risk management programs and processes. Our success in delivering our strategic priorities and proactively managing the regulatory environment depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in the highly competitive and active employment market continues to prove challenging. Despite contingency plans we have in place for resilience in the event of sustained and significant operational disruption, our ability to conduct business may be adversely affected by disruption in the infrastructure that supports both our operations and the communities in which we do business, including but not limited to disruption caused by public health emergencies, pandemics, environmental disasters, terrorist acts and geopolitical events. Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2022* for a description of these risk factors. We caution you that the risk factors disclosed above are not exhaustive, and there could be other uncertainties and potential risk factors not considered here which may adversely affect our results and financial condition. Any forward-looking statements in this document speak only 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. 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, and Markets and Securities Services. No international bank has our Canadian presence and no domestic bank has our international reach.

HSBC Holdings plc, the parent company of HSBC Bank Canada, is headquartered in London, United Kingdom. The HSBC Group serves customers worldwide from offices in 62 countries and territories. With assets of US$3,021bn at 30 September 2023, 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. For further details on the covered bond issuances, refer to the 'Liquidity and funding risk' section on page 33.

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

($millions, except where otherwise stated)	Footnotes	Quarter ended		Nine months ended	
		30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
Financial performance for the period					
Total operating income		**660**	665	**2,018**	1,834
Change in expected credit losses and other credit impairment charges - (charge)		**(26)**	(42)	**(41)**	(82)
Operating expenses		**(352)**	(325)	**(1,084)**	(964)
Profit before income tax expense		**282**	298	**893**	788
Profit attributable to the common shareholder		**184**	206	**587**	542
Basic and diluted earnings per common share ($)		**0.33**	0.38	**1.07**	0.99
Financial ratios (%)	1				
Return on average common shareholder's equity		**13.8**	17.6	**15.2**	14.5
Return on average risk-weighted assets		**2.6**	2.7	**2.7**	2.5
Cost efficiency ratio		**53.3**	48.9	**53.7**	52.6
Operating leverage ratio	2	**n/a**	18.1	**n/a**	12.1
Net interest margin		**1.58**	1.62	**1.62**	1.42
Change in expected credit losses to average gross loans and advances and acceptances		**0.13**	0.21	**0.07**	0.14
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		**0.12**	0.08	**0.12**	0.15
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**32.0**	29.0	**32.0**	29.0
Net write-offs as a percentage of average loans and advances and acceptances		**–**	0.01	**0.01**	0.23

	Footnotes	At	
		30 Sep 2023	31 Dec 2022
Financial position at period end			
Total assets		**120,452**	128,302
Loans and advances to customers		**73,721**	74,862
Customer accounts		**80,057**	82,253
Ratio of customer advances to customer accounts (%)	1	**92.1**	91.0
Common shareholder's equity		**5,398**	4,818
Capital, leverage and liquidity measures			
Common equity tier 1 capital ratio (%)	3	**13.8**	11.6
Tier 1 ratio (%)	3	**16.3**	14.1
Total capital ratio (%)	3	**18.7**	16.4
Leverage ratio (%)	3	**5.4**	4.7
Risk-weighted assets ($m)	3	**43,216**	44,656
Liquidity coverage ratio (%)	4	**156**	164

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 ratio has resulted in a negative ratio.*
3. *Capital ratios and risk weighted assets are calculated using OSFI's Capital Adequacy Requirements ('CAR') guideline, and the Leverage ratio is calculated using OSFI's Leverage Requirements ('LR') guideline. The CAR and LR guidelines are based on the Basel III guidelines. Refer to the 'Capital risk' section of this document for more information.*
4. *The Liquidity coverage ratio is calculated using OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates the Basel liquidity standards. The LCR in this table has been calculated using averages of the three month-end figures in the quarter. Refer to the 'Liquidity and funding risk' section of this document for more information.*

Financial performance

Summary consolidated income statement

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Net interest income	**428**	449	**1,322**	1,155
Net fee income	**187**	194	**570**	587
Net income from financial instruments held for trading	**37**	15	**104**	66
Other items of income	**8**	7	**22**	26
Total operating income	**660**	665	**2,018**	1,834
Change in expected credit losses and other credit impairment charges - (charge)	**(26)**	(42)	**(41)**	(82)
Net operating income	**634**	623	**1,977**	1,752
Total operating expenses	**(352)**	(325)	**(1,084)**	(964)
Profit before income tax expense	**282**	298	**893**	788
Income tax expense	**(79)**	(79)	**(249)**	(210)
Profit for the period	**203**	219	**644**	578

For the quarter and nine months ended 30 September 2023 compared with the same periods in the prior year, unless otherwise stated.

Q3 2023 vs. Q3 2022

Profit before income tax expense remained resilient at $282m, down $16m or 5.4%, despite increased interest rates and challenging market conditions. The decrease was mainly from increased operating expenses related to the agreed sale of HSBC Bank Canada, partly offset by a lower charge in expected credit losses.

Total operating income of $660m, decreased slightly by $5m or 0.8%. The decrease was primarily from lower net interest income as a result of higher cost of liabilities due to rising interest rates and change in deposit mix, partly offset by increased asset yields. Driven by the continued challenging market conditions, our Global Banking business saw lower credit facility fees from fewer originations and lower brokerage volumes, resulting in a decrease in total net fee income. These decreases were partly offset by higher trading income.

Expected credit losses resulted in a charge of $26m for the quarter primarily due to new charges in non-performing loans and the impact of rising interest rates on the mortgage portfolio. In 2022, the charge for the quarter was primarily driven by an adverse movement in forward-looking macro-economic variables on performing loans at that time.

Total operating expenses increased by $27m or 8.3% mainly due to increased costs relating to the agreed sale of HSBC Bank Canada, partly offset by lower investment spend in 2023.

YTD 2023 vs. YTD 2022

For the year-to-date, profit before income tax expense was strong at $893m, up $105m or 13%, with increases in three of our four businesses. The increase for the year-to-date was largely driven by higher net interest income and a lower charge in expected credit losses, partly offset by an increase in operating expenses.

Total operating income of $2,018m remained robust, up $184m or 10% compared to the prior year. The increase was mainly due to higher net interest income as a result of central bank rate increases over the past year and higher average loans and advances to customers compared to the first nine months of 2022, partly offset by the same factors noted in the quarter. Higher trading income and increased activity in cards, also contributed to the increase. These increases were partly offset by the challenging market conditions driving lower fees on investment funds under management in Wealth and Personal Banking, and lower credit facilities fees and underwriting fees in Global Banking resulting in a decrease in total net fee income.

Expected credit losses resulted in a charge of $41m for the year-to-date primarily due to new charges in non-performing loans and the impact of rising interest rates on the mortgage portfolio. This was partly offset by a release in performing loans due to a relative improvement in forward-looking macro-economic variables. In 2022, the charge was driven by the same factors as described in the quarter, coupled with a significant charge for a material stage 3 loan in the first half of 2022, partly offset by a release in performing loans during the first quarter of 2022 from an improvement in macro-economic variables at that time.

Total operating expenses increased by $120m or 12% mainly due to increased costs relating to the agreed sale of HSBC Bank Canada, partly offset by lower investment spend in 2023.

Performance by income and expense item

For the quarter and nine months ended 30 September 2023 compared with the same periods in the prior year.

Net interest income

Net interest income decreased by $21m or 4.7% for the quarter primarily driven by higher cost of liabilities due to rising interest rates and change in deposit mix, partly offset by increased asset yields.

Net interest income increased by $167m or 14% for the year-to-date due to the impact of the central bank rate increases over the past year and higher average loans and advances to customers compared to the first nine months of 2022, partly offset by the same factors described in the quarter.

Summary of interest income by types of assets

		Quarter ended						Nine months ended					
		30 Sep 2023			30 Sep 2022			**30 Sep 2023**			30 Sep 2022		
		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	**5,926**	**72**	**4.83**	6,084	39	2.53	**6,263**	**215**	**4.59**	9,531	72	1.01
Loans and advances to customers	2	**73,809**	**960**	**5.16**	74,792	715	3.80	**74,547**	**2,788**	**5.00**	72,452	1,666	3.07
Reverse repurchase agreements - non-trading	3	**4,031**	**69**	**6.81**	6,014	58	3.84	**4,639**	**215**	**6.20**	7,110	90	1.70
Financial investments	4	**23,025**	**216**	**3.73**	22,296	116	2.04	**22,981**	**628**	**3.65**	18,659	197	1.40
Other interest-earning assets	5	**547**	**5**	**3.91**	842	6	2.95	**685**	**23**	**4.49**	675	10	2.00
Total interest-earning assets (A)		**107,338**	**1,322**	**4.89**	110,028	934	3.38	**109,115**	**3,869**	**4.74**	108,427	2,035	2.51
Trading assets and financial assets designated at fair value	6	**2,756**	**29**	**4.11**	6,012	45	3.00	**3,139**	**92**	**3.92**	4,464	82	2.47
Non-interest-earning assets	7	**11,369**	**—**	**—**	11,696	—	—	**11,062**	**—**	**—**	10,983	—	—
Total		**121,463**	**1,351**	**4.41**	127,736	979	3.05	**123,316**	**3,961**	**4.29**	123,874	2,117	2.28

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. *'Reverse repurchase agreements - non trading' yield is presented using netted average repurchase agreement balances which may result in a higher yield than contractual amounts which are based on gross repurchase agreement balances.*
4. *'Financial investments' includes debt instruments at fair value through other comprehensive income ('FVOCI') and debt instruments measured at amortized costs.*
5. *'Other interest-earning assets' includes cash collateral and other interest-earning assets included within 'Other assets' on the balance sheet.*
6. *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.*
7. *'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 FVOCI included within 'Financial investments' on the balance sheet, customers' liability under acceptances, property, plant and equipment, goodwill and intangible assets, deferred and current tax assets and non-interest-earning other assets.*

Summary of interest expense by types of liability and equity

		Quarter ended						Nine months ended					
		30 Sep 2023			30 Sep 2022			**30 Sep 2023**			30 Sep 2022		
		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	**398**	**2**	**1.68**	472	1	0.47	**573**	**12**	**2.80**	1,034	1	0.13
Customer accounts	2	**73,443**	**684**	**3.69**	70,085	285	1.61	**73,753**	**1,879**	**3.41**	66,744	454	0.91
Repurchase agreements - non-trading	3	**4,573**	**77**	**6.70**	6,031	58	3.78	**4,306**	**207**	**6.43**	6,892	87	1.69
Debt securities in issue and subordinated debt		**12,783**	**112**	**3.49**	17,416	125	2.85	**14,364**	**395**	**3.68**	16,926	291	2.30
Other interest-bearing liabilities	4	**2,409**	**19**	**3.21**	2,631	16	2.56	**2,401**	**54**	**3.01**	2,558	47	2.49
liabilities (B)		**93,606**	**894**	**3.79**	96,635	485	2.00	**95,397**	**2,547**	**3.57**	94,154	880	1.25
Trading liabilities	5	**2,173**	**22**	**4.01**	4,695	37	3.12	**2,619**	**74**	**3.78**	3,822	71	2.48
Non-interest bearing current accounts	6	**6,926**	**—**	**—**	8,518	—	—	**7,288**	**—**	**—**	8,609	—	—
Total equity and other non-interest bearing liabilities	7	**18,758**	**—**	**—**	17,888	—	—	**18,012**	**—**	**—**	17,289	—	—
Total		**121,463**	**916**	**2.99**	127,736	522	1.63	**123,316**	**2,621**	**2.84**	123,874	951	1.03
Net interest income (A-B)			**428**			449			**1,322**			1,155	

1. *'Deposits by banks' includes interest-bearing bank deposits only.*
2. *'Customer accounts' includes interest-bearing customer accounts only.*
3. *'Repurchase agreements - non trading' cost is presented using netted average repurchase agreement balances which may result in a higher yield than contractual amounts which are based on gross repurchase agreement balances.*
4. *'Other interest-bearing liabilities' includes cash collateral and other interest-bearing liabilities included within 'Other liabilities' 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 bearing current accounts' is included within 'Customer accounts' on the balance sheet.*
7. *'Total equity and other non-interest bearing liabilities' includes non-interest bearing bank deposits and other customer accounts not included within 'Non-interest bearing current accounts', items in the course of transmission to other banks, derivatives, acceptances, accruals and deferred income, retirement benefit liabilities, provisions, current tax liabilities and non-interest bearing other liabilities.*

Net fee income

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Account services	**19**	19	**59**	57
Broking income	**2**	5	**8**	12
Cards	**26**	25	**80**	70
Credit facilities	**83**	88	**252**	256
Funds under management	**54**	54	**162**	169
Imports/exports	**3**	3	**8**	9
Insurance agency commission	**1**	1	**4**	3
Guarantee and other	**11**	11	**36**	37
Remittances	**13**	11	**37**	35
Underwriting and advisory	**6**	6	**18**	21
Fee income	**218**	223	**664**	669
Less: fee expense	**(31)**	(29)	**(94)**	(82)
Net fee income	**187**	194	**570**	587

Net fee income decreased by $7m or 3.6% for the quarter largely driven by the continued challenging market conditions, resulting in lower credit facility fees from fewer originations and lower brokerage volumes in our Global Banking business. These decreases were partly offset by increased activity in remittances and cards netted by the corresponding increase in fee expense.

Net fee income decreased by $17m or 2.9% for the year-to-date as the challenging market conditions resulted in lower fees on investment funds under management in Wealth and Personal Banking. This was coupled with lower credit facility fees, underwriting fees and brokerage commissions in our Global Banking business. These decreases were partly offset by increased activity in cards and increased transactions in account services across our businesses netted by the corresponding increase in fee expense. Higher credit facility fees in Commercial Banking from higher volumes of bankers' acceptances for the year-to-date, also contributed to the offset.

Net income from financial instruments held for trading

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Trading activities	**32**	22	**82**	71
Credit valuation, debit valuation and funding fair value adjustments	**1**	—	**1**	5
Net interest from trading activities	**7**	8	**18**	11
Hedge ineffectiveness	**(3)**	(15)	**3**	(21)
Net income from financial instruments held for trading	**37**	15	**104**	66

Net income from financial instruments held for trading increased by $22m or 147% for the quarter. The increase was mainly from a favourable change in hedge ineffectiveness driven by cash flow hedge instruments, and higher income from trading activities.

Net income from financial instruments held for trading increased by $38m or 58% for the year-to-date, driven by the same factors as described in the quarter. This was coupled with higher income from trading activities which was a result of the prior year's adverse movement in the value of a loan syndication facility and higher net interest income from trading activities mainly due to the higher interest rate environment. These increases were partly offset by lower favourable movements on fair valuation adjustments on forward-looking scenarios compared to the prior year.

Other items of income

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	—	**—**	(1)
Gains less losses from financial investments	**4**	—	**6**	2
Other operating income	**4**	7	**16**	25
Other items of income	**8**	7	**22**	26

Other items of income increased by $1m or 14% for the quarter, and decreased by $4m or 15% for the year-to-date.

Change in expected credit losses

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - charge/(release)	**—**	35	**(31)**	(6)
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - charge	**26**	7	**72**	88
Change in expected credit loss and other credit impairment charges - charge	**26**	42	**41**	82

The change in expected credit losses for the quarter resulted in a charge of $26m compared to a charge of $42m in the same period in the prior year. The charge for the quarter was primarily driven by new charges in non-performing loans and the impact of rising interest rates on the mortgage portfolio.

In 2022, the charge for the quarter was primarily driven by the continued adverse movement in forward-looking macro-economic variables on performing loans at that time.

