

# HSBC Bank Canada

## **Second Quarter 2023 Interim Report**

## Highlights

### HSBC Bank Canada second quarter 2023 performance

#### Quarter ended 30 June 2023

##### Total operating income

\$681m ↑ 14%

(2022: \$599m)

##### Profit before income tax expense

\$302m ↑ 53%

(2022: \$198m)

##### Profit attributable to the common shareholder

\$198m ↑ 49%

(2022: \$133m)

#### Half-year ended 30 June 2023

##### Total operating income

\$1,358m ↑ 16%

(2022: \$1,169m)

##### Profit before income tax expense

\$611m ↑ 25%

(2022: \$490m)

##### Profit attributable to the common shareholder

\$403m ↑ 20%

(2022: \$336m)

#### At 30 June 2023

##### Total assets

\$121.1bn ↓ 5.6%

(At 31 Dec 2022: \$128.3bn)

##### Common equity tier 1 ratio<sup>1</sup>

12.8% ↑ 120 bps

(At 31 Dec 2022: 11.6%)

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

"Performance remained robust in the second quarter of 2023 continuing the trends that we saw in the first quarter of the year. Profit before tax was 53% higher than in the second quarter of 2022 – with three of our four business segments seeing improved revenues and profits – largely due to increased net interest income from improved margins and loan growth, as well as lower expected credit losses compared to a significant write off in the prior year. This was partly offset by an increase in operating expenses, primarily related to the agreed sale<sup>2</sup> of the bank.

"The Canadian economy, and our clients, have remained resilient in the face of significant challenges posed by inflation, interest rates and labour related disruptions to trade flows. Thank you to our teams for remaining focused on supporting our clients through these continuing economic headwinds."

1. Refer to the 'Capital risk' section of the Management's Discussion and Analysis ('MD&A') for definition.
2. Refer to the 'Agreed sale of HSBC Bank Canada' section of the MD&A for further details.

### Awards and recognition

Best Next-Generation Offering

*The Digital Banker - Global Private Banking Innovation Awards for Service Excellence (2023)*

Outstanding Client Experience in Wealth Management

*The Digital Banker - Global Private Banking Innovation Awards in Wealth Management (2023)*

Banking and Financial Services Law Department of the Year

*Canadian Law Awards (2023)*

### Interim report contents

Highlights	1
Management's Discussion and Analysis	3
Consolidated Financial Statements	40
Notes on the Consolidated Financial Statements	45
Shareholder Information	53

## Highlights

### Our business segments<sup>1</sup>

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 June 2023

#### Total operating income

\$311m	↑ 6.1%	\$295m	↑ 27%	\$49m	↑ 26%	\$20m	↓ 35%
(2022: \$293m)		(2022: \$232m)		(2022: \$39m)		(2022: \$31m)	

#### Profit before income tax expense

\$195m	↑ 68%	\$111m	↑ 71%	\$36m	↑ 140%	\$8m	↓ 56%
(2022: \$116m)		(2022: \$65m)		(2022: \$15m)		(2022: \$18m)	

### Half-year ended 30 June 2023

#### Total operating income

\$621m	↑ 8.4%	\$576m	↑ 28%	\$109m	↑ 27%	\$42m	↓ 26%
(2022: \$573m)		(2022: \$449m)		(2022: \$86m)		(2022: \$57m)	

#### Profit before income tax expense

\$402m	↑ 21%	\$209m	↑ 67%	\$75m	↑ 97%	\$17m	↓ 45%
(2022: \$333m)		(2022: \$125m)		(2022: \$38m)		(2022: \$31m)	

### At 30 June 2023

#### Customer related lending assets<sup>2</sup>

\$36.9bn	↑ 0.3%	\$36.2bn	↓ 1.4%	\$4.0bn	↓ 10%	nil
(At 31 Dec 2022: \$36.8bn)		(At 31 Dec 2022: \$36.7bn)		(At 31 Dec 2022: \$4.5bn)		(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 14 of the MD&A for more information). The Corporate Centre is not an operating segment of the bank. The following numbers provide a reconciliation between operating segments and the entity results. The equivalent results for the Corporate Centre were: Total operating income of \$6m for the quarter and \$10m for the half-year ended 30 June 2023 (2022 total operating income: \$4m for the quarter and \$4m for the half-year ended), profit/(loss) before income tax expense was a loss of \$48m for the quarter and \$92m for the half-year ended 30 June 2023 (2022 was a loss of: \$16m for the quarter and \$37m for the half-year 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

	Page
Basis of preparation	3
Caution regarding forward-looking statements	3
Who we are	4
Use of supplementary financial measures	4
Financial highlights	5
Financial performance	6
Movement in financial position	11
Our business segments	12
Summary quarterly performance	15
Economic review and outlook	16
Regulatory developments	17
Accounting matters	18
Off-balance sheet arrangements	18
Financial instruments	18
Disclosure controls and procedures and internal control over financial reporting	19
Related party transactions	19
Risk	19

## 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 half-year ended 30 June 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 half-year ended 30 June 2023 ('consolidated financial statements') and our *Annual Report and Accounts 2022*. This MD&A is dated 27 July 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 half-year ended 30 June 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.hsbcc.ca](http://www.hsbcc.ca) and on the Canadian Securities Administrators' website at [www.sedar.com](http://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](http://www.data.fca.org.uk) and the London Stock Exchange at [www.londonstockexchange.com](http://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.hsbcc.com](http://www.hsbcc.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, 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'). Subject to regulatory and governmental review and approval, we expect the sale to complete in the first quarter of 2024 to ensure a smooth transition. 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\$3,041bn at 30 June 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 34.

### 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<sup>1</sup> common equity.

**Return on average risk-weighted assets** is calculated as annualized profit before income tax expense divided by the average<sup>1</sup> 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<sup>1</sup> interest earning assets<sup>2</sup>.

**Change in expected credit losses to average gross loans and advances and acceptances** is calculated as the annualized change in expected credit losses<sup>3</sup> as a percentage of average<sup>1</sup> 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<sup>3</sup> on stage 3 assets as a percentage of average<sup>1</sup> 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<sup>3</sup> 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<sup>1</sup> net customer advances and customers' liabilities under acceptances.

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

1. The net interest margin is calculated using daily average balances. All other financial measures use average balances that are calculated using quarter-end balances.
2. See 'Summary of interest income by types of assets' table on page 7 for the composition of interest earning assets.
3. Change in expected credit losses relates primarily to loans, acceptances and commitments.

## Financial highlights

(\$millions, except where otherwise stated)	Footnotes	Quarter ended		Half-year ended	
		30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
Financial performance for the period					
Total operating income		681	599	1,358	1,169
Change in expected credit losses and other credit impairment charges - (charge)		(13)	(82)	(15)	(40)
Operating expenses		(366)	(319)	(732)	(639)
Profit before income tax expense		302	198	611	490
Profit attributable to the common shareholder		198	133	403	336
Basic and diluted earnings per common share (\$)		0.37	0.24	0.74	0.61
Financial ratios (%)					
	1				
Return on average common shareholder’s equity		15.3	11.2	16.0	13.3
Return on average risk-weighted assets		2.7	1.9	2.8	2.4
Cost efficiency ratio		53.7	53.3	53.9	54.7
Operating leverage ratio	2	n/a	12.3	1.6	9.0
Net interest margin		1.62	1.37	1.64	1.32
Change in expected credit losses to average gross loans and advances and acceptances		0.07	0.43	0.04	0.11
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		0.21	0.35	0.12	0.18
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		29.9	27.9	29.9	27.9
Net write-offs as a percentage of average loans and advances and acceptances		—	0.67	0.02	0.35
Financial position at period end					
				At	
	Footnotes			30 Jun 2023	31 Dec 2022
Total assets				121,146	128,302
Loans and advances to customers				73,956	74,862
Customer accounts				79,141	82,253
Ratio of customer advances to customer accounts (%)	1			93.4	91.0
Common shareholder’s equity				5,207	4,818
Capital, leverage and liquidity measures					
Common equity tier 1 capital ratio (%)	3			12.8	11.6
Tier 1 ratio (%)	3			15.3	14.1
Total capital ratio (%)	3			17.6	16.4
Leverage ratio (%)	3			5.2	4.7
Risk-weighted assets (\$m)	3			44,519	44,656
Liquidity coverage ratio (%)	4			161	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		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Net interest income	442	369	894	706
Net fee income	194	196	383	393
Net income from financial instruments held for trading	40	24	67	51
Other items of income	5	10	14	19
<b>Total operating income</b>	<b>681</b>	<b>599</b>	<b>1,358</b>	<b>1,169</b>
Change in expected credit losses and other credit impairment charges - (charge)	(13)	(82)	(15)	(40)
<b>Net operating income</b>	<b>668</b>	<b>517</b>	<b>1,343</b>	<b>1,129</b>
Total operating expenses	(366)	(319)	(732)	(639)
<b>Profit before income tax expense</b>	<b>302</b>	<b>198</b>	<b>611</b>	<b>490</b>
Income tax expense	(84)	(53)	(170)	(131)
<b>Profit for the period</b>	<b>218</b>	<b>145</b>	<b>441</b>	<b>359</b>

For the quarter and half-year ended 30 June 2023 compared with the same periods in the prior year, unless otherwise stated.

Profit before income tax expense was \$302m, up \$104m or 53% for the quarter and \$611m, up \$121m or 25%, for the half-year. Profit before income tax expense remained robust and has increased in three of our four business segments for the quarter and the half-year. The increase for the quarter and half-year were largely due to an increase in net interest income and a lower charge in expected credit losses. This was partly offset by an increase in operating expenses.

Operating income of \$681m for the quarter and \$1,358m for the half-year represented an increase of \$82m or 14% and \$189m or 16%, respectively compared to the prior year. The increase was mainly due to higher net interest income as a result of the central bank rate increases over the past year and average loans and advances to customers increasing compared to the first half of 2022. Higher trading income and increased activity in cards, also contributed to the increase in operating income. 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 underwriting fees in Global Banking resulting in a decrease in total net fee income. Other operating income also decreased for the quarter and half-year.

Expected credit losses resulted in a charge of \$13m for the quarter and \$15m for the half-year. This was primarily due to new defaults 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. In 2022, for the quarter, the charge was primarily driven by a significant charge for a material stage 3 loan that was written-off. And for the half-year in 2022, this was 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 \$47m or 15% for the quarter and \$93m or 15% for the half-year. 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<sup>1</sup>. This was partly offset by lower investment spend in 2023.

1. 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.

## Performance by income and expense item

For the quarter and half-year ended 30 June 2023 compared with the same periods in the prior year.

### Net interest income

Net interest income increased by \$73m or 20% for the quarter due to the impact of the central bank rate increases over the past year and average loans and advances to customers increasing compared to the second quarter of 2022, partly offset by changes in deposit mix.

Net interest income increased by \$188m or 27% for the half-year, which was driven by the same factors as described in the quarter.

### Summary of interest income by types of assets

	Footnotes	Quarter ended						Half-year ended					
		30 Jun 2023			30 Jun 2022			30 Jun 2023			30 Jun 2022		
		Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield	Average balance	Interest income	Yield
		\$m	\$m	%	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Short-term funds and loans and advances to banks	1	6,398	73	4.56	10,002	24	0.97	6,433	143	4.47	11,283	33	0.59
Loans and advances to customers	2	74,737	927	4.98	72,940	526	2.89	74,922	1,828	4.92	71,262	951	2.69
Reverse repurchase agreements - non-trading	3	5,027	72	5.72	6,919	25	1.46	4,948	146	5.95	7,667	32	0.85
Financial investments	4	22,811	210	3.69	17,535	52	1.19	22,958	412	3.61	16,810	81	0.97
Other interest-earning assets	5	648	9	5.19	685	3	1.65	755	18	4.71	591	4	1.31
<b>Total interest-earning assets (A)</b>		<b>109,621</b>	<b>1,291</b>	<b>4.72</b>	<b>108,081</b>	<b>630</b>	<b>2.34</b>	<b>110,016</b>	<b>2,547</b>	<b>4.67</b>	<b>107,613</b>	<b>1,101</b>	<b>2.06</b>
Trading assets and financial assets designated at fair value	6	3,037	29	3.86	4,183	25	2.40	3,334	63	3.79	3,677	37	2.02
Non-interest-earning assets	7	10,651	—	—	11,669	—	—	10,908	—	—	10,620	—	—
<b>Total</b>		<b>123,309</b>	<b>1,320</b>	<b>4.29</b>	<b>123,933</b>	<b>655</b>	<b>2.13</b>	<b>124,258</b>	<b>2,610</b>	<b>4.24</b>	<b>121,910</b>	<b>1,138</b>	<b>1.88</b>

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.



## Management's Discussion and Analysis

### Summary of interest expense by types of liability and equity

		Quarter ended						Half-year ended					
		30 Jun 2023			30 Jun 2022			30 Jun 2023			30 Jun 2022		
		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
		\$m	\$m	%	\$m	\$m	%	\$m	\$m	%	\$m	\$m	%
Footnotes													
Deposits by banks	1	588	5	2.84	1,298	—	0.10	661	10	2.92	1,319	—	0.07
Customer accounts	2	73,427	618	3.37	65,890	124	0.75	73,911	1,195	3.26	65,047	169	0.52
Repurchase agreements - non-trading	3	4,788	70	5.87	6,860	24	1.43	4,171	130	6.29	7,330	29	0.81
Debt securities in issue and subordinated debt		14,674	139	3.79	17,674	97	2.20	15,167	283	3.77	16,676	166	2.00
Other interest-bearing liabilities	4	2,340	17	2.99	2,515	16	2.43	2,398	35	2.98	2,521	31	2.46
liabilities (B)		95,817	849	3.55	94,237	261	1.11	96,308	1,653	3.46	92,893	395	0.86
Trading liabilities	5	2,587	24	3.67	3,560	22	2.54	2,846	52	3.65	3,378	34	2.03
Non-interest bearing current accounts	6	7,198	—	—	8,645	—	—	7,472	—	—	8,655	—	—
Total equity and other non-interest bearing liabilities	7	17,707	—	—	17,491	—	—	17,632	—	—	16,984	—	—
Total		123,309	873	2.84	123,933	283	0.92	124,258	1,705	2.77	121,910	429	0.71
Net interest income (A-B)			442			369			894			706	

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		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Account services	21	19	40	38
Broking income	3	3	6	7
Cards	29	24	54	45
Credit facilities	84	86	169	168
Funds under management	54	57	108	115
Imports/exports	2	3	5	6
Insurance agency commission	2	1	3	2
Guarantee and other	11	12	25	26
Remittances	12	14	24	24
Underwriting and advisory	7	5	12	15
<b>Fee income</b>	<b>225</b>	<b>224</b>	<b>446</b>	<b>446</b>
Less: fee expense	(31)	(28)	(63)	(53)
<b>Net fee income</b>	<b>194</b>	<b>196</b>	<b>383</b>	<b>393</b>

Net fee income decreased slightly by \$2m or 1% for the quarter as the continued challenging market conditions resulted in lower fees on investment funds under management in Wealth and Personal Banking. Lower volumes in remittances and guarantees also contributed to the decrease. 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.