The change in expected credit losses for the year-to-date resulted in a charge of $41m compared to a charge of $82m in the same period in the prior year. The charge for the year-to-date was driven by the same factors as described in the quarter; partly offset by a release in performing loans due to a relative improvement in forward-looking macro-economic variables.

In 2022, the charge for the year-to-date was driven by a significant charge for a material stage 3 loan in the first half of 2022. Change in expected credit losses for performing loans resulted in a release mainly from COVID-19 related allowances in the first quarter, supported by a relative improvement in macro-economic variables at that time, partly offset by a charge in performing loans driven by an adverse shift in forward-looking macro-economic variables in the second and third quarters of 2022.

Total operating expenses

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Employee compensation and benefits	**173**	148	**504**	451
General and administrative expenses	**141**	146	**435**	426
Depreciation and impairment of property, plant and equipment	**14**	18	**42**	49
Amortization and impairment of intangible assets	**24**	13	**103**	38
Total operating expenses	**352**	325	**1,084**	964

Total operating expenses increased by $27m or 8.3% for the quarter mainly due to costs relating to the agreed sale of HSBC Bank Canada which includes the re-assessment of the useful life and impairment of intangible assets[1]. Higher staff-related costs also contributed to the increase. This was partly offset by lower investment spend in 2023.

Income tax expense

The effective tax rate in the third quarter of 2023 was 28.0%. The statutory tax rate was 27.8% which incorporates the additional tax on banks and life insurance groups announced in April 2022. Compared to the statutory rate, there has been a nominal increase in tax liabilities. The effective tax rate for the third quarter of 2022 was 26.6%.

1. *For further details of the re-assessment of the useful life and impairment of intangible assets, refer to note 18 of our Annual Report and Accounts 2022.*

Total operating expenses increased by $120m or 12% for the year-to-date driven by the same factors as described in the quarter.

Movement in financial position

Summary consolidated balance sheet

	At	
	30 Sep 2023	31 Dec 2022
	$m	$m
Assets		
Cash and balances at central bank	**4,828**	6,326
Trading assets	**2,408**	4,296
Derivatives	**6,081**	6,220
Loans and advances	**74,052**	75,206
Reverse repurchase agreements – non-trading	**3,437**	6,003
Financial investments	**22,904**	23,400
Customers' liability under acceptances	**2,916**	3,147
Other assets	**3,826**	3,704
Total assets	**120,452**	128,302
Liabilities and equity		
Liabilities		
Deposits by banks	**572**	712
Customer accounts	**80,057**	82,253
Repurchase agreements – non-trading	**4,335**	4,435
Trading liabilities	**1,639**	3,732
Derivatives	**6,602**	6,575
Debt securities in issue	**10,493**	15,735
Acceptances	**2,919**	3,156
Other liabilities	**7,337**	5,786
Total liabilities	**113,954**	122,384
Total shareholder's equity	**6,498**	5,918
Total liabilities and equity	**120,452**	128,302

Assets

Total assets at 30 September 2023 were $120.5bn, a decrease of $7.9bn or 6.1% from 31 December 2022. This was mainly due to reduced balance sheet use for trading activities resulting in a decrease in reverse repurchase agreements of $2.6bn and trading assets of $1.9bn. Cash and balances at central bank also decreased by $1.5bn as a result of balance sheet management activities. Volumes of loans to customers decreased mainly in mortgages and commercial loans as result of current market conditions, lowering loans and advances by $1.2bn.

Liabilities

Total liabilities at 30 September 2023 were $114.0bn, a decrease of $8.4bn or 6.9% from 31 December 2022. The decrease was primarily from net maturities in debt securities in issue of $5.2bn and lower volumes in deposits mainly from customer accounts of $2.2bn as a result of aligning our funding needs with current market conditions and customer behaviour. The decrease in trading liabilities of $2.1bn, also contributed to the decrease, which correspond with the movement in trading assets.

Equity

Total equity at 30 September 2023 was $6.5bn, an increase of $0.6bn or 9.8% from 31 December 2022. The increase was primarily from profits after tax of $0.6bn generated in the period.

Our business segments

We manage and report our operations around the following business segments: Commercial Banking, Wealth and Personal Banking, Global Banking, and Markets and Securities Services.

Commercial Banking

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

Review of financial performance[1]

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Net interest income	**183**	187	**556**	522
Non-interest income	**121**	121	**369**	359
Total operating income	**304**	308	**925**	881
Change in expected credit losses and other credit impairment charges - (charge)	**(19)**	(14)	**(21)**	(51)
Net operating income	**285**	294	**904**	830
Total operating expenses	**(100)**	(99)	**(317)**	(302)
Profit before income tax expense	**185**	195	**587**	528

Overview

Total operating income decreased by $4m or 1.3% for the quarter, and increased by $44m or 5% for the year-to-date. CMB has maintained positive momentum in 2023 with average loan balances increasing by $2.5bn or 7.2% and average deposit balances increasing by $1.3bn or 4.8% compared to the first nine months of 2022. For the quarter, the decrease was a result of lower net interest income as a result of higher cost of liabilities due to rising interest rates and change in deposit mix, partly offset by increased asset yields. For the year-to-date, net interest income improved due to the impact of the central bank rate increases over the past year and higher average loan volumes. Non-interest income has also improved with higher volumes of bankers' acceptances and increased activity in corporate credit cards.

Profit before income tax expense decreased by $10m or 5.1% for the quarter mainly due to increased charges in expected credit losses compared to the prior year and a decrease in net interest income. The increase of $59m or 11% for the year-to-date was primarily due to an increase in operating income, as noted above, and lower charges in expected credit losses compared to the prior year.

Financial performance by income and expense item

Net interest income for the quarter decreased by $4m or 2.1% as a result of higher cost of liabilities due to rising interest rates and change in deposit mix, partly offset by increased asset yields. The increase of $34m or 6.5% for the year-to-date was due to increased rates as a result of the central bank rate increases over the past year and higher average loan and deposit balances compared to the first nine months of 2022.

Non-interest income for the quarter was flat. The increase of $10m or 2.8% for the year-to-date was mainly due to higher fee income from higher volumes of bankers' acceptances and increased corporate credit cards activity.

Change in expected credit losses resulted in a charge of $19m for the quarter and $21m for the year-to-date. The charge was primarily from new charges in non-performing loans, partly offset by a release in performing loans due to a relative improvement in forward-looking macro-economic variables.

In 2022, for the quarter, the charge was primarily driven by an adverse movement in forward-looking macro-economic variables on performing loans. For the year-to-date, this was coupled with a significant charge for a material stage 3 loan in the first half of 2022, partly offset by a release in performing loans from COVID-19 related allowances in the first quarter of 2022.

Total operating expenses for the quarter increased by $1m or 1%, and $15m or 5% for the year-to-date, mainly due to higher staff-related costs.

1. *For the quarter and nine months ended 30 September 2023 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		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Net interest income	**201**	202	**617**	499
Non-interest income	**78**	68	**238**	220
Total operating income	**279**	270	**855**	719
Change in expected credit losses and other credit impairment charges - (charge)	**(10)**	(22)	**(29)**	(22)
Net operating income	**269**	248	**826**	697
Total operating expenses	**(171)**	(165)	**(519)**	(489)
Profit before income tax expense	**98**	83	**307**	208

Overview

We achieved record[2] operating income for the year-to-date. Total operating income increased by $9m or 3.3% for the quarter, and $136m or 19% for the year-to-date. The increase was driven by improved margins as a result of the central bank rate increases over the past year, growth in average deposit balances and higher income from our online brokerage business, partly offset by changes in deposit mix and lower treasury related income.

We had record[2] profit before income tax expense for the year-to-date as a result of record[2] operating income, noted above. Profit before income tax expense increased by $15m or 18% for the quarter due to higher operating income and lower charge in expected credit losses, partly offset by higher operating expenses. The increase of $99m or 48% for the year-to-date was primarily due to higher operating income, partly offset by higher operating expenses and higher expected credit losses.

Financial performance by income and expense item

Net interest income decreased slightly by $1m or 0.5% for the quarter as lower treasury related income and changes in deposit mix were offset by improved margins as a result of central bank rate increases and higher average deposit balances. The increase of $118m or 24% for the year-to-date was primarily due to improved margins, as noted above, and higher average deposit balances, partly offset by changes in deposit mix and lower treasury related income.

Non-interest income increased by $10m or 15% for the quarter, and $18m or 8.2% for the year-to-date, due to higher income from our online brokerage business and higher treasury-related income, partly offset by lower average investment funds under management.

Change in expected credit losses resulted in a charge of $10m for the quarter and $29m for the year-to-date, as a result of the impact of rising interest rates on the mortgage portfolio in the current year. In 2022, the charge was a result of the adverse movement in forward-looking macro economic variables, at that time, partly offset by releases in the first quarter of 2022 in performing loans from COVID-19 related allowances.

Total operating expenses increased by $6m or 3.6% for the quarter, and $30m or 6.1% for the year-to-date, mainly due to higher staff-related costs.

1. *For the quarter and nine months ended 30 September 2023 compared with the same periods in the prior year, unless otherwise stated.*
2. *Record for the nine months since inception of WPB (previously Retail Banking and Wealth Management ('RBWM')) as a single business segment in 2011.*

Global Banking

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[1]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Net interest income	**35**	45	**112**	99
Non-interest income	**14**	13	**46**	45
Total operating income	**49**	58	**158**	144
Change in expected credit losses and other credit impairment charges - release/(charge)	**3**	(6)	**9**	(9)
Net operating income	**52**	52	**167**	135
Total operating expenses	**(20)**	(20)	**(60)**	(65)
Profit before income tax expense	**32**	32	**107**	70

Overview

Total operating income decreased by $9m or 16% for the quarter mainly due to higher cost of liabilities from rising interest rates and change in deposit mix decreasing net interest income. Total operating income increased by $14m or 9.7% for the year-to-date. Results from transaction banking activities remain strong, due mainly to higher spreads. Trading income also increased compared to the impact from an adverse movement in the value of a loan syndication facility in the prior year. These increases were partly offset by lower revenues from capital markets reflecting, in part, slower client activity levels and challenging market conditions.

Profit before income tax expense was flat for the quarter. Profit before income tax expense increased by $37m or 53% for the year-to-date as a result of higher operating income and a favourable change in expected credit losses.

Financial performance by income and expense item

Net interest income for the quarter decreased by $10m or 22% due to higher cost of liabilities due to rising interest rates and change in deposit mix. Net interest income for the year-to-date increased by $13m or 13% primarily as a result of central bank rate increases over the past year.

Non-interest income for the quarter increased by $1m or 7.7%, and $1m or 2.2% for the year-to-date. This increase was mainly from higher trading income in part due to prior year's impact from an adverse movement in the value of a loan syndication facility. This was partly offset by lower credit facility fees from lower originations and lower underwriting fees largely driven by the challenging market conditions.

Change in expected credit losses resulted in a favourable change of $9m for the quarter and $18m for the year-to-date due to a release in the current quarter. For the year-to-date, this was coupled with a stage 3 recovery in the first quarter of 2023 and marginal improvements in our performing loan portfolio.

Total operating expenses was flat for the quarter, and decreased by $5m or 7.7% for the year-to-date, as we prudently managed costs.

1. *For the quarter and nine months ended 30 September 2023 compared with the same periods in the prior year, unless otherwise stated.*

Markets and Securities Services

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[1]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Net interest income	**12**	12	**43**	31
Non-interest income	**12**	14	**23**	52
Total operating income	**24**	26	**66**	83
Total operating expenses	**(11)**	(13)	**(36)**	(39)
Profit before income tax expense	**13**	13	**30**	44

Overview

Total operating income decreased by $2m or 7.7% for the quarter, and $17m or 20% for the year-to-date. The decrease in both periods was driven mainly by fixed income trading, partly offset by higher net interest income driven by the central bank rate increases over the past year.

Profit before income tax expense was flat for the quarter, and decreased by $14m or 32% for the year-to-date mainly due to lower operating income.

Financial performance by income and expense item

Net interest income was flat for the quarter, and increased by $12m or 39% for the year-to-date mainly due to central bank rate increases over the past year.

Non-interest income decreased by $2m or 14% for the quarter, and $29m or 56% for the year-to-date, driven mainly from fixed income trading.

Total operating expenses for the quarter and year-to-date decreased by $2m or 15% and $3m or 7.7%, respectively, as we prudently managed costs.

1. *For the quarter and nine months ended 30 September 2023 compared with the same periods in the prior year, unless otherwise stated.*

Corporate Centre

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

Review of financial performance[1, 2]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Net interest income	**(3)**	3	**(6)**	4
Non-interest income	**7**	–	**20**	3
Net operating income	**4**	3	**14**	7
Total operating expenses	**(50)**	(28)	**(152)**	(69)
Profit/(loss) before income tax expense	**(46)**	(25)	**(138)**	(62)

Overview

Profit before income tax expense decreased by $21m for the quarter, and $76m for the year-to-date. This was mainly due to increased costs relating to the agreed sale of HSBC Bank Canada which includes the re-assessment of the useful life and impairment of intangible assets[3]. This was partly offset by lower investment spend in 2023 and higher non-interest income.

1. *For the quarter and nine months ended 30 September 2023 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.*
3. *For further details of the re-assessment of the useful life and impairment of intangible assets, refer to note 18 of our Annual Report and Accounts 2022.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2023			2022				2021
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**428**	442	452	479	449	369	337	323
Net fee income	**187**	194	189	192	194	196	197	205
Net income from financial instruments held for trading	**37**	40	27	33	15	24	27	28
Other items of income	**8**	5	9	10	7	10	9	23
Total operating income	**660**	681	677	714	665	599	570	579
Change in expected credit losses and other credit impairment charges - release/(charge)	**(26)**	(13)	(2)	(28)	(42)	(82)	42	(8)
Net operating income	**634**	668	675	686	623	517	612	571
Total operating expenses	**(352)**	(366)	(366)	(394)	(325)	(319)	(320)	(344)
Profit before income tax expense	**282**	302	309	292	298	198	292	227
Income tax expense	**(79)**	(84)	(86)	(78)	(79)	(53)	(78)	(40)
Profit for the period	**203**	218	223	214	219	145	214	187
Profit attributable to:								
– common shareholder	**184**	198	205	199	206	133	203	176
– preferred shareholder	**19**	20	18	15	13	12	11	11
Basic and diluted earnings per common share ($)	**0.33**	0.37	0.37	0.36	0.38	0.24	0.37	0.32

Comments on trends over the past eight quarters

In 2022, the quarterly increases in net interest income were mainly due to improvements in net interest margin from improved spread resulting from reduced volume of interest bearing liabilities and growth in lending. With continued strong balance sheet growth, the quarterly increases in 2022 also benefited from the central bank rate increases in the year. The quarterly decreases in 2023 were mainly driven by higher cost of liabilities due to rising interest rates and change in deposit mix, partly offset by increased asset yields.

Net fee income is comprised of income from several sources that can fluctuate from quarter to quarter and are impacted by business activity, number of days in the quarter and seasonality. Net fee income reached its highest point on record[1] in the fourth quarter of 2021. From the fourth quarter of 2021, there was an underlying trend of growth in fees from investment funds under management, credit facilities related to higher volumes of bankers' acceptances, and credit cards. However, this was partly offset by the uncertain market conditions and inherent timing of transactions which impacts event-driven activities resulting in an underlying nominal decrease in underwriting and advisory fees. As market conditions adversely shifted in 2022, investment funds under management decreased in 2022. This underlining trend in lower fees from investment funds under management continued in 2023. In the second quarter of 2023, there was a slight increase in net fee income from cards.

Net income from financial instruments held for trading is, by its nature, subject to fluctuations from quarter to quarter. The decrease in the second quarter of 2022 was a result of an adverse movement in the value of a syndicated loan facility. The decrease in the third quarter of 2022 was mainly a result of an unfavourable change in hedge ineffectiveness, while the decrease in the first quarter of 2023 was mainly a result of market volatility. The second quarter of 2023 increased as a result of a favourable change in hedge ineffectiveness driven by cash flow hedge instruments, while remaining relatively flat in the third quarter.

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 was a charge for the second and third quarters of 2023 driven by new charges in non-performing loans and the impact of rising interest rates on the mortgage portfolio, partly offset by a release in performing loans due to a relative improvement in forward-looking macro-economic variables. From the third quarter of 2022 to the first quarter of 2023, expected credit losses resulted in a charge primarily driven by the continued unfavourable movement in forward-looking macro-economic variables in performing loans. The charge in the second quarter of 2022 was primarily driven by a significant charge for a stage 3 loan that was written-off. 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 Russia-Ukraine war and inflationary pressures on the forward economic outlook. The charge in the fourth quarter of 2021 was due to an impairment charge from a performing loan, partly offset by releases from non-performing loans in the energy sector.

We continued to prudently manage our costs in response to the current economic environment. Higher costs in the fourth quarter of 2021 were mainly related to the move to hybrid working. The increase in operating expenses in the fourth quarter of 2022 was mainly due to the re-assessment of the useful life and impairment of intangible assets[2] as a consequence of the agreed sale of HSBC Bank Canada.

With the exception of the second quarter of 2022 when we realized a significant charge in expected credit losses, profit before income tax expense had been improving from the first quarter of 2022. In the first quarter of 2023, we recorded our highest profit before tax. The decrease in the third quarter of 2023 was a result of lower operating income and a higher charge in expected credit losses.

1. *Record net fee income for the quarter, since net fee income began to be reported separately in 2012.*
2. *For further details of re-assessment of the useful life and impairment of intangible assets, refer to note 18 of our Annual Report and Accounts 2022.*

Economic review and outlook

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

Economic momentum has cooled

The Canadian economy has been affected by a number of factors over the past few months including a record wildfire season, a strike at west coast ports, and a strike by the largest federal public service union. While these are temporary headwinds, there is mounting evidence that the economy, more broadly, has entered a period of more moderate growth. This slowdown reflects the effects of Bank of Canada ('BoC') interest rate increases of 475 basis points since March 2022, and the effects of slower global demand as many central banks have responded to elevated inflation pressures and tight labour markets by raising interest rates aggressively.

In many countries, there are signs that tightening cycles might be drawing to a close. In Canada, amid signs of slower economic growth, and easing of the tightness in the labour market, there is hope that the BoC rate rising cycle might be over.

Overall, we look for gross domestic product ('GDP') growth of 1.1% in 2023, down from 3.4% in 2022. We look for a further slowdown in economic growth to 0.6% in 2024.

Early 2023 resilience has faded

Following growth of 2.6% quarter-over-quarter annualized in the first quarter, lifted by resilient consumer spending, particularly on services, there was a surprising contraction in economic growth in the second quarter, as consumers became more cautious.

This might reflect the fading effects of the release of post-pandemic pent up demand. In particular, demand for those service sectors most affected by COVID-19 restrictions — for example travel, restaurants, transportation, and entertainment — had helped support GDP growth over the past two years. However, the momentum in these sectors has slowed sharply, as has spending on other services, pointing toward a broader decrease in domestic demand.

Meanwhile, activity on the goods producing side of the economy has been essentially flat since late 2022. For example, though the west coast port strike was a factor in manufacturing activity declining by 1.5% month-over-month in July, factory sector activity, has been flat for the past year. It is not a one-month phenomenon.

The July GDP report reinforced our view that economic growth has slowed. In the month, GDP was unchanged, and Statistics Canada reported an advance estimate that GDP grew by 0.1% month-over-month in August. Based on this, GDP growth looks set to slow to below 1.0% year-over-year in August, continuing a general deceleration that started in April 2022.

Labour market adjustment underway

Meanwhile, there is mounting evidence that the labour market is starting to loosen. The most obvious indicator is that the unemployment rate has increased to 5.5% in September from 5.0% at the end of 2022. In fact, the unemployment rate did not start to rise until May.

However, the increase in the unemployment rate reflects the ongoing increase in the labour force due to a high level of immigration, given that employment is up 139,900 since May, while the labour force rose by 270,800. The increase in the unemployment rate demonstrates that these potential new workers are no longer being fully absorbed into the workforce – a sign that the demand for labour has cooled.

The number of job vacancies has also declined by 30% from their mid-2022 peak level. Job vacancies together with the number of payroll employees gives a measure of total labour demand. From mid-2021 onward, the rate of growth of total labour demand far outpaced GDP growth. This was a key factor in the job market becoming very tight and putting upward pressure on wages. However, total labour demand has since slowed to a pace more aligned with the slower pace of economic growth.

Meanwhile, a survey of small firms by the Canadian Federation of Independent Businesses has found that fewer firms are facing skilled labour shortages.

A decline in the number of job vacancies and a reduction in skilled labour shortages have long been considered key indicators of an easing in labour market tightness. These developments are underway without significant job losses, combined with the orderly deceleration in economic growth suggests to us that a "soft landing" for the economy might be unfolding.

As economic growth slows we do expect there to be job losses in coming quarters, and we look for the unemployment rate to continue to rise, peaking at 6.7% in April 2024.

Inflation has declined, but more progress is needed

The annual rate of inflation has declined from a peak of 8.1% in mid-2022, to a low of 2.8% in June 2023, before rising during the third quarter. The most recent inflation reading was 3.8% year-over-year in September.

The recent back up in the rate of inflation reflects the stickiness of underlying price pressures, the waning effect of significant decreases in some consumer prices last year, and recent upward pressure on gasoline prices.

In fact, even as the rate of inflation declined from mid-2022 through mid-2023, there were signs that completing the last mile of inflation reduction — from around 3% to 2% — could be challenging. This was because short-term momentum in core inflation had remained sticky between 3.5% and 4% annualized since mid-2022.

There are also signs of lingering cost pressures, adding to the potential challenge of bringing down inflation. For example, business surveys highlight ongoing input cost challenges from recent upward pressures on fuel and energy costs, while firms also report greater challenges from rising borrowing costs. These supply side factors suggest that firms still have some pressures to pass along higher input costs to customers.

It is thus still far from clear that economic conditions consistent with inflation falling all the way to 2% are falling into place. As a result, the BoC will remain prepared to raise the policy rate again, in order to ensure that monetary policy is restrictive enough to achieve its inflation objective.

That said, with economic momentum slowing, and the tightness in the labour market starting to ease, as expected the BoC has left its policy rate at 5.0%.

Job losses are still possible

While we see a soft landing as the most likely outcome over the next two years, there is a risk of a harder landing with sharper job losses. One development we will watch closely is how firms respond to a squeeze on corporate profits. From a high of 14.9% in the second quarter of 2022, the ratio of non-financial corporate profits has declined to 10.8%, the lowest in three years.

The drop in corporate profits tracked the decline in the BoC's commodity price index, which has declined by almost 28% from its peak level, weighing heavily on corporate revenues. Meanwhile, business sector unit labour costs continued to rise at an elevated rate of more than 5% year-over-year. Hence, revenue growth is no longer outpacing labour cost pressures. In our view, this suggests that firms might begin to control costs by reducing payrolls.

The corporate profit squeeze, and higher borrowing costs are also key reasons for our more moderate outlook for business investment. After growth of 6.6% in 2022, we see business non-residential fixed investment dropping to 3.2% in 2023 and slowing further to 2.3% in 2024.

We also see some specific economic imbalances that are of concern. For example, residential construction activity peaked in March 2022, and has since declined by 21%. Over the same time period, residential construction payroll employment has increased by 3.4%. Hence, output-per-worker has fallen sharply. The prospect that interest rates could remain elevated for some time presents a lingering headwind to the housing sector, presenting a downside risk to the outlook for employment in this sector.

While not as extreme, a similar situation is evident, goods producing employment has continued to rise while output growth has slowed. This justifies a cautious outlook for employment.

That said, firms might be reluctant to reduce payrolls much given the skilled labour challenges they have faced during the post-pandemic recovery. Hence, we look for only moderate job losses. Further, specific to residential construction, job losses might be contained given that federal and provincial governments have introduced measures to support the building of rental units to deal with the challenge of elevated immigration levels at a time when housing supply is already tight.

Households' adjustment to higher rates in focus

The possibility of job losses, even if moderate, implies even greater financial challenges to the household sector. Already, even with a tight labour market, the number of consumers seeking assistance to deal with their financial obligations has hit record highs. As the job market softens, we expect even more consumers to seek such assistance.

As well, we do not think that the full impact of past rate hikes has yet been felt by mortgage borrowers. Last year and earlier this year, financial firms were flexible with mortgage borrowers dealing with the sharp increase in interest rates. However, with economic growth slowing, a more challenging outlook for the job market, and more mortgages coming up for renewal amid a higher interest rate environment, interest payments are rising.

The financial headwinds facing the household sector are getting stronger, which we think will weigh on consumption spending. Thus, after growing by 4.8% in 2022, we look for consumption spending to slow to 2.0% in 2023, and to 0.3% in 2024. Should the economic slowdown be more severe than our expected soft landing, the squeeze on the household sector could increase sharply.

Households in lower income quintiles have borne the brunt of the effects of higher inflation and higher interest rates. As the job market weakens, we expect the challenges to spread to higher income quintiles though the negative effects of lower employment income could be partially offset by elevated savings.

We do not expect the BoC to begin to lower its policy rate until the third quarter of 2024. An earlier start to an easing cycle would depend on how quickly the BoC officials believe that inflation is on track toward 2%, and the speed of deterioration in the labour market.

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 2022* and updates provided in our *first and second quarter 2023 Interim Reports*. The following is a summary of some key regulatory changes announced in the third quarter of 2023 with the potential to impact our results or operations:

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

In September 2023, OSFI published an update in relation to its broader mandate. As next steps, OSFI will engage and hold initial discussions with stakeholders. As such, on October 2023, OSFI published for consultation a draft Integrity and Security Guideline which includes further clarity for financial institutions. OSFI also issued a revised draft Guideline E-21, Operational Resilience and Operational Risk Management which sets expectations to strengthen federally regulated financial institutions' ('FRFIs') ability to prepare and recover from operational risks, integrity and security. In addition, OSFI published a draft Standardized Climate Scenario Exercise ('SCSE') methodology which aims to increase FRFIs' understanding of their potential exposures to climate-related risks to build their capacity in conducting climate scenario analysis and risk assessments.

Also in September 2023, OSFI published a commercial real estate ('CRE') regulatory notice. It reinforces federally regulated financial institution expectations so that sound risk management of commercial real estate lending is maintained in a vulnerable environment. The interim regulatory guidance responds to the heightened risk environment by reinforcing and clarifying expectations regarding sound risk management of CRE lending, including governance, underwriting, account management, and portfolio management.

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 material accounting policy information is provided in note 2 of our *Annual Report and Accounts 2022*.

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, defined benefit obligations, intangible assets, and provisions. There were no changes in the current period to the critical accounting estimates and judgments applied in 2022, which are stated on pages 21, 22, 34 and 67 of the *Annual Report and Accounts 2022*.

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 2022*.

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, 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 2022*.

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 2022*.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer ('CEO') and the Chief Financial Officer ('CFO') have signed certifications relating to the appropriateness of the financial disclosures in interim filings with the Canadian Securities Administrators, including this MD&A and the accompanying consolidated financial statements for the quarter ended 30 September 2023. The CEO and CFO are responsible for the design and maintenance of disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. There have been no changes in internal controls over financial reporting during the quarter ended 30 September 2023 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 2022.

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

On 18 September 2023, HSBC Global Services (Canada) Limited ('ServCo'), which is an indirect wholly-owned subsidiary of HSBC Holdings, transferred certain shared services to the bank. The transfer was not designed to deliver economic benefits from changes in business activities, but represents a rearrangement of the organization of business activities across legal entities under the common control of HSBC Holdings plc in its capacity as the ultimate shareholder. The transfer of people and other supporting assets have no significant impact on the overall financial results, position or operations of the bank.

The consideration paid to ServCo as part of the transaction was $2m. The combination of the net liabilities assumed and the consideration paid is recognized in equity as a deemed dividend of $4m to the ultimate shareholder.

Risk

Refer to the 'Risk' section of our *Annual Report and Accounts 2022* 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.

Included in the 'Factors that may affect future results' section on page 38 is a summary of the agreed sale of HSBC Bank Canada.

Credit risk

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

Credit risk management

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

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 29 of the *Annual Report and Accounts 2022*.

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 expected credit losses and other credit impairment charges ('ECL').

The allowance for ECL at 30 September 2023 is comprised of $354m in respect of assets held at amortized cost, $27m in respect of loan commitments and financial guarantees, and $1m in respect of performance guarantee contracts.

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

		At			
		30 Sep 2023		31 Dec 2022	
	Footnotes	**Gross carrying/ nominal amount**	**Allowance for ECL**	Gross carrying/ nominal amount	Allowance for ECL
		$m	**$m**	$m	$m
Loans and advances to customers at amortized cost		**74,051**	**(330)**	75,180	(318)
– personal		**35,546**	**(122)**	36,127	(102)
– corporate and commercial		**38,505**	**(208)**	39,053	(216)
Loans and advances to banks at amortized cost		**331**	**—**	344	—
Other financial assets measured at amortized cost		**23,898**	**(24)**	26,783	(26)
– cash and balances at central bank		**4,828**	**—**	6,326	—
– items in the course of collection from other banks		**26**	**—**	9	—
– reverse repurchase agreements - non-trading		**3,437**	**—**	6,003	—
– financial investments		**9,407**	**—**	8,361	—
– customers' liability under acceptances		**2,919**	**(3)**	3,155	(8)
– other assets, prepayments and accrued income	1	**3,281**	**(21)**	2,929	(18)
Total gross carrying amount on-balance sheet		**98,280**	**(354)**	102,307	(344)
Loans and other credit related commitments		**47,507**	**(25)**	46,978	(30)
– personal		**8,876**	**(1)**	8,797	(1)
– corporate and commercial		**38,631**	**(24)**	38,181	(29)
Financial guarantees	2	**1,763**	**(2)**	1,725	(2)
– personal		**7**	**—**	7	—
– corporate and commercial		**1,756**	**(2)**	1,718	(2)
Total nominal amount off-balance sheet	3	**49,270**	**(27)**	48,703	(32)
		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	**13,485**	**—**	15,024	(1)

1. *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Other assets' and 'Prepayments and accrued income' as presented within the consolidated balance sheet include both financial and non-financial assets.*
2. *Excludes performance guarantee contracts.*
3. *Represents the maximum amount at risk should the contracts be fully drawn upon and 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	62,783	10,854	414	74,051	(56)	(142)	(132)	(330)	0.1	1.3	31.9	0.4
– personal	30,378	4,994	174	35,546	(9)	(91)	(22)	(122)	—	1.8	12.6	0.3
– corporate and commercial	32,405	5,860	240	38,505	(47)	(51)	(110)	(208)	0.1	0.9	45.8	0.5
Loans and advances to banks at amortized cost	331	—	—	331	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	23,726	151	21	23,898	(2)	(1)	(21)	(24)	—	0.7	100.0	0.1
Loan and other credit-related commitments	43,463	3,886	158	47,507	(12)	(12)	(1)	(25)	—	0.3	0.6	0.1
– personal	8,683	150	43	8,876	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	34,780	3,736	115	38,631	(11)	(12)	(1)	(24)	—	0.3	0.9	0.1
Financial guarantees[2]	1,660	79	24	1,763	(1)	(1)	—	(2)	0.1	1.3	—	0.1
– personal	7	—	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,653	79	24	1,756	(1)	(1)	—	(2)	0.1	1.3	—	0.1
At 30 Sep 2023	131,963	14,970	617	147,550	(71)	(156)	(154)	(381)	0.1	1.0	25.0	0.3

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

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%
Loans and advances to customers at amortized cost	60,549	14,254	377	75,180	(48)	(169)	(101)	(318)	0.1	1.2	26.8	0.4
– personal	33,367	2,628	132	36,127	(12)	(71)	(19)	(102)	—	2.7	14.4	0.3
– corporate and commercial	27,182	11,626	245	39,053	(36)	(98)	(82)	(216)	0.1	0.8	33.5	0.6
Loans and advances to banks at amortized cost	344	—	—	344	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	26,205	561	17	26,783	(3)	(6)	(17)	(26)	—	1.1	100.0	0.1
Loan and other credit-related commitments	40,482	6,374	122	46,978	(10)	(20)	—	(30)	—	0.3	—	0.1
– personal	8,600	156	41	8,797	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	31,882	6,218	81	38,181	(9)	(20)	—	(29)	—	0.3	—	0.1
Financial guarantees[2]	1,576	117	32	1,725	(1)	(1)	—	(2)	0.1	0.9	—	0.1
– personal	7	—	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,569	117	32	1,718	(1)	(1)	—	(2)	0.1	0.9	—	0.1
At 31 Dec 2022	129,156	21,306	548	151,010	(62)	(196)	(118)	(376)	—	0.9	21.5	0.2

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*

At the third quarter of 2023, ECL impairment allowances continue to be subject to a high degree of uncertainty in relation to economic scenarios forecasts. As a result of this uncertainty, management judgments and estimates continue to reflect a degree of caution both in the selection of economic scenarios and their weightings, and in the use of management judgmental adjustments, which reflect how economic conditions interact with modelled outcomes, and are described in more detail below.