Net fee income decreased by \$10m or 2.5% for the half-year. This was driven by the same factors as described in the quarter, coupled with lower underwriting fees in Global Banking offset by higher credit facility fees in Commercial Banking from higher volumes of bankers' acceptances for the half-year.

## Net income from financial instruments held for trading

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Trading activities	25	20	50	49
Credit valuation, debit valuation and funding fair value adjustments	1	3	—	5
Net interest from trading activities	5	3	11	3
Hedge ineffectiveness	9	(2)	6	(6)
<b>Net income from financial instruments held for trading</b>	<b>40</b>	<b>24</b>	<b>67</b>	<b>51</b>

Net income from financial instruments held for trading increased by \$16m or 67% for the quarter. The increase was mainly from a favourable change in hedge ineffectiveness driven by cash flow hedge instruments. Higher income from trading activities was a result of prior year's adverse movement in the value of a loan syndication facility. Higher net interest income from trading activities mainly due to the higher interest rate environment, also contributed to the increase. These increases were partly offset by lower favourable movements on fair valuation adjustments on forward-looking scenarios compared to the prior year.

Net income from financial instruments held for trading increased by \$16m or 31% for the half-year, driven by the same factors as described in the quarter.

## Other items of income

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	(1)	—	(1)
Gains less losses from financial investments	—	—	2	2
Other operating income	5	11	12	18
<b>Other items of income</b>	<b>5</b>	<b>10</b>	<b>14</b>	<b>19</b>

Other items of income decreased by \$5m or 50% for the quarter, and \$5m or 26% for the half-year, mainly from lower gains in other operating income.

## Change in expected credit losses

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - (release)/charge	(34)	16	(31)	(41)
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - charge	47	66	46	81
Change in expected credit loss and other credit impairment charges - charge	13	82	15	40

The change in expected credit losses for the quarter resulted in a charge of \$13m compared to a charge of \$82m in the same period in the prior year. The charge for the quarter was primarily driven by new defaults 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.

In 2022, the charge for the quarter was primarily driven by a material stage 3 loan that was written-off in the second quarter. Change in expected credit losses for performing loans also resulted in a charge driven by an adverse shift in forward-looking macro-economic variables at that time.

The change in expected credit losses for the half-year resulted in a charge of \$15m compared to a charge of \$40m in the same period in the prior year. The charge for the half-year was driven by the same factors as described in the quarter.

In 2022, the charge for the half-year was driven by a significant charge in expected credit losses for a material stage 3 loan. 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 quarter.

## Management's Discussion and Analysis

### Total operating expenses

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Employee compensation and benefits	174	152	331	303
General and administrative expenses	144	138	294	280
Depreciation and impairment of property, plant and equipment	14	16	28	31
Amortization and impairment of intangible assets	34	13	79	25
<b>Total operating expenses</b>	<b>366</b>	<b>319</b>	<b>732</b>	<b>639</b>

Total operating expenses increased by \$47m or 15% 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<sup>1</sup>. Higher staff-related costs, also contributed to the increase. This was partly offset by lower investment spend in 2023.

Total operating expenses increased by \$93m or 15% for the half-year driven by the same factors as described in the quarter.

### Income tax expense

The effective tax rate in the second 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 second quarter of 2022 was 26.7%.

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.

## Movement in financial position

### Summary consolidated balance sheet

	At	
	30 Jun 2023	31 Dec 2022
	\$m	\$m
<b>Assets</b>		
Cash and balances at central bank	4,682	6,326
Trading assets	3,006	4,296
Derivatives	5,892	6,220
Loans and advances	74,294	75,206
Reverse repurchase agreements – non-trading	4,303	6,003
Financial investments	23,050	23,400
Customers' liability under acceptances	3,176	3,147
Other assets	2,743	3,704
<b>Total assets</b>	<b>121,146</b>	<b>128,302</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Deposits by banks	523	712
Customer accounts	79,141	82,253
Repurchase agreements – non-trading	4,789	4,435
Trading liabilities	2,517	3,732
Derivatives	6,424	6,575
Debt securities in issue	12,068	15,735
Acceptances	3,181	3,156
Other liabilities	6,196	5,786
<b>Total liabilities</b>	<b>114,839</b>	<b>122,384</b>
<b>Total shareholder's equity</b>	<b>6,307</b>	<b>5,918</b>
<b>Total liabilities and equity</b>	<b>121,146</b>	<b>128,302</b>

### Assets

Total assets at 30 June 2023 were \$121.1bn, a decrease of \$7.2bn or 5.6% 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 \$1.7bn, trading assets of \$1.3bn and settlement balances classified in other assets of \$1.0bn. Cash and balances at central bank also decreased by \$1.6bn as a result of balance sheet management activities. Volumes of loans to customers decreased mainly in mortgages and term lending, partly offset by an increase in commercial loans, as result of current market conditions, lowering loans and advances by \$0.9bn.

### Liabilities

Total liabilities at 30 June 2023 were \$114.8bn, a decrease of \$7.5bn or 6.2% from 31 December 2022. The decrease was primarily from net maturities in debt securities in issue of \$3.7bn and lower volumes in deposits mainly from customer accounts of \$3.1bn as a result of aligning our funding needs with current market conditions and customer behaviour. The decrease in trading liabilities of \$1.2bn, also contributed to the decrease, which correspond with the movement in trading assets.

### Equity

Total equity at 30 June 2023 was \$6.3bn, an increase of \$0.4bn or 6.6% from 31 December 2022. The increase was primarily from profits after tax of \$0.4bn 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<sup>1</sup>

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Net interest income	185	173	373	335
Non-interest income	126	120	248	238
<b>Total operating income</b>	<b>311</b>	<b>293</b>	<b>621</b>	<b>573</b>
Change in expected credit losses and other credit impairment charges - (charge)	(8)	(77)	(2)	(37)
<b>Net operating income</b>	<b>303</b>	<b>216</b>	<b>619</b>	<b>536</b>
Total operating expenses	(108)	(100)	(217)	(203)
<b>Profit before income tax expense</b>	<b>195</b>	<b>116</b>	<b>402</b>	<b>333</b>

#### Overview

Total operating income increased by \$18m or 6.1% for the quarter, and \$48m or 8.4% for the half-year. CMB has maintained positive momentum in 2023 with average loan balances increasing by \$3.4bn or 10% and average deposit balances increasing by \$2.0bn or 7.7% compared to the first half of 2022. 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 similarly improved with higher volumes of bankers' acceptances and increased activity in corporate credit cards.

Profit before income tax expense increased by \$79m or 68% for the quarter, and \$69m or 21% for the half-year, primarily due to a decrease of charges in expected credit losses compared to the prior year and an increase in operating income, as noted above.

#### Financial performance by income and expense item

**Net interest income** for the quarter increased by \$12m or 6.9%, and \$38m or 11% for the half-year, 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 half of 2022.

**Non-interest income** for the quarter and half-year increased by \$6m or 5% and \$10m or 4.2%, respectively, 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 \$8m for the quarter and \$2m for the half-year. The charge was primarily from new defaults 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 a significant stage 3 impairment charge on a loan and a charge on performing loans relating to the adverse shift in forward-looking macro-economic variables at that time. For the half-year, this was partly offset by a release in performing loans from COVID-19 related allowances in the first quarter.

**Total operating expenses** for the quarter increased by \$8m or 8%, and increased by \$14m or 6.9% for the half-year, mainly due to higher staff-related costs.

1. For the quarter and half-year ended 30 June 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<sup>1</sup>

#### Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Net interest income	212	156	416	297
Non-interest income	83	76	160	152
<b>Total operating income</b>	<b>295</b>	<b>232</b>	<b>576</b>	<b>449</b>
Change in expected credit losses and other credit impairment charges - (charge)	(12)	(4)	(19)	—
<b>Net operating income</b>	<b>283</b>	<b>228</b>	<b>557</b>	<b>449</b>
Total operating expenses	(172)	(163)	(348)	(324)
<b>Profit before income tax expense</b>	<b>111</b>	<b>65</b>	<b>209</b>	<b>125</b>

## Overview

Total operating income increased by \$63m or 27% for the quarter, and \$127m or 28% for the half-year. 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 lower investment funds under management and changes in product mix.

We had record<sup>2</sup> profit before income tax expense for the quarter and half-year. Profit before income tax expense increased by \$46m or 71% for the quarter, and \$84m or 67% for the half-year, due to higher operating income, as noted, partly offset by an unfavourable change in expected credit losses and higher operating expenses.

### Financial performance by income and expense item

**Net interest income** increased by \$56m or 36% for the quarter, and \$119m or 40% for the half-year, due to improved margins as a result of the central bank rate increases over the past year and higher average deposit balances, partly offset by changes in product mix.

## 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<sup>1</sup>

#### Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Net interest income	33	29	77	54
Non-interest income	16	10	32	32
<b>Total operating income</b>	<b>49</b>	<b>39</b>	<b>109</b>	<b>86</b>
Change in expected credit losses and other credit impairment charges - release/(charge)	7	(1)	6	(3)
<b>Net operating income</b>	<b>56</b>	<b>38</b>	<b>115</b>	<b>83</b>
Total operating expenses	(20)	(23)	(40)	(45)
<b>Profit before income tax expense</b>	<b>36</b>	<b>15</b>	<b>75</b>	<b>38</b>

## Overview

Total operating income increased by \$10m or 26% for the quarter, and \$23m or 27% for the half-year. Results from transaction banking activities remain strong, due mainly to higher spreads. Trading income also increased compared to the impact from the 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 increased by \$21m or 140% for the quarter, and \$37m or 97% for the half-year, as a result of higher operating income, as noted above, and favourable change in expected credit losses.

### Financial performance by income and expense item

**Net interest income** for the quarter increased by \$4m or 14%, and \$23m or 43% for the half-year. The increase was as a result of the central bank rate increases over the past year.

**Non-interest income** increased by \$7m or 9.2% for the quarter, and \$8m or 5.3% for the half-year, 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** were \$8m unfavourable for the quarter, and \$19m unfavourable for the half-year, as a result of the impact of rising interest rates on the mortgage portfolio. First quarter of 2022 had releases in performing loans from COVID-19 related allowances.

**Total operating expenses** increased by \$9m or 5.5% for the quarter, and \$24m or 7.4% for the half-year, mainly due to higher staff-related costs.

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

**Non-interest income** for the quarter increased by \$6m or 60%, and remained flat for the half-year. This increase was mainly from higher trading income in part due to prior year's impact from the 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** improved by \$8m for the quarter due to a release in the current quarter. For the half-year, expected credit losses were \$9m favourable mainly due to significant stage 3 recovery and marginal improvements in our performing loan portfolio despite a cautious economic outlook.

**Total operating expenses** decreased by \$3m or 13% for the quarter, and \$5m or 11% for the half-year, as we prudently managed costs.

1. For the quarter and half-year ended 30 June 2023 compared with the same periods in the prior year, unless otherwise stated.

# Management's Discussion and Analysis

## 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<sup>1</sup>

#### Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Net interest income	14	10	31	19
Non-interest income	6	21	11	38
<b>Total operating income</b>	<b>20</b>	<b>31</b>	<b>42</b>	<b>57</b>
Total operating expenses	(12)	(13)	(25)	(26)
<b>Profit before income tax expense</b>	<b>8</b>	<b>18</b>	<b>17</b>	<b>31</b>

#### Overview

Total operating income decreased by \$11m or 35% for the quarter, and \$15m or 26% for the half-year. The decrease was driven mainly from 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 decreased by \$10m or 56% for the quarter, and \$14m or 45% for the half-year, mainly due to lower operating income, as noted.

#### Financial performance by income and expense item

**Net interest income** for the quarter increased by \$4m or 40%, and \$12m or 63% for the half-year, mainly due to central bank rate increases over the past year.

**Non-interest income** decreased by \$15m or 71% for the quarter, and \$27m or 71% for the half-year, driven mainly from fixed income trading.

**Total operating expenses** for the quarter and half-year decreased by \$1m or 7.7%, and \$1m or 3.8% for the half-year, as we prudently managed costs.

1. For the quarter and half-year ended 30 June 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<sup>1, 2</sup>

#### Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Net interest income	(2)	1	(3)	1
Non-interest income	8	3	13	3
<b>Net operating income</b>	<b>6</b>	<b>4</b>	<b>10</b>	<b>4</b>
Total operating expenses	(54)	(20)	(102)	(41)
<b>Profit/(loss) before income tax expense</b>	<b>(48)</b>	<b>(16)</b>	<b>(92)</b>	<b>(37)</b>

#### Overview

Profit before income tax expense decreased by \$32m for the quarter, and \$55m for the half-year. 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<sup>3</sup>. This was partly offset by lower investment spend in 2023 and higher non-interest income.

1. For the quarter and half-year ended 30 June 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		
	Jun 30 \$m	Mar 31 \$m	Dec 31 \$m	Sep 30 \$m	Jun 30 \$m	Mar 31 \$m	Dec 31 \$m	Sep 30 \$m
Net interest income	442	452	479	449	369	337	323	315
Net fee income	194	189	192	194	196	197	205	197
Net income from financial instruments held for trading	40	27	33	15	24	27	28	26
Other items of income	5	9	10	7	10	9	23	22
<b>Total operating income</b>	<b>681</b>	677	714	665	599	570	579	560
Change in expected credit losses and other credit impairment charges - release/(charge)	(13)	(2)	(28)	(42)	(82)	42	(8)	(3)
<b>Net operating income</b>	<b>668</b>	675	686	623	517	612	571	557
Total operating expenses	(366)	(366)	(394)	(325)	(319)	(320)	(344)	(323)
<b>Profit before income tax expense</b>	<b>302</b>	309	292	298	198	292	227	234
Income tax expense	(84)	(86)	(78)	(79)	(53)	(78)	(40)	(63)
<b>Profit for the period</b>	<b>218</b>	223	214	219	145	214	187	171
Profit attributable to:								
– common shareholder	198	205	199	206	133	203	176	159
– preferred shareholder	20	18	15	13	12	11	11	12
Basic and diluted earnings per common share (\$)	0.37	0.37	0.36	0.38	0.24	0.37	0.32	0.29

### Comments on trends over the past eight quarters

In 2021 and 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. In the first and second quarter of 2023, the decreases were mainly due to changes in the mix of deposits partly offset by the central bank increases over the past year.

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. From the third quarter of 2021, there is an underlying trend of growth in fees from investment funds under management, credit facilities related to higher volumes of bankers' acceptances, and credit cards. Net fee income reached its highest point on record<sup>1</sup> in the fourth quarter of 2021. Due to the uncertain market conditions and inherent timing of transactions which impacts event-driven activities, there has been an underlying nominal decrease in underwriting and advisory fees from the third quarter of 2021. From the last quarter of 2021 to the first quarter of 2023, net fee income has also decreased slightly each quarter mainly due to lower investment funds under management as market conditions adversely shifted in 2022. In the second quarter of 2023, this trend in lower fees from investment funds under management continued; however, was more than offset by increased fees from credit facilities and activity in cards.

Net income from financial instruments held for trading is, by its nature, subject to fluctuations from quarter to quarter. From the third quarter of 2021 to the first quarter of 2022, it remained relatively flat, in comparison to the second quarter of 2022 to the current 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 current quarter saw an increase as a result of a favourable change in hedge ineffectiveness driven by cash flow hedge instruments.