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

Methodology

In the third quarter, four economic scenarios have been used to capture the current economic environment and to articulate management's view of the range of potential outcomes.

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

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.

Following better than expected growth in the first half of 2023, GDP growth forecast for the remainder of 2023 has been revised upwards although the outlook remains weak and forecasts continue to anticipate an extended period of lower growth over the remainder of

2023 and into 2024. Inflation is proving to be persistent. The moderation in inflation since peaking in mid-2022 is primarily due to softer energy prices while core inflation remains particularly sticky. The labour market is showing signs of cooling and unemployment is expected to increase in the coming quarters driven by a moderation in economic growth. Central bank policy interest rates are expected to be close to their peak and to remain close to this level for a year. Monetary policy is likely to remain restrictive, given elevated inflation. House price contraction in the second quarter of 2023 was less severe than expected and its forecasted pace has been revised to narrow for the remainder of the year. A chronic housing shortage and interest rates remain the key issues with respect to house prices.

Risks to the Central scenario are captured in the outer scenarios. The Upside and Downside scenarios are constructed to reflect the economic consequences from the crystallization of a number of macroeconomic and financial risks. Key sources of forecast uncertainty include inflation, energy prices and the outlook for monetary policy. Geopolitical risks also present downside threats. These include the risk of an escalation of the Russia-Ukraine war and continued differences between the US and China over a range of strategic issues.

The four scenarios used for the purpose of calculating ECL at 30 September 2023 are summarized below:

- The consensus Central scenario: This scenario features a slowdown in growth over the remainder of 2023 and early 2024. Unemployment is forecast to rise gradually, amid weaker economic activity. Inflation is expected to fall slowly back to central bank targets by early 2025 and interest rates are projected to remain higher than pre-pandemic levels over the forecast horizon.
- The consensus Upside scenario: This scenario incorporates the de-escalation of geopolitical tensions and a loosening of financial conditions. In this scenario, growth accelerates, inflation falls at a faster rate than in the Central scenario and unemployment falls. Asset prices, including housing, rise more quickly than in the Central scenario.
- The consensus Downside scenario: This scenario features weaker economic activity compared with the Central scenario, driven by a supply shock that causes a rise in inflation and interest rates above the Central forecast. In this scenario, GDP contracts, unemployment rises, financial conditions tighten, and equity markets and house prices fall. Other downside risk themes include a weaker-than-expected recovery in mainland China, with negative implications for global growth.
- The Downside 2 scenario: This scenario reflects management's view of the tail end of the economic distribution. It incorporates the simultaneous crystallization of a number of risks that drive inflation and interest rates substantially higher than in the Central scenario in the near term. The narrative features an escalation of geopolitical risks and worsening of supply chain disruptions. As a result, inflation and interest rates are expected to rise significantly initially, causing a deep global recession and further stress in the banking sector. Unemployment increases rapidly, asset prices fall sharply, and defaults rise significantly.

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

Macroeconomic projections[1, 2]

	Central scenario	Consensus upside			Consensus downside			Downside 2		
	Five-year average	Five-year average	Best outcome		Five-year average	Worst outcome		Five-year average	Worst outcome	
30 September 2023										
GDP growth (%)	**1.8**	**2.8**	**4.1**	**(3Q25)**	**1.0**	**(1.9)**	**(3Q24)**	**0.8**	**(5.2)**	**(3Q24)**
Unemployment rate (%)	**5.7**	**5.4**	**4.9**	**(3Q25)**	**6.2**	**7.7**	**(2Q24)**	**9.3**	**11.9**	**(4Q24)**
House Price Index (%)	**1.0**	**2.8**	**8.8**	**(4Q24)**	**(1.6)**	**(16.8)**	**(2Q24)**	**(4.2)**	**(39.0)**	**(3Q24)**
Brent oil prices (US$/barrel)	**77.2**	**70.8**	**78.1**	**(4Q23)**	**82.7**	**81.8**	**(3Q25)**	**69.8**	**57.6**	**(4Q24)**
Inflation rate	**2.2**	**2.0**	**0.9**	**(4Q24)**	**2.2**	**3.5**	**(2Q24)**	**2.1**	**5.3**	**(1Q24)**
Probability (%)	**75**	**10**			**10**			**5**		
31 December 2022										
GDP growth (%)	1.6	2.7	4.3	(3Q24)	0.3	(3.9)	(4Q23)	(0.2)	(5.9)	(4Q23)
Unemployment rate (%)	5.9	5.7	5.2	(3Q24)	6.5	7.6	(3Q23)	9.4	11.6	(2Q24)
House Price Index (%)	(1.1)	0.7	4.9	(2Q24)	(3.5)	(23.8)	(2Q23)	(6.0)	(36.3)	(4Q23)
Brent oil prices (US$/barrel)	77.2	70.7	85.7	(1Q23)	87.6	85.1	(4Q24)	67.2	54.1	(3Q24)
Inflation rate	2.4	2.2	1.0	(1Q24)	2.4	6.0	(1Q23)	2.2	6.5	(1Q23)
Probability (%)	70	5			15			10		

1. *Macroeconomic projections at 30 September 2023 are based on average 4Q2023-3Q2028 (31 December 2022: average 1Q2023-4Q2027).*
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 2022. At 30 September 2023, the consensus upside and central scenarios had a combined weighting of 85% (31 December 2022: 75%) and the downside scenarios had a combined weighting of 15% (31 December 2022: 25%).

Management judgmental adjustments

In the context of IFRS 9, management judgmental adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgment applied during management review and challenge.

This includes refining model inputs and outputs and using post model adjustments based on management judgment and higher level quantitative analysis for impacts that are difficult to model.

At 30 September 2023, 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.

The current inflationary and interest rate environment increases the inherent difficulty in forecasting ECL, as the models are not directly designed to take account of a sudden and significant change in interest rates. In the near-term, the effects are more pronounced in Retail leading to adjustments which capture the effect of cost of borrowing, regional variations in house price indexes, and related risks of defaults. The Bank continues to work closely with its clients.

Where the macroeconomic and portfolio risk outlook is expected 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 or where sector-specific risk is not adequately captured.

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

Management judgmental adjustments made in estimating the reported ECL at 30 September 2023 are set out in the following table.

Management judgmental adjustments to ECL[1]

	Retail	Wholesale	Total
	$m	**$m**	**$m**
Expert credit and model adjustments	**38**	**24**	**62**
Adjustments for forward economic guidance and late breaking events	**41**	**—**	**41**
30 September 2023	**79**	**24**	**103**
Expert credit and model adjustments	16	35	51
Adjustments for forward economic guidance and late breaking events	42	—	42
31 December 2022	58	35	93

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

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

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

Economic scenarios sensitivity analysis of ECL estimates

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

The ECL calculated for the upside and downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes, and it is possible that actual outcomes could differ significantly from the scenarios outlined in the ECL sensitivities. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the loss given default of a particular portfolio was sensitive to these changes. The wholesale and retail sensitivity analysis for each scenario is stated inclusive of management judgmental adjustments, as appropriate.

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

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

Wholesale portfolio analysis

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

IFRS 9 ECL sensitivity to future economic conditions[1]

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

	30 Sep 2023	31 Dec 2022
	$m	$m
Reported ECL	**124**	171
100% consensus central scenario	**106**	108
100% consensus upside scenario	**74**	82
100% consensus downside scenario	**156**	201
100% downside 2	**674**	787
Gross carrying amount/nominal amount[3]	**111,876**	114,583

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

Retail portfolio analysis

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

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]

	30 Sep 2023	31 Dec 2022
	$m	$m
Reported ECL	**119**	96
100% consensus central scenario	**115**	92
100% consensus upside scenario	**110**	87
100% consensus downside scenario	**127**	100
100% downside 2	**187**	142
Gross carrying amount	**35,867**	36,429

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

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

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

		Quarter ended							
		30 Sep 2023				30 Sep 2022			
		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		**64**	**158**	**129**	**351**	51	150	82	283
Transfers of financial instruments:	2	**23**	**(25)**	**2**	**—**	26	(25)	(1)	—
– transfers from stage 1 to stage 2		**(4)**	**4**	**—**	**—**	(6)	6	—	—
– transfers from stage 2 to stage 1		**27**	**(27)**	**—**	**—**	31	(31)	—	—
– transfers to stage 3		**—**	**(3)**	**3**	**—**	—	(1)	1	—
– transfers from stage 3		**—**	**1**	**(1)**	**—**	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	2	**(14)**	**5**	**—**	**(9)**	(7)	8	—	1
New financial assets originated or purchased		**4**	**—**	**—**	**4**	7	—	—	7
Changes to risk parameters		**(7)**	**22**	**25**	**40**	(22)	52	17	47
Asset derecognized (including final repayments)		**(1)**	**(5)**	**(1)**	**(7)**	(1)	(4)	—	(5)
Assets written off		**—**	**—**	**(22)**	**(22)**	—	—	(4)	(4)
Foreign exchange		**—**	**—**	**—**	**—**	—	1	3	4
Balance at the end of the period		**69**	**155**	**133**	**357**	54	182	97	333
ECL charge/(release) for the period		**(18)**	**22**	**24**	**28**	(23)	56	17	50
Recoveries		**—**	**—**	**(3)**	**(3)**	—	—	(1)	(1)
Total ECL charge/(release) for the period		**(18)**	**22**	**21**	**25**	(23)	56	16	49

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

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

		Nine months ended							
		30 Sep 2023				30 Sep 2022			
		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		**59**	**190**	**101**	**350**	78	163	128	369
Transfers of financial instruments:	2	**110**	**(111)**	**1**	**—**	73	(92)	19	—
– transfers from stage 1 to stage 2		**(10)**	**10**	**—**	**—**	(11)	11	—	—
– transfers from stage 2 to stage 1		**118**	**(118)**	**—**	**—**	81	(81)	—	—
– transfers to stage 3		**—**	**(8)**	**8**	**—**	—	(27)	27	—
– transfers from stage 3		**2**	**5**	**(7)**	**—**	3	5	(8)	—
Net remeasurement of ECL arising from transfer of stage	2	**(39)**	**15**	**—**	**(24)**	(36)	15	—	(21)
New financial assets originated or purchased		**13**	**—**	**—**	**13**	18	—	—	18
Changes to risk parameters		**(71)**	**77**	**78**	**84**	(76)	109	81	114
Asset derecognized (including final repayments)		**(3)**	**(16)**	**(3)**	**(22)**	(3)	(14)	(1)	(18)
Assets written off		**—**	**—**	**(44)**	**(44)**	—	—	(134)	(134)
Foreign exchange		**—**	**—**	**—**	**—**	—	1	4	5
Balance at the end of the period		**69**	**155**	**133**	**357**	54	182	97	333
ECL charge/(release) for the period		**(100)**	**76**	**75**	**51**	(97)	110	80	93
Recoveries		**—**	**—**	**(6)**	**(6)**	—	—	(5)	(5)
Total ECL charge/(release) for the period		**(100)**	**76**	**69**	**45**	(97)	110	75	88

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

	At	Nine months ended	At	Nine months ended
	30 Sep 2023	**30 Sep 2023**	30 Sep 2022	30 Sep 2022
	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	**357**	**45**	333	88
Other financial assets measured at amortized cost	**24**	**(4)**	25	1
Performance guarantee contracts	**1**	**–**	1	(7)
Total allowance for ECL / Total income statement ECL charge for the period	**382**	**41**	359	82

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.

As the economic environment continues to be volatile, there is an increased estimation risk in estimating the stage migration and distribution of exposures. The recent inflationary and interest rate environment increases the inherent difficulty in forecasting changes in credit risk and the potential for credit losses arising from lending activities. Where considered necessary, the Bank supplements its ECL models with techniques to estimate staging adjustments and ECL allowances. Slight changes in forward looking economic data can have a pronounced impact on the stage distribution of loans.

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						Allowance for ECL/ other credit loss provisions	
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total		Net
	$m	$m	$m	$m	$m	$m	$m	$m
Debt instruments at fair value through other comprehensive income[1]	13,913	—	—	—	—	13,913	—	13,913
– stage 1	13,913	—	—	—	—	13,913	—	13,913
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	35,252	20,027	16,348	2,010	414	74,051	(330)	73,721
– stage 1	35,143	18,218	9,038	384	—	62,783	(56)	62,727
– stage 2	109	1,809	7,310	1,626	—	10,854	(142)	10,712
– stage 3	—	—	—	—	414	414	(132)	282
Loans and advances to banks at amortized cost	331	—	—	—	—	331	—	331
– stage 1	331	—	—	—	—	331	—	331
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	20,908	1,969	976	24	21	23,898	(24)	23,874
– stage 1	20,906	1,945	871	4	—	23,726	(2)	23,724
– stage 2	2	24	105	20	—	151	(1)	150
– stage 3	—	—	—	—	21	21	(21)	—
Total gross carrying amount on-balance sheet	70,404	21,996	17,324	2,034	435	112,193	(354)	111,839
Percentage of total credit quality	62.8 %	19.6 %	15.4 %	1.8 %	0.4 %	100.0 %		
Loan and other credit-related commitments	19,599	17,235	9,921	594	158	47,507	(25)	47,482
– stage 1	19,539	16,124	7,613	187	—	43,463	(12)	43,451
– stage 2	60	1,111	2,308	407	—	3,886	(12)	3,874
– stage 3	—	—	—	—	158	158	(1)	157
Financial guarantees[2]	822	564	339	14	24	1,763	(2)	1,761
– stage 1	822	546	287	5	—	1,660	(1)	1,659
– stage 2	—	18	52	9	—	79	(1)	78
– stage 3	—	—	—	—	24	24	—	24
Total nominal amount off-balance sheet	20,421	17,799	10,260	608	182	49,270	(27)	49,243
At 30 Sep 2023	90,825	39,795	27,584	2,642	617	161,463	(381)	161,082

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						Allowance for ECL/ other credit loss provisions	Net
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total		
	$m	$m	$m	$m	$m	$m	$m	$m
Debt instruments at fair value through other comprehensive income[1]	15,772	—	—	—	—	15,772	(1)	15,771
– stage 1	15,772	—	—	—	—	15,772	(1)	15,771
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	37,518	19,617	14,759	2,909	377	75,180	(318)	74,862
– stage 1	37,468	15,385	7,550	146	—	60,549	(48)	60,501
– stage 2	50	4,232	7,209	2,763	—	14,254	(169)	14,085
– stage 3	—	—	—	—	377	377	(101)	276
Loans and advances to banks at amortized cost	335	6	3	—	—	344	—	344
– stage 1	335	6	3	—	—	344	—	344
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	23,397	2,076	1,253	40	17	26,783	(26)	26,757
– stage 1	23,397	1,787	1,017	4	—	26,205	(3)	26,202
– stage 2	—	289	236	36	—	561	(6)	555
– stage 3	—	—	—	—	17	17	(17)	—
Total gross carrying amount on-balance sheet	77,022	21,699	16,015	2,949	394	118,079	(345)	117,734
Percentage of total credit quality	65.2 %	18.4 %	13.6 %	2.5 %	0.3 %	100.0 %		
Loan and other credit-related commitments	18,781	19,453	7,976	646	122	46,978	(30)	46,948
– stage 1	18,725	16,289	5,418	50	—	40,482	(10)	40,472
– stage 2	56	3,164	2,558	596	—	6,374	(20)	6,354
– stage 3	—	—	—	—	122	122	—	122
Financial guarantees[2]	988	384	280	41	32	1,725	(2)	1,723
– stage 1	988	380	206	2	—	1,576	(1)	1,575
– stage 2	—	4	74	39	—	117	(1)	116
– stage 3	—	—	—	—	32	32	—	32
Total nominal amount off-balance sheet	19,769	19,837	8,256	687	154	48,703	(32)	48,671
At 31 Dec 2022	96,791	41,536	24,271	3,636	548	166,782	(377)	166,405

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

Wholesale lending

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

		At			
		30 Sep 2023		31 Dec 2022	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial					
– agriculture, forestry and fishing		**869**	**(3)**	954	(3)
– mining and quarrying	*1*	**1,694**	**(18)**	1,677	(19)
– manufacture		**6,373**	**(56)**	6,835	(38)
– electricity, gas, steam and air-conditioning supply		**240**	**(5)**	255	(7)
– water supply, sewerage, waste management and remediation		**135**	**—**	109	(1)
– construction		**1,059**	**(4)**	1,024	(9)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**6,879**	**(63)**	7,116	(37)
– aviation, transportation and storage		**3,154**	**(6)**	2,818	(15)
– accommodation and food		**1,704**	**(6)**	1,658	(13)
– publishing, audiovisual and broadcasting		**784**	**(2)**	866	(6)
– real estate		**10,653**	**(22)**	10,723	(29)
– professional, scientific and technical activities		**1,116**	**(2)**	976	(3)
– administrative and support services		**858**	**(3)**	727	(12)
– education		**147**	**—**	113	(1)
– health and care		**429**	**(12)**	413	(14)
– arts, entertainment and recreation		**249**	**—**	255	(1)
– other services		**152**	**(1)**	240	(1)
– government		**36**	**—**	35	—
– non-bank financial institutions		**1,974**	**(5)**	2,259	(7)
Total		**38,505**	**(208)**	39,053	(216)
By geography	*2*				
Canada		**35,604**	**(192)**	36,058	(206)
– British Columbia		**10,572**	**(27)**	10,704	(28)
– Ontario		**13,288**	**(79)**	13,541	(100)
– Alberta		**5,110**	**(27)**	5,199	(40)
– Quebec		**4,736**	**(51)**	4,534	(23)
– Saskatchewan and Manitoba		**1,213**	**(3)**	1,342	(12)
– Atlantic provinces		**685**	**(5)**	738	(3)
United States of America		**1,556**	**(14)**	1,808	(8)
Other		**1,345**	**(2)**	1,187	(2)
Total		**38,505**	**(208)**	39,053	(216)

1. *Mining and quarrying includes energy related exposures which constitute approximately 53% of the gross carrying amount and 68% of the allowance for ECL at 30 September 2023 (31 December 2022: Gross carrying amount was 59% and allowance for ECL was 60%).*
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 Sep 2023				30 Sep 2022			
		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		**52**	**73**	**110**	**235**	39	101	67	207
Transfers of financial instruments:	*2*	**12**	**(13)**	**1**	**—**	8	(8)	—	—
– transfers from stage 1 to stage 2		**(3)**	**3**	**—**	**—**	(5)	5	—	—
– transfers from stage 2 to stage 1		**15**	**(15)**	**—**	**—**	13	(13)	—	—
– transfers to stage 3		**—**	**(1)**	**1**	**—**	—	—	—	—
– transfers from stage 3		**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	*2*	**(10)**	**2**	**—**	**(8)**	—	4	—	4
New financial assets originated or purchased		**3**	**—**	**—**	**3**	5	—	—	5
Changes to risk parameters		**2**	**4**	**18**	**24**	(12)	19	12	19
Asset derecognized (including final repayments)		**—**	**(2)**	**(1)**	**(3)**	—	(1)	—	(1)
Assets written off		**—**	**—**	**(17)**	**(17)**	—	—	(1)	(1)
Foreign exchange		**—**	**—**	**—**	**—**	—	1	3	4
Other									
Balance at the end of the period		**59**	**64**	**111**	**234**	40	116	81	237
ECL charge/(release) for the period		**(5)**	**4**	**17**	**16**	(7)	22	12	27
Recoveries		**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period		**(5)**	**4**	**17**	**16**	(7)	22	12	27

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

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

		Nine months ended							
		30 Sep 2023				30 Sep 2022			
		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		**46**	**119**	**82**	**247**	67	119	106	292
Transfers of financial instruments:	*2*	**75**	**(77)**	**2**	**—**	22	(45)	23	—
– transfers from stage 1 to stage 2		**(7)**	**7**	**—**	**—**	(9)	9	—	—
– transfers from stage 2 to stage 1		**82**	**(82)**	**—**	**—**	31	(31)	—	—
– transfers to stage 3		**—**	**(2)**	**2**	**—**	—	(23)	23	—
– transfers from stage 3		**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	*2*	**(25)**	**7**	**—**	**(18)**	(10)	7	—	(3)
New financial assets originated or purchased		**10**	**—**	**—**	**10**	14	—	—	14
Changes to risk parameters		**(46)**	**25**	**61**	**40**	(52)	41	73	62
Asset derecognized (including final repayments)		**(1)**	**(10)**	**(3)**	**(14)**	(1)	(7)	—	(8)
Assets written off		**—**	**—**	**(31)**	**(31)**	—	—	(125)	(125)
Foreign exchange		**—**	**—**	**—**	**—**	—	1	4	5
Balance at the end of the period		**59**	**64**	**111**	**234**	40	116	81	237
ECL charge/(release) for the period		**(62)**	**22**	**58**	**18**	(49)	41	73	65
Recoveries		**—**	**—**	**—**	**—**	—	—	(1)	(1)
Total ECL charge/(release) for the period		**(62)**	**22**	**58**	**18**	(49)	41	72	64

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 $13m or 5% as compared to 31 December 2022, and the change in ECL for the nine months ended 30 September 2023 resulted in an income statement charge of $18m. The charge was primarily from new charges in non-performing loans, partly offset by a release in performing loans due to a relative improvement in forward-looking macro-economic variables.

The ECL charge for the nine months ended 30 September 2023 of $18m presented in the above table consisted of a $40m charge relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages, offset by a $18m release relating to the net remeasurement impact of stage transfers, and a release of $4m relating to underlying net volume movement.

The total ECL coverage for loans and advances to customers for corporate and commercial at 30 September 2023 was 0.5%, a decrease of 0.1 percentage point as compared to 31 December 2022.

Personal lending

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

		At			
		30 Sep 2023		31 Dec 2022	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnote	**$m**	**$m**	$m	$m
Residential mortgages		**32,848**	**(80)**	33,388	(58)
Home equity lines of credit		**1,342**	**(6)**	1,407	(11)
Personal revolving loan facilities		**426**	**(12)**	427	(10)
Retail card		**423**	**(16)**	405	(13)
Run-off consumer loan portfolio		**21**	**(3)**	26	(3)
Other personal loan facilities		**486**	**(5)**	474	(7)
Total		**35,546**	**(122)**	36,127	(102)
By geography	1				
Canada		**35,528**	**(122)**	36,107	(101)
– British Columbia		**14,764**	**(45)**	15,372	(38)
– Ontario		**16,855**	**(62)**	16,704	(47)
– Alberta		**1,756**	**(6)**	1,793	(7)
– Quebec		**1,550**	**(5)**	1,618	(5)
– Saskatchewan and Manitoba		**315**	**(2)**	327	(2)
– Atlantic provinces		**279**	**(2)**	285	(2)
– Territories		**9**	**—**	8	—
Other		**18**	**—**	20	(1)
Total		**35,546**	**(122)**	36,127	(102)

1. *Geographic distribution is based on the property address for real estate secured lending and customer address for others.*

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

		Quarter ended							
		30 Sep 2023				30 Sep 2022			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**12**	**85**	**19**	**116**	12	49	15	76
Transfers of financial instruments:	2	**11**	**(12)**	**1**	**—**	18	(17)	(1)	—
– transfers from stage 1 to stage 2		**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**12**	**(12)**	**—**	**—**	18	(18)	—	—
– transfers to stage 3		**—**	**(2)**	**2**	**—**	—	(1)	1	—
– transfers from stage 3		**—**	**1**	**(1)**	**—**	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	2	**(4)**	**3**	**—**	**(1)**	(7)	4	—	(3)
New financial assets originated or purchased		**1**	**—**	**—**	**1**	2	—	—	2
Changes to risk parameters		**(9)**	**18**	**7**	**16**	(10)	33	5	28
Asset derecognized (including final repayments)		**(1)**	**(3)**	**—**	**(4)**	(1)	(3)	—	(4)
Assets written off		**—**	**—**	**(5)**	**(5)**	—	—	(3)	(3)
Balance at the end of the period		**10**	**91**	**22**	**123**	14	66	16	96
ECL charge/(release) for the period		**(13)**	**18**	**7**	**12**	(16)	34	5	23
Recoveries		**—**	**—**	**(3)**	**(3)**	—	—	(1)	(1)
Total ECL charge/(release) for the period		**(13)**	**18**	**4**	**9**	(16)	34	4	22

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

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

		Nine months ended							
		30 Sep 2023				30 Sep 2022			
		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		**13**	**71**	**19**	**103**	11	44	22	77
Transfers of financial instruments:	2	**35**	**(34)**	**(1)**	**—**	51	(47)	(4)	—
– transfers from stage 1 to stage 2		**(3)**	**3**	**—**	**—**	(2)	2	—	—
– transfers from stage 2 to stage 1		**36**	**(36)**	**—**	**—**	50	(50)	—	—
– transfers to stage 3		**—**	**(6)**	**6**	**—**	—	(4)	4	—
– transfers from stage 3		**2**	**5**	**(7)**	**—**	3	5	(8)	—
Net remeasurement of ECL arising from transfer of stage	2	**(14)**	**8**	**—**	**(6)**	(26)	8	—	(18)
New financial assets originated or purchased		**3**	**—**	**—**	**3**	4	—	—	4
Changes to risk parameters		**(25)**	**52**	**17**	**44**	(24)	68	8	52
Asset derecognized (including final repayments)		**(2)**	**(6)**	**—**	**(8)**	(2)	(7)	(1)	(10)
Assets written off		**—**	**—**	**(13)**	**(13)**	—	—	(9)	(9)
Balance at the end of the period		**10**	**91**	**22**	**123**	14	66	16	96
ECL charge/(release) for the period		**(38)**	**54**	**17**	**33**	(48)	69	7	28
Recoveries		**—**	**—**	**(6)**	**(6)**	—	—	(4)	(4)
Total ECL charge/(release) for the period		**(38)**	**54**	**11**	**27**	(48)	69	3	24

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

The personal lending allowance for ECL increased by $20m or 19% during the nine months ended 30 September 2023, and resulted in an income statement charge of $27m. The charge during the nine months ended 30 September 2023 was driven by the impact of rising interest rates on the mortgage portfolio.

The ECL charge for the nine months ended 30 September 2023 of $27m presented in the above table consisted of a $44m charge relating to underlying risk parameter changes which includes the credit quality impact of financial instruments transferred between stages, offset by a $6m release relating to the net remeasurement impact of stage transfers and a $5m release relating to underlying net volume movement. There were recoveries of $6m during the nine months ended 30 September 2023.

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

Mortgages and home equity lines of credit

The majority of the bank's mortgage and home equity line of credit portfolios 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, 2]

	Residential mortgages					HELOC[3]	
	Insured[4]		**Uninsured[4]**		**Total**		**Uninsured**
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**1,320**	**10 %**	**12,531**	**90 %**	**13,851**	**610**	**100 %**
Western Canada[5]	**766**	**41 %**	**1,080**	**59 %**	**1,846**	**126**	**100 %**
Ontario	**2,521**	**16 %**	**13,689**	**84 %**	**16,210**	**529**	**100 %**
Quebec and Atlantic provinces	**686**	**41 %**	**967**	**59 %**	**1,653**	**67**	**100 %**
At 30 Sep 2023	**5,293**	**16 %**	**28,267**	**84 %**	**33,560**	**1,332**	**100 %**
British Columbia	1,432	10 %	12,995	90 %	14,427	659	100 %
Western Canada[4]	815	44 %	1,046	56 %	1,861	137	100 %
Ontario	2,617	16 %	13,390	84 %	16,007	537	100 %
Quebec and Atlantic provinces	729	42 %	995	58 %	1,724	66	100 %
At 31 Dec 2022	5,593	16 %	28,426	84 %	34,019	1,399	100 %

1. *Geographic distribution is based on the property location.*
2. *Residential mortgages and HELOC include wholesale lending and personal lending exposures.*
3. *HELOC is an abbreviation for Home Equity Lines of Credit, which are lines of credit secured by equity in real estate.*
4. *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.*
5. *Western Canada excludes British Columbia.*

The next table offers an overview of the duration it will take clients to repay their residential mortgages. The terms are derived from the current payments made by customers.

Given interest rate increases which started in 2022, many variable-rate customers will have an extended amortization term as compared to the original term, unless both a trigger rate threshold has been met for higher adjusted payments, and the customer has adjusted their regular payment accordingly. Some customers may be offered temporary extended amortizations up to the end of their current mortgage term. At renewal, for all mortgages, the Bank requires the amortization period to return to the original agreed-upon schedule, which might require higher payments depending upon the prevailing rates at renewal time; otherwise a refinancing of the mortgage would be necessary.