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 second quarter of 2023 driven by new defaults 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. This was coupled with a charge in performing loans driven by an adverse shift in forward-looking macro-economic variables. The release in the first quarter of 2022 was primarily driven by a release in performing loans from COVID-19 related allowances, supported by a relative improvement in macro-economic variables in four of the scenarios used to estimate expected credit losses. This was partly offset by a charge reflecting the effects of a mild deterioration attributable to a new scenario capturing the projected impact of the Russia-Ukraine war and inflationary pressures on the forward economic outlook. This was coupled with a change in expected credit losses for stage 3 loans which resulted in a charge mainly due to a material loan, partly offset by releases in the energy sector. The charge in the fourth quarter of 2021 was due to an impairment charge from a performing loan, partly offset by releases from non-performing loans in the energy sector. The nominal charge in the third quarter of 2021 was due to customer specific non-performing loans, partly offset by a release in performing loans as the forward-looking macro-economic variables continued to improve.

We continued to prudently manage our costs in response to the current economic environment. 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<sup>2</sup> as a consequence of the agreed sale of HSBC Bank Canada. The increase in the fourth quarter of 2021 was mainly related to the costs incurred to move to hybrid working.

As a result of the trends above, in the first quarter of 2023, we recorded our highest profit before tax, surpassing our previous record in the third quarter of 2022. In the first quarter of 2022, we reached our highest profit before income tax expense in over a decade. With the exception of the second quarter of 2022 when we



realized a significant charge in expected credit losses, as described above, profit before income tax expense has been improving from the first quarter of 2022.

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.*

### Economy proves to be resilient to challenges

The Canadian economy has proven to be resilient to several challenges, most notably the sharp increase in interest rates, the largest public sector strike on record in April, and the worst wildfire season on record. Even so, the economy expanded by 3.1% quarter-over-quarter annualized in the first quarter, and Statistics Canada projects gross domestic product ('GDP') to rise by 0.4% in May. Despite the challenges, we expect GDP to have risen by 1.1% in the second quarter when announced, and the risks are presently tilted to the upside. A more recent development that will test the economy's resilience during the third quarter is the strike by West Coast port workers. As a result, activity at Canada's largest and third largest ports in Vancouver and Prince Rupert has sharply curtailed. Those two ports account for about 25% of Canada's international trade, and could affect North American supply chains, offsetting some of the improvements observed during the post-pandemic recovery.

The ongoing strength in the job market is key to the resilience of the economy. Also, factors that have supported the economy include the sharp decline in energy prices, notably gasoline, the flexibility of financial institutions to borrowers facing sharply higher interest payments, and a record increase in population growth due to a surge in immigration that increased labour supply, while also boosting demand.

Another sign that higher interest rates have not been as strong a headwind as expected is the recent upswing in housing market activity, with existing home sales rising each month between February and May. The Bank of Canada ('BoC') noted increasing housing resales as highlighting the momentum in household demand at a time when the economy was already in excess demand. Given the mounting evidence of resilience, the BoC lifted its policy rate to 4.75% in June and then again to 5.0% in July.

The strength of the job market is reflected in the fact that the unemployment rate remains very close to its record low, though it did increase to 5.4% in June, largely due to an increase in youth labour force participation. Other indicators highlight how tight the labour market is overall. For example, the employment rate among adults (25 to 64 years) is at a record high, and this cohort accounts for almost 82% of total employment. Meanwhile, in the prime-working age category (25 to 54 years), the employment rate is a near record high 85%. These show a still very strong job market in key demographic cohorts that are closely associated with total consumer demand.

Even with these elevated employment rates, labour demand has remained strong. This explains why the sharp increase in labour supply via immigration has led to these potential new workers being easily absorbed into the job market. Over the four quarters through to the first quarter of 2023, Canada's population increased by a record 1.21 million (3.1%), with almost all of that increase due to immigration.

### Consumption headwinds have been breezier than expected

High gasoline prices and higher interest rates have been expected to weigh heavily on household spending growth. Instead, neither proved to be much of a restraint on aggregate demand. For example, gasoline prices fell quickly and are now 23% below their mid-2022 peak, resulting in a smaller than expected squeeze on disposable incomes.

As well, financial firms have been flexible with borrowers facing sharp increases in interest rates. For example, for some borrowers whose payments no longer fully covered interest due, shortfalls were added to the mortgage balance. This had the effect of extending the amortization period of the mortgage. Thus, even though interest costs have gone up, the payment flexibility blunted the impact on consumer spending.

### Sticky core inflation and elevated inflation expectations

Though headline inflation has declined from a peak of 8.1% in June 2022 to around 3% in mid-2023, much of the decline was the result of the fading effects of outsized increases in energy prices following the Russian-Ukraine war, and as global supply chains returned to normal.

However, short-term trends in measures of core inflation, and in services excluding shelter services, which better reflect domestic demand, have remained firm between 3% and 4% over the last few months. This suggests that it could be challenging for the BoC to get inflation all the way back to the 2% target. Potentially exacerbating the challenge, inflation expectations remain elevated, as highlighted in the BoC's second quarter Business Outlook Survey ('BOS') and its companion the Canadian Survey of Consumer Expectations ('CSCE').

For example, the BOS showed that the number of firms that expect inflation to be above 3% over the next two years has declined to 64% from over 80% in late 2022. As well, looking out five years, firms see inflation around 2.5%. Similarly, the CSCE showed that consumer inflation expectations have declined, but remain elevated. For example, consumers still see inflation as close to 3% in five years. Overall, these indicators and surveys do not signal a strong conviction that inflation will fall to, and remain around, the 2% target rate for several years.

### Bank of Canada not done after all

The combination of sticky core inflation, elevated inflation expectations, and a strong labour market suggest that monetary policy might not be tight enough. That is, it is not clear that economic conditions are properly aligned to bring inflation all the way back to the 2% target.

As a result, the BoC, after having left its policy rate unchanged since January, decided to raise the policy rate by 25bp to 4.75% in June with another 25bp in July, lifting the policy rate to 5.0%.

We think the most likely scenario is that 5.0% will be the peak for the policy rate. But we acknowledge that a higher peak policy rate is possible. In its July policy statement, the BoC noted that it expects inflation to remain around 3% for the next year and is not expected to fall to 2% until mid-2025. We think that the BoC needs to see progress on lower core inflation trends, lower inflation expectations, and more signs of a softening labour market or it might raise the policy rate again before year end.

### The resilience is set to be tested

We believe that that resilience of the economy will be tested in the second half of the year, a development that will help keep the BoC on the sidelines. For example, though lower commodity prices have eased some of the headwinds facing consumers, they are creating a greater challenge for the business sector.

Specifically, with lower commodity prices, corporate revenue growth is set to slow, which, together with elevated wage growth, and tightening financial conditions, suggests a looming corporate profit squeeze. This is expected to weigh on business fixed investment and, eventually, the demand for labour.

As a result, the job market is expected to soften in coming months, with weakness to become more evident in the prime working age cohort. As this occurs, some of the vulnerabilities in the household sector are expected to be revealed, and consumer demand is expected to weaken.

### Households face more pressure

Though some of the potential headwinds facing the household sector have not been as strong as anticipated, there are some signs of strain. For example, despite some flexibility by financial firms, the debt service ratio of the household sector is near a record high at 14.9% of disposable income in the first quarter of 2023. Should income growth slow as the job market weakens, the debt service ratio could easily rise to a record high.

Meanwhile, the flexibility of financial firms to borrowers has limits. For example, while mortgage amortizations have been extended, easing the near term pressure on household finances, regulators have expressed reservations about this activity. As well, financial firms have indicated that those mortgages must be brought back onto their original amortization schedule when the mortgages are renewed. Hence, the effects of higher rates might have been delayed, but could be felt over time as more and more mortgages are renewed.