Amortization period[1]

	Residential mortgages				
	≤ 20 years	> 20 years ≤ 25 years	> 25 years ≤ 30 years	> 30 years < 35 years[2]	> 35 years[2]
At 30 Sep 2023	**20.8%**	**35.1%**	**20.9%**	**9.2%**	**14.0%**
At 31 Dec 2022	16.5%	35.4%	15.4%	6.9%	25.8%

1. *Amortization period is based on the effective remaining term of residential mortgages.*
2. *Our policy is to originate mortgages with amortization periods of 30 years or less. Amortization periods greater than 30 years reflect the impact of increases in interest rates on our variable rate mortgage portfolios. For these loans, the amortization period resets to the original amortization schedule upon renewal, or when the loan hits threshold trigger rate. For some customers, temporary amortization extensions > 30 years have been accorded.*

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

	Quarter ended	
	Uninsured % LTV[3]	
	Residential mortgages	HELOC
	%	%
British Columbia	**55.9 %**	**53.5 %**
Western Canada[4]	**64.0 %**	**63.9 %**
Ontario	**60.9 %**	**57.1 %**
Quebec and Atlantic provinces	**60.7 %**	**63.4 %**
Total Canada for the three months ended 30 Sep 2023	**59.7 %**	**57.0 %**
Total Canada for the three months ended 31 Dec 2022	59.7 %	57.0 %

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

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

The bank performs stress testing on its personal lending portfolio to assess the impact of increased levels of unemployment, rising interest rates, reduction in property values and changes in other relevant macro-economic variables. Potential increase in losses in the mortgage portfolio under downturn economic scenarios are considered manageable given the diversified composition of the portfolio, the low Loan-to-Value in the portfolio and risk mitigation strategies in place. Stage 2 ECL has increased due to the number of customers currently on a variable rate or scheduled for a fixed rate renewal that are vulnerable to interest rate increases.

Credit-impaired loans

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

Credit-impaired loans and advances to banks and customers*

		At			
		30 Sep 2023		31 Dec 2022	
		Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	Footnotes	$m	$m	$m	$m
Corporate and commercial		**240**	**(110)**	245	(82)
– agriculture, forestry and fishing		**2**	**—**	2	—
– mining and quarrying	*1*	**18**	**(9)**	86	(14)
– manufacturing		**102**	**(43)**	43	(16)
– electricity, gas, steam and air-conditioning supply		**6**	**(5)**	16	(7)
– construction		**19**	**(1)**	5	(2)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**67**	**(37)**	47	(17)
– aviation, transportation and storage		**1**	**(1)**	5	(2)
– accommodation and food		**1**	**(1)**	—	—
– publishing, audiovisual and broadcasting		**—**	**—**	6	(4)
– real estate		**3**	**—**	1	(1)
– administrative and support services		**2**	**(2)**	8	(8)
– health and care		**18**	**(10)**	25	(10)
– non-bank financial institutions		**1**	**(1)**	1	(1)
Households	*2*	**174**	**(22)**	132	(19)
Total		**414**	**(132)**	377	(101)

1. *Mining and quarrying includes energy related exposures which constitute approximately 69% of the gross carrying amount and 75% of the allowance for ECL at 30 September 2023 (31 December 2022: Gross carrying amount was 57% and allowance for ECL was 47%).*
2. *Households includes the personal lending portfolio.*

Forborne loans

The gross carrying amount of forborne loans was $903m at 30 September 2023 (31 December 2022: $497m) and the allowance for ECL was $53m (31 December 2022: $43m).

Refer to 'Credit risk management' on page 29 of the *Annual Report and Accounts 2022* for a summary of our current policies and practices for the management of credit risk.

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 2022* 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 had evaluated and prepared for the impact of these changes on our capital and liquidity requirements. The revised rules have been implemented in the second quarter of 2023, with the exception of credit valuation adjustment and market risk which will be implemented on 1 January 2024.

Assessment of interest rate risk in the banking book

The Treasury team uses a number of measures to monitor and control interest rate risk in the banking book, including: net interest income sensitivity and economic value of equity sensitivity.

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

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

Refer to the ‘Treasury risk’ section of our *Annual Report and Accounts 2022* for a discussion of the management process of capital, liquidity and funding risk and interest rate risk in the banking book.

Liquidity and funding risk

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

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

The bank remained above regulatory minimum liquidity and funding levels in the third quarter of 2023.

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 2022* continues to apply.

The bank's OSFI LCR is summarized in the following table. The bank's average LCR is calculated as the ratio of High-Quality Liquid Assets ('HQLA') to the total net stressed cash outflows over the next 30 calendar days. Compared to the previous quarter, the bank's average LCR for the three months ended 30 September 2023 decreased to 156% from 161%. This was predominately due to a decrease in HQLA in the quarter driven by a decrease in customer deposits and debt maturities, partly offset by a decrease in customer loans.

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

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Sep 2023	30 Jun 2023
Total HQLA[2] ($m)	**27,541**	28,426
Total net cash outflows[2] ($m)	**17,716**	17,694
Liquidity coverage ratio (%)	**156**	161

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.*

The bank implemented the OSFI NSFR as a basis to determine the bank's stable funding requirement and the first submission as of 30 June 2023 was submitted in July 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 the bank's funding profile within one-year time horizon and beyond. It is designed to complement the LCR and is calculated as the ratio of total available stable funding to the total required stable funding. The OSFI NSFR as of 30 September 2023 was 133% with total available stable funding of $76.1bn and total required stable funding of $57.1bn. The bank also implemented enhancements to the Net Cumulative Cash Flow ('NCCF') in April 2023 in accordance with OSFI's finalized updates to its LAR guideline. The NCCF is a supervisory tool which calculates a horizon for net positive cash flows in order to capture the risk posed by funding mismatches between assets and liabilities.

The bank issued a Euro denominated covered bond during the first quarter. The bank currently has three Euro denominated covered bonds listed on the London Stock Exchange as of 30 September 2023. These diversify the bank's source of funds while also expanding the bank's investor base.

Liquid assets

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

The table below shows the estimated liquidity value unweighted (before assumed haircuts) of assets categorized as liquid and used for the purpose of calculating the OSFI LCR metric. The level of liquid assets reported reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets. HQLA is substantially comprised of Level 1 assets, such as cash, deposits with central bank and highly rated securities issued or guaranteed by governments, central banks and supranational entities. Liquid assets consist of cash or assets that can be converted into cash at little or no loss of value.

Our liquid assets as at 30 September 2023 decreased by $4.6bn from 31 December 2022 predominately due to a decrease in customer deposits and a decrease in debt securities in issue.

Liquid assets[1]

	At	
	30 Sep 2023	31 Dec 2022
	$m	$m
Level 1	**25,675**	30,065
Level 2a	**1,842**	2,025
Level 2b	**42**	108
Total	**27,559**	32,198

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 2022* for a discussion of how the bank manages its capital.

The bank remained within its required regulatory capital limits during the quarter ended 30 September 2023.

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.

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

Regulatory capital

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

Total regulatory capital*

		At	
		30 Sep 2023	31 Dec 2022
	Footnotes	**$m**	$m
Gross common equity	*1*	**5,398**	4,818
Regulatory adjustments		**560**	380
Common equity tier 1 capital		**5,958**	5,198
Additional tier 1 eligible capital	*2*	**1,100**	1,100
Tier 1 capital		**7,058**	6,298
Tier 2 capital		**1,008**	1,039
Total capital		**8,066**	7,337

1. *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2. *Includes preferred shares.*

Regulatory capital ratios

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

		At	
		30 Sep 2023	31 Dec 2022
	Footnotes	**$m**	$m
Risk-weighted assets ('RWA')	*1, 2*	**43,216**	44,656
		%	%
Actual regulatory capital ratios			
– common equity tier 1 capital ratio	*3*	**13.8**	11.6
– tier 1 capital ratio	*3*	**16.3**	14.1
– total capital ratio	*3*	**18.7**	16.4
– leverage ratio	*4, 5*	**5.4**	4.7
Regulatory capital requirements	*6*		
– 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. The regulatory capital ratios in the third quarter are based on Basel III reform requirements as determined in accordance with OSFI Guideline – Capital Adequacy Requirements (April 2023). Prior period regulatory capital ratios were prepared in accordance with OSFI Guideline – Capital Adequacy Requirements (January 2019).*
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 has been in place from the first quarter of 2020 to the first quarter of 2023. As part of Basel III reforms, the floor percentage will be raised from 70% to the all-in 72.5%, phased-in over three years, starting at a 65% factor in the second quarter of 2023 and rising 2.5% per year to 72.5% in 2026.*
3. *The common equity tier 1, tier 1, and total capital ratios are calculated as the respective capital base divided by RWA, in accordance with CAR Guideline issued by OSFI. As part of Basel III reforms, updates to RWA have been incorporated since the second quarter of 2023.*
4. *The leverage ratio is calculated as tier 1 capital divided by leverage exposure measures, in accordance with Leverage Requirements ('LR') Guideline issued by OSFI. The leverage exposure measures represent the sum of on-balance sheet assets and specified off-balance sheet items.*
5. *The leverage ratio includes certain COVID-19 related relief measures announced by OSFI which allows the bank to exclude central bank reserves from their leverage ratio exposure measures until 31 March 2023. The leverage ratio as of 30 September 2023 includes central bank reserves from leverage ratio exposures.*
6. *OSFI target capital ratios including mandated capital conservation buffer.*

At 30 September 2023, our common equity tier 1 ('CET1') capital ratio increased to 13.8% from 11.6% at 31 December 2022, reflecting an increase in CET1 capital of $760m and a reduction in RWA of $1,440m. The increase in CET1 ratio was mainly from the increase in retained profits net of preferred share dividends.

Outstanding shares and dividends

		Nine months ended			Year ended		
		30 Sep 2023			31 Dec 2022		
		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	**—**	**548,668**	**1,125**	0.69259	548,668	1,125
Class 1 preferred shares	2						
– Series H		**1.37589**	**20,000**	**500**	1.08412	20,000	500
– Series I	3	**—**	**—**	**—**	1.15000	—	—
– Series J	3	**1.37776**	**14,000**	**350**	—	14,000	350
– Series K		**1.02189**	**10,000**	**250**	1.36252	10,000	250

1. *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
2. *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*
3. *The holder of the preferred shares Series I exercised their option to convert the preferred shares Series I into preferred shares Series J on 31 December 2022 in accordance with their terms; initial dividends on the preferred shares Series J were declared during the first quarter of 2023 and paid in accordance with their terms in the usual manner on 31 March 2023 or the first business day thereafter.*

Dividends declared in the third quarter 2023

During the third quarter of 2023, the bank declared regular quarterly dividends of $19m on all series of outstanding HSBC Bank Canada Class 1 preferred shares and paid such dividends in accordance with their terms. No dividends were declared or paid on HSBC Bank Canada common shares during the third quarter of 2023.

Deemed dividend recorded in the third quarter 2023

During the third quarter of 2023, the bank recorded a deemed dividend of $4m to HSBC Holdings plc. Further details can be found in the 'Related party transactions' section of the MD&A.

Dividends declared in the fourth quarter 2023

On 26 October 2023, the bank declared regular quarterly dividends for the fourth quarter of 2023 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 31 December 2023 or the first business day thereafter to the shareholder of record on 15 December 2023.

As the quarterly dividends on preferred shares for the fourth quarter of 2023 were declared after 30 September 2023, the amounts have not been included in the balance sheet as a liability. At this time, no dividends have been declared on HSBC Bank Canada common shares during the fourth quarter.

Interest rate risk

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

Refer to the 'Structural Interest Rate Risk' section of our *Annual Report and Accounts 2022* for a discussion of how the bank manages structural interest rate risk as well as an explanation of our monitoring measures.

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

	30 Sep 2023		30 Sep 2022	
	Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	$m	**$m**	$m	$m
100 basis points increase	**(123)**	**92**	(146)	180
100 basis points decrease	**112**	**(89)**	140	(191)

Non-trading Value at Risk*

Non-trading Value at Risk ('VaR') portfolios comprise of positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income, and debt instruments measured at amortized cost.

For further details of the VaR models, refer to the 'Market risk' section on page 37 of the MD&A.

The non-trading VaR for the first nine months of 2023 is shown in the table below.

Non-trading VaR, 99% 1 day*

	Interest rate	Credit Spread	Portfolio diversification[1]	Total[2]
	$m	$m	$m	$m
Balance at 30 Sep 2023	**18.0**	**23.1**	**(4.7)**	**36.4**
Average	**24.7**	**27.3**	**(6.3)**	**45.7**
Maximum	**35.1**	**31.6**	**–**	**55.6**
Minimum	**14.7**	**22.9**	**–**	**35.4**
Balance at 30 Sep 2022	16.9	29.5	(11.4)	35.0
Average	12.6	26.5	(11.0)	28.1
Maximum	16.9	30.9	–	36.6
Minimum	4.7	16.8	–	17.8

1. *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types – such as interest rate and credit spreads – 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 occurs on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures*
2. *The total VaR is non-additive across risk types due to diversification effects.*

Value at Risk of non-trading portfolios

The average non-trading VaR of $45.7m increased by $17.6m from prior year. This was mainly driven by the impact of persistent market volatility in interest rates this year. On a stand-alone basis, interest rate VaR increased as well, driven by persistent market volatility in interest rates. Non-trading VaR includes the interest rate risk in the banking book transferred to and managed by Markets Treasury and the exposures generated by the portfolio of high-quality liquid assets held by Markets Treasury to meet liquidity requirements. The daily levels of total non-trading VaR are set out in the graph below.

Daily non-trading VaR portfolios, 99% 1 day[1]

1. *The total VaR shows a trending increase in the first quarter of 2023 as a result of an increase in interest rate volatility and a recalibration of the VaR model to better reflect the higher interest rates. Total VaR shows a trending decrease in the third quarter of 2023 as a result of a decrease in interest rate risk in the banking book during the quarter.*

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 2022* 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.

Trading portfolios

Trading portfolios comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.

Value at Risk of trading portfolios

We continued to manage market risk prudently during the third quarter of 2023. Sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers. Interest rate risk was the major driver for VaR.

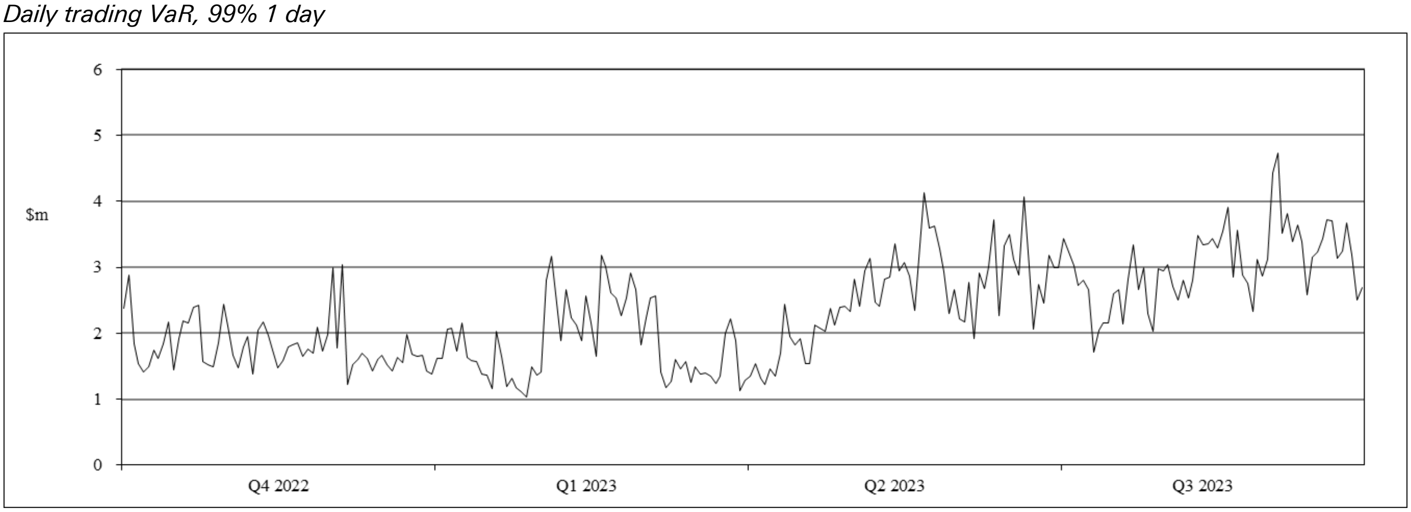
Average trading VaR of $2.5m increased by $1.1m from the prior year due to persistent market volatility in interest rates during the year.

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 - September 2023						
At period end	**—**	**2.6**	**—**	**0.7**	**(0.6)**	**2.7**
Average	**—**	**2.3**	**—**	**0.8**	**(0.6)**	**2.5**
Minimum	**—**	**0.9**	**—**	**0.5**	**—**	**1.0**
Maximum	**—**	**4.4**	**—**	**1.5**	**—**	**4.7**
January - September 2022						
At period end	—	2.0	—	1.5	(1.1)	2.4
Average	—	1.1	—	0.8	(0.5)	1.4
Minimum	—	0.5	—	0.2	—	0.5
Maximum	—	3.3	—	2.1	—	4.1

1. *Trading portfolios comprise of positions arising from the market-making and customer-driven 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 trading VaR, 99% 1 day



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' section of our *Annual Report and Accounts 2022* for a description of additional factors which may affect future financial results.

IBOR transition

We have effectively completed the remediation of all US Dollar LIBOR contracts as of 30 June 2023 with only a small number of customers left to remediate, however, systems have been updated and these customers will no longer be able to draw funds in US Dollar LIBOR in accordance with cessation dates for remaining LIBOR tenors.

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. 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 replacement rate, the reformed Canadian Overnight Repo Rate Average ('CORRA'), began being published daily from 15 June 2020 and publication of the 1 and 3 month Term CORRA benchmarks began on 5 September 2023. The bank continues to expand its CORRA-linked product offerings and transition customers to CORRA.

In July 2023, the Canadian Alternative Reference Rate ('CARR') introduced, as part of its two-staged transition, a "no new CDOR or bankers' acceptance loan" milestone date of 1 November 2023, to facilitate a tapered transition for the loan market by reducing the stock of loans that need to be remediated ahead of CDOR's cessation after 28 June 2024.

We have begun to work with clients on their transition plans for CORRA addressing derivatives and loans priced in Bankers' Acceptance ('BA') and CDOR.

With the cessation of CDOR in June 2024, it is expected that the BA will cease to exist as a money market instrument. On 16 January 2023, the Canadian Fixed-Income Forum ('CFIF') published a White Paper dealing with alternatives to replace BAs. We are still in the process of assessing the White Paper and any potential impact to our operations.

We continue to be exposed to risks associated with IBOR transition, which include regulatory compliance risk, resilience risk, financial reporting risk, legal risk, model risk and market risk. The level of these key risks is diminishing in line with our process implementation and the transition of our legacy contracts. We have sought to implement mitigating controls, where required, and continue to actively manage and monitor these risks.

Agreed sale of HSBC Bank Canada

On 29 November 2022, the HSBC Group announced an agreement to sell its 100% equity stake in HSBC Bank Canada (and its subsidiaries) as well as subordinated debt held by the HSBC Group to Royal Bank of Canada ('RBC') for a purchase price of $13.5bn. On 1 September 2023, the Competition Bureau of Canada issued its report and finding of no competition concerns regarding the proposed sale - the first of several reviews needed to close the transaction and complete the sale. Subject to remaining regulatory and governmental review and approvals, we expect the sale to complete in the first quarter of 2024.

Consolidated Financial Statements

Consolidated income statement

		Quarter ended		Nine months ended	
		30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	Notes	**$m**	$m	**$m**	$m
Net interest income		**428**	449	**1,322**	1,155
– interest income		**1,322**	934	**3,869**	2,035
– interest expense		**(894)**	(485)	**(2,547)**	(880)
Net fee income	2	**187**	194	**570**	587
– fee income		**218**	223	**664**	669
– fee expense		**(31)**	(29)	**(94)**	(82)
Net income from financial instruments held for trading		**37**	15	**104**	66
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		**—**	—	**—**	(1)
Gains less losses from financial investments		**4**	—	**6**	2
Other operating income		**4**	7	**16**	25
Total operating income		**660**	665	**2,018**	1,834
Change in expected credit losses and other credit impairment charges - (charge)		**(26)**	(42)	**(41)**	(82)
Net operating income		**634**	623	**1,977**	1,752
Employee compensation and benefits	3	**(173)**	(148)	**(504)**	(451)
General and administrative expenses		**(141)**	(146)	**(435)**	(426)
Depreciation and impairment of property, plant and equipment		**(14)**	(18)	**(42)**	(49)
Amortization and impairment of intangible assets		**(24)**	(13)	**(103)**	(38)
Total operating expenses		**(352)**	(325)	**(1,084)**	(964)
Profit before income tax expense		**282**	298	**893**	788
Income tax expense		**(79)**	(79)	**(249)**	(210)
Profit for the period		**203**	219	**644**	578
Profit attributable to:					
– the common shareholder		**184**	206	**587**	542
– the preferred shareholder		**19**	13	**57**	36
Profit for the period		**203**	219	**644**	578
Average number of common shares outstanding (000's)		**548,668**	548,668	**548,668**	548,668
Basic and diluted earnings per common share ($)		**$ 0.33**	$ 0.38	**$ 1.07**	$ 0.99

Certain sections within the MD&A that are marked with an asterisk (*), and the accompanying notes, form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Profit for the period	**203**	219	**644**	578
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[1]	**8**	13	**69**	(259)
– fair value gains/(losses)	**14**	18	**101**	(350)
– fair value gains transferred to the income statement on disposal	**(4)**	—	**(6)**	(2)
– income taxes	**(2)**	(5)	**(26)**	93
Cash flow hedges[1]	**(13)**	(159)	**(87)**	(483)
– fair value losses	**(187)**	(272)	**(523)**	(748)
– fair value gains reclassified to the income statement	**169**	56	**403**	91
– income taxes	**5**	57	**33**	174
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**17**	1	**15**	42
– before income taxes	**23**	1	**16**	57
– income taxes	**(6)**	—	**(1)**	(15)
Equity instruments designated at fair value through other comprehensive income	**(1)**	(2)	**1**	(1)
– fair value (losses)/gains	**—**	(2)	**2**	(1)
– income taxes	**(1)**	—	**(1)**	—
Other comprehensive income for the period, net of tax	**11**	(147)	**(2)**	(701)
Total comprehensive income for the period	**214**	72	**642**	(123)
Attributable to:				
– the common shareholder	**195**	59	**585**	(159)
– the preferred shareholder	**19**	13	**57**	36
Total comprehensive income for the period	**214**	72	**642**	(123)

1. *For further details of the assessed fair value recognized in other comprehensive income, refer page 13 and note 12 of our Annual Report and Accounts 2022.*

Certain sections within the MD&A that are marked with an asterisk (*), and the accompanying notes, form an integral part of these consolidated financial statements.

Consolidated balance sheet

		At	
		30 Sep 2023	31 Dec 2022
	Notes	**$m**	$m
Assets			
Cash and balances at central bank		**4,828**	6,326
Items in the course of collection from other banks		**26**	9
Trading assets	*5*	**2,408**	4,296
Other financial assets mandatorily measured at fair value through profit or loss		**20**	18
Derivatives	*6*	**6,081**	6,220
Loans and advances to banks		**331**	344
Loans and advances to customers		**73,721**	74,862
Reverse repurchase agreements – non-trading		**3,437**	6,003
Financial investments	*7*	**22,904**	23,400
Other assets	*8*	**2,885**	2,591
Prepayments and accrued income		**407**	351
Customers' liability under acceptances		**2,916**	3,147
Current tax assets		**38**	172
Property, plant and equipment		**334**	332
Goodwill and intangible assets		**57**	160
Deferred tax assets		**59**	71
Total assets		**120,452**	128,302
Liabilities and equity			
Liabilities			
Deposits by banks		**572**	712
Customer accounts		**80,057**	82,253
Repurchase agreements – non-trading		**4,335**	4,435
Items in the course of transmission to other banks		**654**	227
Trading liabilities	*9*	**1,639**	3,732
Derivatives	*6*	**6,602**	6,575
Debt securities in issue	*10*	**10,493**	15,735
Other liabilities	*11*	**4,291**	3,577
Acceptances		**2,919**	3,156
Accruals and deferred income		**1,070**	713
Retirement benefit liabilities		**190**	203
Subordinated liabilities		**1,011**	1,011
Provisions		**42**	54
Current tax liabilities		**78**	—
Deferred tax liability		**1**	1
Total liabilities		**113,954**	122,384
Equity			
Common shares		**1,125**	1,125
Preferred shares		**1,100**	1,100
Other reserves		**(803)**	(786)
Retained earnings		**5,076**	4,479
Total shareholder's equity		**6,498**	5,918
Total liabilities and equity		**120,452**	128,302

Certain sections within the MD&A that are marked with an asterisk (*), and the accompanying notes, form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Nine months ended	
	30 Sep 2023	30 Sep 2022
	$m	$m
Profit before income tax expense	**893**	788
Adjustments for non-cash items:		
Depreciation, amortization and impairment	**145**	87
Share-based payment expense	**6**	3
Change in expected credit losses and other credit impairment charges	**41**	82
Charge for defined benefit pension plans	**7**	8
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**(56)**	(188)
Change in net trading securities and net derivatives	**(159)**	(2,175)
Change in loans and advances to customers	**1,089**	(7,069)
Change in reverse repurchase agreements – non-trading	**1,495**	(2,015)
Change in other assets	**48**	(1,615)
Change in accruals and deferred income	**357**	136
Change in deposits by banks	**(140)**	(492)
Change in customer accounts	**(2,196)**	7,874
Change in repurchase agreements – non-trading	**(100)**	(321)
Change in debt securities in issue	**(5,242)**	564
Change in other liabilities	**330**	890
Tax paid	**(23)**	(21)
Net cash from operating activities	**(3,505)**	(3,464)
Purchase of financial investments	**(3,358)**	(10,350)
Proceeds from the sale and maturity of financial investments	**3,951**	1,687
Purchase of intangibles and property, plant and equipment	**(9)**	(94)
Net cash from investing activities	**584**	(8,757)
Return of capital to parent	**—**	(600)
Dividends paid to shareholder	**(38)**	(404)
Lease principal payments	**(32)**	(36)
Net cash from financing activities	**(70)**	(1,040)
Net decrease in cash and cash equivalents	**(2,991)**	(13,261)
Cash and cash equivalents at the beginning of the period	**7,907**	19,759
Cash and cash equivalents at the end of the period	**4,916**	6,498
Cash and cash equivalents comprise:		
Cash and balances at central bank	**4,828**	4,092
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(628)**	(139)
Loans and advances to banks of one month or less	**331**	900
Non-trading reverse repurchase agreements with banks of one month or less	**385**	1,645
Cash and cash equivalents at the end of the period	**4,916**	6,498
Interest:		
Interest paid	**(2,212)**	(708)
Interest received	**3,807**	1,852

Certain sections within the MD&A that are marked with an asterisk (*), and the accompanying notes, form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Share capital	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Total other reserves	Total equity
	$m	$m	$m	$m	$m	$m
At 1 Jan 2023	**2,225**	**4,479**	**(248)**	**(538)**	**(786)**	**5,918**
Profit for the period	**—**	**644**	**—**	**—**	**—**	**644**
Other comprehensive income/(loss), net of tax	**—**	**15**	**70**	**(87)**	**(17)**	**(2)**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**69**	**—**	**69**	**69**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**1**	**—**	**1**	**1**
– cash flow hedges	**—**	**—**	**—**	**(87)**	**(87)**	**(87)**
– remeasurement of defined benefit plans	**—**	**15**	**—**	**—**	**—**	**15**
Total comprehensive income for the period	**—**	**659**	**70**	**(87)**	**(17)**	**642**
Deemed dividend[1]	**—**	**(4)**	**—**	**—**	**—**	**(4)**
Dividends on common shares	**—**	**—**	**—**	**—**	**—**	**—**
Dividends on preferred shares	**—**	**(57)**	**—**	**—**	**—**	**(57)**
Return of capital to parent	**—**	**—**	**—**	**—**	**—**	**—**
Movement in respect of share-based payment arrangements	**—**	**(1)**	**—**	**—**	**—**	**(1)**
At 30 Sep 2023	**2,225**	**5,076**	**(178)**	**(625)**	**(803)**	**6,498**

	Share capital	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Total other reserves	Total equity
	$m	$m	$m	$m	$m	$m
At 1 Jan 2022	2,825	4,074	(22)	(1)	(23)	6,876
Profit for the period	—	578	—	—	—	578
Other comprehensive income/(loss), net of tax	—	42	(260)	(483)	(743)	(701)
– debt instruments at fair value through other comprehensive income	—	—	(259)	—	(259)	(259)
– equity instruments designated at fair value through other comprehensive income	—	—	(1)	—	(1)	(1)
– cash flow hedges	—	—	—	(483)	(483)	(483)
– remeasurement of defined benefit plans	—	42	—	—	—	42
Total comprehensive income for the period	—	620	(260)	(483)	(743)	(123)
Dividends on common shares	—	(380)	—	—	—	(380)
Dividends on preferred shares	—	(36)	—	—	—	(36)
Return of capital to parent	(600)	—	—	—	—	(600)
Movement in respect of share-based payment arrangements	—	(1)	—	—	—	(1)
At 30 Sep 2022	2,225	4,277	(282)	(484)	(766)	5,736

1 *On 18 September 2023, HSBC Global Services (Canada) Limited ('ServCo'), which is an indirect wholly-owned subsidiary of HSBC Holdings, transferred certain shared services to the bank. The transfer was not designed to deliver economic benefits from changes in business activities, but represents a rearrangement of the organization of business activities across legal entities under the common control of HSBC Holdings plc in its capacity as the ultimate shareholder. The transfer of people and other supporting assets have no significant impact on the overall financial results, position or operations of the bank. The consideration paid to ServCo as part of the transaction was $2m. The combination of the net liabilities assumed and the consideration paid is recognized in equity as a deemed dividend of $4m to the ultimate shareholder.*

Certain sections within the MD&A 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 2022 audited annual consolidated financial statements. The bank's 2022 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) Standards adopted effective 1 January 2023

The bank has adopted, from 1 January 2023, the requirements of IFRS 17 'Insurance contracts' ('IFRS 17') which sets out the requirements that an entity should apply in accounting for insurance contracts it issues and reinsurance contracts it holds. The bank has assessed the impact of this standard and determined that it has no significant effect when applied to its consolidated financial statements at the date of initial application, 1 January 2023.

(c) Future accounting developments

Future accounting developments have been disclosed in note 1(c) of the 2022 annual consolidated financial statements of the bank's *Annual Report and Accounts 2022,* excluding the changes noted in (b) above which have been implemented during the period.

(d) 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 MD&A that are marked with an asterisk (*) form an integral part of these consolidated financial statements.

(e) 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, defined benefit obligations, intangible assets, and provisions. There were no significant changes in the current period to the critical accounting estimates and judgments applied in 2022, which are stated on pages 21, 22, 34 and 67 of the *Annual Report and Accounts 2022*.

(f) Consolidation

The consolidated financial statements comprise the consolidated financial statements of the bank and its subsidiaries at 30 September 2023. The method adopted by the bank to consolidate its subsidiaries is described in note 2(a) of the 2022 annual consolidated financial statements of the bank's *Annual Report and Accounts 2022*.

(g) Material accounting policy information

There have been no significant changes to the bank's material accounting policy information which are disclosed in note 2 (a) to (r) of the 2022 annual consolidated financial statements of the bank's *Annual Report and Accounts 2022*.