In addition, despite the strong job market, the number of consumers filing insolvency proposals to help manage with their financial obligations has hit a record high. And even though gasoline prices have eased, grocery prices are still rising at a 9% year-over-year pace. These developments highlight that there are still some notable challenges facing the household sector, which might be exacerbated as the job market softens.

### GDP growth to slow in the second half

As the resilience of the economy fades to some extent, we expect GDP to contract by 0.7% quarter-over-quarter annualized in the third and fourth quarter. Thus, in 2023 we expect full year economic growth of 1.3%. This is up from our prior 2023 GDP growth forecast of 0.7%, largely due to the resilience earlier this year. That said, the weak hand off from 2023 to 2024 will constrain growth next year to 0.9%, down from our prior forecast of 1.4%.

### Other central banks face similar challenges

While the BoC found that its conditional pause proved rather short lived, other central banks face similar challenges with tight labour markets and persistent inflation, thus facing uncertainty over how high interest rates might need to rise. That said, the major central banks have shown determination to bring rates of inflation back to target. Hence, while the end of tightening cycles is getting closer, it is not here yet.

In the United States ('US'), the Federal Reserve raised the policy rate by 25bp on 26 July, lifting the federal funds target range to 5.25-5.50%. In the United Kingdom, the Bank of England surprised markets in raising the policy rate by 50bp to 5.00% on 22 June. A key reason for the larger than expected move was the concern that the economy had proven more resilient to past rate hikes than had been anticipated.

### Fiscal policy set to remain mildly stimulative

While monetary policy is still focused on making sure inflation gets all the way back to the 2% target, and even though the economy is still in excess demand, fiscal policy is set to remain mildly stimulative. The federal government projects budget deficits through 2027-28. That said, so long as programs are targeted at those in

need and temporary, fiscal stimulus won't necessarily make the BoC's job tougher. This situation is also not unique to Canada. In the US and in Europe, central bank efforts to slow demand and bring inflation back to target are being at least partially offset by government policies to boost demand.

However, fiscal policy is not making the BoC's job any easier either. Thus, ongoing fiscal stimulus does increase the risk that the BoC might have to raise its policy rate further, which could increase the risk of a hard landing with a sharper increase in unemployment and heightening the challenges facing vulnerable households.

---

## 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*. The following is a summary of some key regulatory changes announced in the second quarter of 2023 with the potential to impact our results or operations:

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

In the second quarter, the bank implemented the Basel III reforms according to the final Capital Adequacy Requirements ('CAR') Guideline and Leverage Requirements ('LR') Guideline issued by OSFI, apart from the chapters related to market risk and credit valuation adjustment ('CVA') which will take effect in the first quarter of 2024. The resultant rise in risk-weighted assets ('RWA') accompanied by an increase in capital floor adjustment is a reflection of the following notable changes in the revised CAR Guideline:

- For internal ratings based ('IRB') portfolios, removal of a 6% scaling factor from IRB RWA.
- Implementation of a revised wholesale exposure at default ('EAD') model leading to lower IRB RWA on average.
- For the capital floor based on RWA calculated using the standardized approach ('SA'), an inclusion for the first time, a revised operational risk RWA based on a framework driven by income and historical losses.
- The revised SA is more risk sensitive, in particular, for wholesale exposures secured by real estate collateral and loans granted for land acquisition; and the development and construction ('ADC') can be assigned a risk weight as high as 150%.
- Reduction of the capital floor factor from 70% to 65%, requiring a phase-in to 72.5% by 2026 with an annual increment of 2.5%.

The revisions to the existing Pillar 3 disclosure effective in the second quarter has incorporated the above changes.

In April 2023, OSFI published draft amendments to the Pillar 3 Disclosure Guidelines for consultation. These amendments incorporate the market risk and CVA framework of the CAR Guideline effective in the first quarter of 2024. The disclosures will take effect in the fourth quarter of 2024.

In June 2023, OSFI along with the Bank of Canada ('BoC') and the Canada Deposit Insurance Corporation ('CDIC') published the draft Climate Risk Returns for Federally Regulated Financial Institutions ('FRFIs') for industry consultation. Upon finalization, the returns will collect climate-related emissions and exposure data directly from FRFIs, which will enable OSFI to carry out evidence-based policy development, regulation, and prudential supervision as it pertains to climate risk management.

## Management's Discussion and Analysis

Also in June 2023, OSFI published Guideline B-13 - Technology and Cyber Risk Management which describes OSFI's expectations for reporting technology and cyber security incidents that affect federally regulated private pension plans ('FRPPs'). B-13 will become effective on 1 January 2024.

In May 2023, OSFI launched a review of the liquidity treatment provided in the Liquidity Adequacy Requirements ('LAR') Guideline for wholesale funding sources with retail-like characteristics, such as high-interest savings account exchange traded funds ('HISA ETFs'). The purpose of this review is to assess the need for new wholesale funding categories to appropriately reflect the risks of such retail-like wholesale products.

In April 2023, OSFI published the final Third-Party Risk Management Guideline (B-10) which sets out associated risk management expectations for Federally Regulated Financial Institutions. The Guideline places a greater emphasis on governance and risk-management programs; sets outcome-focused, principle-based expectations; as well as, scope and guidance on the management of third-party risks. Third party arrangements commencing on or after 1 May 2024 are expected to adhere to the revised Guidelines.

### Canada Federal Government

In June 2023, the Government of Canada approved Bill C-47 (Budget implementation 2023), which includes amendments to the Bank Act: where Financial Institutions will be required to establish policies and procedures to protect against threats to their integrity and security, including foreign interference. Similar amendments were also introduced to the Trust and Loan Companies Act. OSFI has advised it will develop regulatory guidance and expectations, in a timely manner and in consultation with FRFIs and stakeholders, to address this new legal requirement.

### Criminal Code

Amendments to the Criminal Code seek to lower the criminal rate of interest calculated in respect of an agreement or arrangement and to express that rate as an annual percentage rate such that the criminal interest rate would move from an effective annual rate ('EAR') of 60% which would be equivalent of an annual percentage rate ('APR') of 47% to an APR of 35%.

### Proceeds of Crime (Money Laundering) and Terrorist Financing Act ('PCMLTFA')

The PCMLTFA was amended, among other things, to require persons or entities referred to in section 5 of that Act to report to the Financial Transactions and Reports Analysis Centre of Canada information that is related to a disclosure made under the Special Economic Measures Act or the Justice for Victims of Corrupt Foreign Officials Act (Sergei Magnitsky Law).

### Privacy

In May 2023, the Office of the Privacy Commissioner of Canada published revised guidance on Privacy in the Workplace. The guidance refers to the obligations with respect to federal privacy legislation, taking in to consideration that several provinces have privacy legislation applying to employee information or may have specific laws in relation to employee rights and workplace obligations. The key considerations outlined addressed employees' privacy and their privacy rights.

### Consumer Protection

In July 2023, the Financial Consumer Agency of Canada ('FCAC') published the final Guideline on existing consumer mortgage loans in exceptional circumstances. The Guideline sets out FCAC's expectations for FRFIs to support consumers who are vulnerable to mortgage delinquency as a result of exceptional circumstances, such as the combined effects of high household indebtedness, the rapid increases in interest rates and the increased costs of living.

---

## 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 June 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 June 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.

---

## 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 39 is a summary of the agreed sale of HSBC Bank Canada.

### Credit risk

	Page
Credit risk management	19
Summary of credit risk	19
Measurement uncertainty and sensitivity analysis of ECL estimates	21
Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees	24
Credit quality of financial instruments	25
Wholesale lending	28
Personal lending	30
Credit-impaired loans	32

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 ECL.

The allowance for ECL at 30 June 2023 is comprised of \$348m in respect of assets held at amortized cost, \$25m in respect of loan commitments and financial guarantees, \$1m in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI'), and \$1m in respect of performance guarantee contracts.

## Management's Discussion and Analysis

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

	Footnotes	At			
		30 Jun 2023		31 Dec 2022	
		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		74,282	(326)	75,180	(318)
– personal		35,579	(115)	36,127	(102)
– corporate and commercial		38,703	(211)	39,053	(216)
Loans and advances to banks at amortized cost		338	–	344	–
Other financial assets measured at amortized cost		23,107	(22)	26,783	(26)
– cash and balances at central bank		4,682	–	6,326	–
– items in the course of collection from other banks		10	–	9	–
– reverse repurchase agreements - non-trading		4,303	–	6,003	–
– financial investments		8,832	–	8,361	–
– customers' liability under acceptances		3,181	(5)	3,155	(8)
– other assets, prepayments and accrued income	1	2,099	(17)	2,929	(18)
Total gross carrying amount on-balance sheet		97,727	(348)	102,307	(344)
Loans and other credit related commitments		46,383	(22)	46,978	(30)
– personal		8,673	(1)	8,797	(1)
– corporate and commercial		37,710	(21)	38,181	(29)
Financial guarantees	2	1,839	(3)	1,725	(2)
– personal		7	–	7	–
– corporate and commercial		1,832	(3)	1,718	(2)
Total nominal amount off-balance sheet	3	48,222	(25)	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	14,207	(1)	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 <sup>1</sup>				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	60,989	12,868	425	74,282	(52)	(147)	(127)	(326)	0.1	1.1	29.9	0.4
– personal	30,618	4,819	142	35,579	(11)	(85)	(19)	(115)	–	1.8	13.4	0.3
– corporate and commercial	30,371	8,049	283	38,703	(41)	(62)	(108)	(211)	0.1	0.8	38.2	0.5
Loans and advances to banks at amortized cost	338	–	–	338	–	–	–	–	–	–	–	–
Other financial assets measured at amortized cost	22,866	223	18	23,107	(3)	(1)	(18)	(22)	–	0.4	100.0	0.1
Loan and other credit-related commitments	41,868	4,370	145	46,383	(11)	(10)	(1)	(22)	–	0.2	0.7	–
– personal	8,481	154	38	8,673	(1)	–	–	(1)	–	–	–	–
– corporate and commercial	33,387	4,216	107	37,710	(10)	(10)	(1)	(21)	–	0.2	0.9	0.1
Financial guarantees <sup>2</sup>	1,740	74	25	1,839	(1)	(1)	(1)	(3)	0.1	1.4	4.0	0.2
– personal	7	–	–	7	–	–	–	–	–	–	–	–
– corporate and commercial	1,733	74	25	1,832	(1)	(1)	(1)	(3)	0.1	1.4	4.0	0.2
<b>At 30 Jun 2023</b>	<b>127,801</b>	<b>17,535</b>	<b>613</b>	<b>145,949</b>	<b>(67)</b>	<b>(159)</b>	<b>(147)</b>	<b>(373)</b>	<b>0.1</b>	<b>0.9</b>	<b>24.0</b>	<b>0.3</b>



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

	Gross carrying/nominal amount <sup>1</sup>				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 <sup>2</sup>	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\*

As at the second 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 second 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.

In the Central scenario, economic forecasts have improved, with output and consumption data from Q1, proving better than had been expected. In Canada, GDP and employment have proved resilient to higher inflation and interest rates. Stronger than expected growth means that inflation has declined at a slower pace than had been expected. although interest rates are thought to be close to their peak.

The Upside and Downside scenarios are designed to encompass the potential crystallization of a number of key macro-financial risks.

Higher inflation, tighter monetary policy and financial conditions, and an escalation of geopolitical risks pose key downside risks to the outlook. To the upside, a swifter decline in inflation, a cut to interest rates and greater co-operation between the US and China on trade and investment would drive faster economic growth.

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

- The consensus Central scenario: This scenario features moderate GDP growth in 2023 relative to 2022, inflation is past its peak and gradually declines through 2023. Credit conditions are tight but credit growth remains positive despite tighter monetary policy and subdued household and corporate credit demand. Growth forecasts improve in future years.
- The consensus Upside scenario: This scenario features stronger economic activity in the near term, compared with the consensus Central scenario. In this scenario, growth accelerates, inflation falls at a faster rate, employment falls further and equity markets and house prices see stronger gains than in the Central scenario.
- The consensus Downside scenario: This scenario features weaker economic activity compared with the Central scenario, driven by inflation and interest rates above the Central scenario and leads to a moderate global recession. In this scenario, GDP contracts, unemployment rises, and equity markets and house prices fall.
- The Downside 2 scenario: features a deep global recession and reflects management's view of the tail of the economic risk distribution. It incorporates the simultaneous crystallization of a number of risks including an escalation in geopolitical tensions, which leads to further disruptions to supply chains. This creates additional upward pressure on inflation, prompting central banks to keep interest rates higher than in the Central scenario. However, demand subsequently falls sharply and unemployment rises before inflation pressures subside.

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

## Management's Discussion and Analysis

### Macroeconomic projections<sup>1, 2</sup>

	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
<b>30 June 2023</b>								
GDP growth (%)	1.7	2.8	4.4 (3Q24)	0.7	(3.4) (1Q24)		0.5	(5.4) (2Q24)
Unemployment rate (%)	5.9	5.5	5.1 (2Q25)	6.5	7.5 (1Q24)		9.7	12.2 (4Q24)
House Price Index (%)	(0.1)	1.8	5.0 (2Q25)	(2.9)	(16.9) (1Q24)		(6.2)	(39.4) (2Q24)
Brent oil prices (US\$/barrel)	68.9	63.1	68.6 (3Q23)	72.9	71.7 (2Q25)		61.3	46.4 (3Q24)
Inflation rate	2.2	2.0	1.0 (3Q24)	2.2	3.9 (1Q24)		2.0	5.0 (4Q23)
Probability (%)	75		5		15			5
<b>31 December 2022</b>								
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 June 2023 are based on average 3Q2023-2Q2028 (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 at 30 June 2023 are consistent with the first quarter of the year with the consensus upside and central scenarios having a combined weighting of 80% (31 December 2022: 75%) and the downside scenarios have a combined weighting of 20% (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 June 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.

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

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

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

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

### Management judgmental adjustments to ECL<sup>1</sup>

	Retail \$m	Wholesale \$m	Total \$m
Expert credit and model adjustments	27	28	55
Adjustments for forward economic guidance and late breaking events	45	—	45
<b>30 June 2023</b>	<b>72</b>	<b>28</b>	<b>100</b>
Expert credit and model adjustments	16	35	51
Adjustments for forward economic guidance and late breaking events	42	—	42
<b>31 December 2022</b>	<b>58</b>	<b>35</b>	<b>93</b>

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<sup>1</sup>

##### ECL of financial instruments subject to significant measurement uncertainty<sup>2</sup>

	30 Jun 2023	31 Dec 2022
	\$m	\$m
Reported ECL	128	171
100% consensus central scenario	100	108
100% consensus upside scenario	68	82
100% consensus downside scenario	173	201
100% downside 2	735	787
Gross carrying amount/nominal amount <sup>3</sup>	111,290	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<sup>1</sup>

##### ECL of loans and advances to customers<sup>2</sup>

	30 Jun 2023	31 Dec 2022
	\$m	\$m
Reported ECL	109	96
100% consensus central scenario	104	92
100% consensus upside scenario	98	87
100% consensus downside scenario	120	100
100% downside 2	203	142
Gross carrying amount	35,759	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.