2 Net fee income

Net fee income by business segment

	Quarter ended											
	30 Sep 2023						30 Sep 2022					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre[1]**	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Account services	**12**	**6**	**1**	**—**	**—**	**19**	11	5	3	—	—	19
Broking income	**—**	**2**	**—**	**—**	**—**	**2**	—	3	2	—	—	5
Cards	**9**	**17**	**—**	**—**	**—**	**26**	8	17	—	—	—	25
Credit facilities	**79**	**—**	**4**	**—**	**—**	**83**	80	—	8	—	—	88
Funds under management	**—**	**54**	**—**	**—**	**—**	**54**	—	54	—	—	—	54
Imports/exports	**2**	**—**	**1**	**—**	**—**	**3**	3	—	—	—	—	3
Insurance agency commission	**—**	**1**	**—**	**—**	**—**	**1**	—	1	—	—	—	1
Guarantees and other	**7**	**1**	**2**	**1**	**—**	**11**	9	1	3	(2)	—	11
Remittances	**8**	**2**	**3**	**—**	**—**	**13**	8	1	2	—	—	11
Underwriting and advisory	**1**	**—**	**4**	**1**	**—**	**6**	1	—	2	4	(1)	6
Fee income	**118**	**83**	**15**	**2**	**—**	**218**	120	82	20	2	(1)	223
Less: fee expense	**(9)**	**(20)**	**(2)**	**—**	**—**	**(31)**	(6)	(21)	(1)	(1)	—	(29)
Net fee income	**109**	**63**	**13**	**2**	**—**	**187**	114	61	19	1	(1)	194

	Nine months ended											
	30 Sep 2023						30 Sep 2022					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre[1]**	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Account services	**37**	**15**	**7**	**—**	**—**	**59**	35	14	8	—	—	57
Broking income	**—**	**8**	**—**	**—**	**—**	**8**	—	10	2	—	—	12
Cards	**27**	**52**	**1**	**—**	**—**	**80**	22	47	1	—	—	70
Credit facilities	**240**	**—**	**12**	**—**	**—**	**252**	232	—	24	—	—	256
Funds under management	**—**	**162**	**—**	**—**	**—**	**162**	—	169	—	—	—	169
Imports/exports	**7**	**—**	**1**	**—**	**—**	**8**	8	—	1	—	—	9
Insurance agency commission	**—**	**4**	**—**	**—**	**—**	**4**	—	3	—	—	—	3
Guarantee and other	**24**	**4**	**7**	**1**	**—**	**36**	27	5	7	(2)	—	37
Remittances	**24**	**4**	**9**	**—**	**—**	**37**	24	4	7	—	—	35
Underwriting and advisory	**1**	**—**	**11**	**6**	**—**	**18**	1	—	14	10	(4)	21
Fee income	**360**	**249**	**48**	**7**	**—**	**664**	349	252	64	8	(4)	669
Less: fee expense	**(28)**	**(60)**	**(4)**	**(2)**	**—**	**(94)**	(15)	(61)	(3)	(3)	—	(82)
Net fee income	**332**	**189**	**44**	**5**	**—**	**570**	334	191	61	5	(4)	587

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

3 Employee compensation and benefits

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

	Quarter ended		Nine months ended	
	30 Sep 2023	30 Sep 2022	**30 Sep 2023**	30 Sep 2022
	$m	$m	**$m**	$m
Defined benefit plans	**5**	5	**13**	14
– pension plans	**3**	3	**8**	9
– non-pension plans	**2**	2	**5**	5
Defined contribution pension plans	**10**	9	**31**	24
Total	**15**	14	**44**	38

A remeasurement of the net defined benefit liability has occurred in accordance with the bank's accounting policy as described on page 75 of the *Annual Report and Accounts 2022.*

4 Segment analysis

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

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

Profit for the period

	Quarter ended											
	30 Sep 2023						30 Sep 2022					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre[1]**	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Net interest income	**183**	**201**	**35**	**12**	**(3)**	**428**	187	202	45	12	3	449
Net fee income	**109**	**63**	**13**	**2**	**—**	**187**	114	61	19	1	(1)	194
Net income from financial instruments held for trading	**10**	**14**	**—**	**10**	**3**	**37**	6	4	(6)	13	(2)	15
Other income	**2**	**1**	**1**	**—**	**4**	**8**	1	3	—	—	3	7
Total operating income	**304**	**279**	**49**	**24**	**4**	**660**	308	270	58	26	3	665
Change in expected credit losses and other credit impairment charges - (charge)/ release	**(19)**	**(10)**	**3**	**—**	**—**	**(26)**	(14)	(22)	(6)	—	—	(42)
Net operating income	**285**	**269**	**52**	**24**	**4**	**634**	294	248	52	26	3	623
– external	**334**	**232**	**22**	**41**	**5**	**634**	312	263	15	29	4	623
– inter-segment	**(49)**	**37**	**30**	**(17)**	**(1)**	**—**	(18)	(15)	37	(3)	(1)	—
Total operating expenses	**(100)**	**(171)**	**(20)**	**(11)**	**(50)**	**(352)**	(99)	(165)	(20)	(13)	(28)	(325)
Profit/(loss) before income tax expense	**185**	**98**	**32**	**13**	**(46)**	**282**	195	83	32	13	(25)	298

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

Profit for the period

	Nine months ended											
	30 Sep 2023						30 Sep 2022					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre[1]**	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Net interest income	**556**	**617**	**112**	**43**	**(6)**	**1,322**	522	499	99	31	4	1,155
Net fee income	**332**	**189**	**44**	**5**	**—**	**570**	334	191	61	5	(4)	587
Net income from financial instruments held for trading	**35**	**44**	**1**	**17**	**7**	**104**	24	16	(16)	46	(4)	66
Other income	**2**	**5**	**1**	**1**	**13**	**22**	1	13	—	1	11	26
Total operating income	**925**	**855**	**158**	**66**	**14**	**2,018**	881	719	144	83	7	1,834
Change in expected credit losses and other credit impairment charges - (charge)/ release	**(21)**	**(29)**	**9**	**—**	**—**	**(41)**	(51)	(22)	(9)	—	—	(82)
Net operating income	**904**	**826**	**167**	**66**	**14**	**1,977**	830	697	135	83	7	1,752
– external	**1,029**	**730**	**100**	**104**	**14**	**1,977**	852	735	70	87	8	1,752
– inter-segment	**(125)**	**96**	**67**	**(38)**	**—**	**—**	(22)	(38)	65	(4)	(1)	—
Total operating expenses	**(317)**	**(519)**	**(60)**	**(36)**	**(152)**	**(1,084)**	(302)	(489)	(65)	(39)	(69)	(964)
Profit/(loss) before income tax expense	**587**	**307**	**107**	**30**	**(138)**	**893**	528	208	70	44	(62)	788

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

Balance sheet information

	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre[1]**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 30 Sep 2023						
Loans and advances to customers	**33,935**	**36,197**	**3,589**	**—**	**—**	**73,721**
Customers' liability under acceptances	**2,493**	**12**	**411**	**—**	**—**	**2,916**
Total external assets	**47,111**	**48,695**	**8,946**	**15,387**	**313**	**120,452**
Customer accounts	**29,172**	**43,481**	**7,081**	**323**	**—**	**80,057**
Acceptances	**2,496**	**12**	**411**	**—**	**—**	**2,919**
Total external liabilities	**37,700**	**52,524**	**10,330**	**13,004**	**396**	**113,954**
At 31 Dec 2022						
Loans and advances to customers	34,027	36,713	4,122	—	—	74,862
Customers' liability under acceptances	2,795	12	340	—	—	3,147
Total external assets	48,282	51,701	9,004	18,866	449	128,302
Customer accounts	30,008	45,094	6,871	280	—	82,253
Acceptances	2,804	12	340	—	—	3,156
Total external liabilities	39,919	55,889	10,187	16,182	207	122,384

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

5 Trading assets

		At	
		30 Sep 2023	31 Dec 2022
	Footnote	**$m**	$m
Debt securities			
– Canadian and Provincial Government bonds	*1*	**1,744**	3,599
– treasury and other eligible bills		**550**	323
– other debt securities		**114**	374
At the end of the period		**2,408**	4,296
Trading assets			
– not subject to repledge or resale by counterparties		**1,223**	1,438
– which may be repledged or resold by counterparties		**1,185**	2,858
At the end of the period		**2,408**	4,296

1. Including government guaranteed bonds.

6 Derivatives

Refer to note 2 and note 12 of the bank's *Annual Report and Accounts 2022* 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	**126,484**	**3,944**	**1,230**	**97**	**1,327**	**1,158**	**46**	**1,204**
Interest rate	**240,296**	**27,099**	**4,529**	**221**	**4,750**	**4,631**	**762**	**5,393**
Commodity and other	**948**	**—**	**4**	**—**	**4**	**5**	**—**	**5**
At 30 Sep 2023	**367,728**	**31,043**	**5,763**	**318**	**6,081**	**5,794**	**808**	**6,602**
Foreign exchange	132,499	2,534	2,051	—	2,051	1,925	66	1,991
Interest rate	276,850	30,915	3,738	431	4,169	3,846	738	4,584
Commodity and other	9	—	—	—	—	—	—	—
At 31 Dec 2022	409,358	33,449	5,789	431	6,220	5,771	804	6,575

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

Derivatives in hedge accounting relationships

Fair value hedging instrument by hedged risk

	At					
	30 Sep 2023			31 Dec 2022		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Interest rate	**10,037**	**220**	**6**	14,479	431	34
Total	**10,037**	**220**	**6**	14,479	431	34

Cash flow hedging instrument by hedged risk

	At					
	30 Sep 2023			31 Dec 2022		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Foreign exchange	**3,944**	**97**	**46**	2,534	—	65
Interest rate	**17,062**	**1**	**756**	16,437	—	704
Total	**21,006**	**98**	**802**	18,971	—	769

At 30 September 2023, the bank has assessed the fair value losses recognized in other comprehensive income which are attributable to derivatives designated in cash flow hedging relationships and has determined that the losses are expected to be recoverable over the expected term of the hedge accounting relationships.

During the third quarter of 2023, the Bank commenced the transition of CDOR-based cash flow hedges to CORRA replacement rate hedge accounted derivatives for cash flow hedges, based on RBSL's 2022 announcement that it will cease the calculation and publication of CDOR after June 2024. As the product offerings continued using CORRA as the replacement rate, no amount was recycled from other comprehensive income to the income statement. In addition, the Bank terminated a number of its CDOR-based fair value hedges and will amortize past basis adjustments until the earlier of maturity of the hedged fixed rate bonds or sale of the bonds.

As part of its risk management practices, the Bank enters into cash flow hedges and fair value hedges which involve the use of CORRA derivatives.

7 Financial investments

Carrying amount of financial investments

	Footnote	At 30 Sep 2023 $m	31 Dec 2022 $m
Financial investments measured at fair value through other comprehensive income		**13,497**	15,039
– Canadian and Provincial Government bonds	1	**8,660**	10,577
– international Government bonds	1	**2,424**	2,678
– other debt securities issued by banks and other financial institutions		**1,205**	1,578
– treasury and other eligible bills		**1,197**	191
– equity securities		**11**	15
Financial investments measured at amortized cost		**9,407**	8,361
– Canadian and Provincial Government bonds		**5,831**	5,660
– international Government bonds		**2,397**	2,003
– other debt securities issued by banks and other financial institutions		**703**	698
– treasury and other eligible bills		**476**	—
At the end of the period		**22,904**	23,400
Financial investments			
– not subject to repledge or resale by counterparties		**21,155**	23,163
– which may be repledged or resold by counterparties		**1,749**	237
At the end of the period		**22,904**	23,400

1. *Includes government guaranteed bonds.*

8 Other assets

	At 30 Sep 2023 $m	31 Dec 2022 $m
Accounts receivable	**908**	1,121
Settlement accounts	**1,194**	463
Cash collateral	**772**	997
Other	**11**	10
At the end of the period	**2,885**	2,591

9 Trading liabilities

	At 30 Sep 2023 $m	31 Dec 2022 $m
Net short positions in securities	**1,639**	3,732
At the end of the period	**1,639**	3,732

10 Debt securities in issue

	At 30 Sep 2023 $m	31 Dec 2022 $m
Bonds and medium term notes	**6,472**	11,432
Covered bonds	**3,933**	3,887
Money market instruments	**88**	416
At the end of the period	**10,493**	15,735

Term to maturity

	At 30 Sep 2023 $m	31 Dec 2022 $m
Less than 1 year	**813**	7,502
1-5 years	**9,538**	8,162
5-10 years	**142**	71
At the end of the period	**10,493**	15,735

11 Other liabilities

	At	
	30 Sep 2023	31 Dec 2022
	$m	$m
Mortgages sold with recourse	1,876	1,930
Lease liabilities	275	264
Accounts payable	719	792
Settlement accounts	918	272
Cash collateral	475	280
Share based payment related liability	9	7
Other	19	32
At the end of the period	**4,291**	3,577

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 September 2023 are consistent with those applied for the *Annual Report and Accounts 2022*.

Financial instruments carried at fair value and bases of valuation

	Valuation techniques			
	Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	$m	$m	$m	$m
Recurring fair value measurements				
At 30 Sep 2023				
Assets				
Trading assets	**2,294**	**114**	**—**	**2,408**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**20**	**—**	**20**
Derivatives	**—**	**6,081**	**—**	**6,081**
Financial investments	**13,486**	**11**	**—**	**13,497**
Liabilities				
Trading liabilities	**1,504**	**135**	**—**	**1,639**
Derivatives	**—**	**6,602**	**—**	**6,602**
At 31 Dec 2022				
Assets				
Trading assets	3,966	330	—	4,296
Other financial assets mandatorily measured at fair value through profit or loss	—	18	—	18
Derivatives	—	6,220	—	6,220
Financial investments	15,024	15	—	15,039
Liabilities				
Trading liabilities	3,486	246	—	3,732
Derivatives	—	6,575	—	6,575

Transfers between Level 1 and Level 2 fair values

	Assets	
	Trading assets	Financial investments
	$m	$m
Quarter ended 30 Sep 2023		
Transfer from Level 1 to Level 2	**—**	**—**
Transfer from Level 2 to Level 1	**—**	**55**
Quarter ended 30 Sep 2022		
Transfer from Level 1 to Level 2	1	—
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 96 of the *Annual Report and Accounts 2022*.

Fair values of financial instruments not carried at fair value

		At			
		30 Sep 2023		31 Dec 2022	
		Carrying amount[2]	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	*1*	**73,721**	**72,825**	74,862	74,025
Financial investments – at amortized cost		**9,407**	**9,148**	8,361	8,194
Liabilities					
Customer accounts		**80,057**	**80,596**	82,253	82,430
Debt securities in issue		**10,493**	**10,046**	15,735	15,258
Subordinated liabilities		**1,011**	**1,096**	1,011	1,110

1 *Loans and advances to customers specifically relating to Canada: carrying amount $69,177m and fair value $68,336m (31 December 2022: carrying amount $70,168m and fair value $69,383m).*

2 *Accrued interest is separately presented on the balance sheet and accordingly is not included in the carrying amount of the financial instruments above.*

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. This is, however, an area of significant judgment and the potential liability resulting from these matters could in aggregate be material to the bank's consolidated balance sheet or consolidated income statement.

14 Events after the reporting period

Dividends

On 26 October 2023, the bank declared regular quarterly dividends for the fourth quarter of 2023 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 31 December 2023 or the first business day thereafter to the shareholder of record on 15 December 2023.

As the quarterly dividends on preferred shares for the fourth quarter of 2023 were declared after 30 September 2023, the amounts have not been included in the balance sheet as a liability. At this time, no dividends have been declared on HSBC Bank Canada common shares during the fourth quarter.

There have been no other material events after the reporting period which would require disclosure or adjustment to the 30 September 2023 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 26 October 2023 and authorized for issue.

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