## Management's Discussion and Analysis

### 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\*<sup>1</sup>

	Footnote	Quarter ended							
		30 Jun 2023				30 Jun 2022			
		Non-credit impaired		Credit-impaired	Total	Non-credit impaired		Credit-impaired	Total
		Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at the beginning of the period</b>		<b>64</b>	<b>188</b>	<b>95</b>	<b>347</b>	<b>67</b>	<b>114</b>	<b>141</b>	<b>322</b>
Transfers of financial instruments:	2	<b>46</b>	<b>(46)</b>	<b>—</b>	<b>—</b>	<b>20</b>	<b>(19)</b>	<b>(1)</b>	<b>—</b>
– transfers from stage 1 to stage 2		<b>(3)</b>	<b>3</b>	<b>—</b>	<b>—</b>	<b>(3)</b>	<b>3</b>	<b>—</b>	<b>—</b>
– transfers from stage 2 to stage 1		<b>48</b>	<b>(48)</b>	<b>—</b>	<b>—</b>	<b>22</b>	<b>(22)</b>	<b>—</b>	<b>—</b>
– transfers to stage 3		<b>—</b>	<b>(2)</b>	<b>2</b>	<b>—</b>	<b>—</b>	<b>(1)</b>	<b>1</b>	<b>—</b>
– transfers from stage 3		<b>1</b>	<b>1</b>	<b>(2)</b>	<b>—</b>	<b>1</b>	<b>1</b>	<b>(2)</b>	<b>—</b>
Net remeasurement of ECL arising from transfer of stage	2	<b>(14)</b>	<b>4</b>	<b>—</b>	<b>(10)</b>	<b>(11)</b>	<b>4</b>	<b>—</b>	<b>(7)</b>
New financial assets originated or purchased		<b>4</b>	<b>—</b>	<b>—</b>	<b>4</b>	<b>7</b>	<b>—</b>	<b>—</b>	<b>7</b>
Changes to risk parameters		<b>(35)</b>	<b>17</b>	<b>50</b>	<b>32</b>	<b>(32)</b>	<b>54</b>	<b>67</b>	<b>89</b>
Asset derecognized (including final repayments)		<b>(1)</b>	<b>(4)</b>	<b>—</b>	<b>(5)</b>	<b>(1)</b>	<b>(4)</b>	<b>—</b>	<b>(5)</b>
Assets written off		<b>—</b>	<b>—</b>	<b>(15)</b>	<b>(15)</b>	<b>—</b>	<b>—</b>	<b>(126)</b>	<b>(126)</b>
Foreign exchange		<b>—</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>3</b>
<b>Balance at the end of the period</b>		<b>64</b>	<b>158</b>	<b>129</b>	<b>351</b>	<b>51</b>	<b>150</b>	<b>82</b>	<b>283</b>
ECL charge/(release) for the period		<b>(46)</b>	<b>17</b>	<b>50</b>	<b>21</b>	<b>(37)</b>	<b>54</b>	<b>67</b>	<b>84</b>
Recoveries		<b>—</b>	<b>—</b>	<b>(1)</b>	<b>(1)</b>	<b>—</b>	<b>—</b>	<b>(3)</b>	<b>(3)</b>
<b>Total ECL charge/(release) for the period</b>		<b>(46)</b>	<b>17</b>	<b>49</b>	<b>20</b>	<b>(37)</b>	<b>54</b>	<b>64</b>	<b>81</b>

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\*<sup>1</sup>

	Footnote	Half-year ended							
		30 Jun 2023				30 Jun 2022			
		Non-credit impaired		Credit-impaired	Total	Non-credit impaired		Credit-impaired	Total
		Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at the beginning of the period</b>		<b>59</b>	<b>190</b>	<b>101</b>	<b>350</b>	<b>78</b>	<b>163</b>	<b>128</b>	<b>369</b>
Transfers of financial instruments:	2	<b>87</b>	<b>(86)</b>	<b>(1)</b>	<b>—</b>	<b>47</b>	<b>(67)</b>	<b>20</b>	<b>—</b>
– transfers from stage 1 to stage 2		<b>(6)</b>	<b>6</b>	<b>—</b>	<b>—</b>	<b>(5)</b>	<b>5</b>	<b>—</b>	<b>—</b>
– transfers from stage 2 to stage 1		<b>91</b>	<b>(91)</b>	<b>—</b>	<b>—</b>	<b>50</b>	<b>(50)</b>	<b>—</b>	<b>—</b>
– transfers to stage 3		<b>—</b>	<b>(5)</b>	<b>5</b>	<b>—</b>	<b>—</b>	<b>(26)</b>	<b>26</b>	<b>—</b>
– transfers from stage 3		<b>2</b>	<b>4</b>	<b>(6)</b>	<b>—</b>	<b>2</b>	<b>4</b>	<b>(6)</b>	<b>—</b>
Net remeasurement of ECL arising from transfer of stage	2	<b>(25)</b>	<b>10</b>	<b>—</b>	<b>(15)</b>	<b>(29)</b>	<b>7</b>	<b>—</b>	<b>(22)</b>
New financial assets originated or purchased		<b>9</b>	<b>—</b>	<b>—</b>	<b>9</b>	<b>11</b>	<b>—</b>	<b>—</b>	<b>11</b>
Changes to risk parameters		<b>(64)</b>	<b>56</b>	<b>54</b>	<b>46</b>	<b>(54)</b>	<b>57</b>	<b>64</b>	<b>67</b>
Asset derecognized (including final repayments)		<b>(2)</b>	<b>(11)</b>	<b>(2)</b>	<b>(15)</b>	<b>(2)</b>	<b>(10)</b>	<b>(1)</b>	<b>(13)</b>
Assets written off		<b>—</b>	<b>—</b>	<b>(22)</b>	<b>(22)</b>	<b>—</b>	<b>—</b>	<b>(130)</b>	<b>(130)</b>
Foreign exchange		<b>—</b>	<b>(1)</b>	<b>(1)</b>	<b>(2)</b>	<b>—</b>	<b>—</b>	<b>1</b>	<b>1</b>
<b>Balance at the end of the period</b>		<b>64</b>	<b>158</b>	<b>129</b>	<b>351</b>	<b>51</b>	<b>150</b>	<b>82</b>	<b>283</b>
ECL charge/(release) for the period		<b>(82)</b>	<b>55</b>	<b>52</b>	<b>25</b>	<b>(74)</b>	<b>54</b>	<b>63</b>	<b>43</b>
Recoveries		<b>—</b>	<b>—</b>	<b>(3)</b>	<b>(3)</b>	<b>—</b>	<b>—</b>	<b>(4)</b>	<b>(4)</b>
<b>Total ECL charge/(release) for the period</b>		<b>(82)</b>	<b>55</b>	<b>49</b>	<b>22</b>	<b>(74)</b>	<b>54</b>	<b>59</b>	<b>39</b>

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 30 Jun 2023	Half-year ended 30 Jun 2023	At 30 Jun 2022	Half-year ended 30 Jun 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
<b>As above</b>	<b>351</b>	<b>22</b>	<b>283</b>	<b>39</b>
Other financial assets measured at amortized cost	22	(7)	25	1
Performance guarantee contracts	1	—	7	—
Debt instruments measured at FVOCI	1	—	—	—
<b>Total allowance for ECL /</b>				
<b>Total income statement ECL charge for the period</b>	<b>375</b>	<b>15</b>	<b>315</b>	<b>40</b>

### Credit quality of financial instruments\*

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition.

Accordingly, for non-credit impaired financial instruments there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in stage 2.

#### Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.
- 'Good' exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit-impaired' exposures have been assessed as impaired.

The five credit quality classifications, as defined above, each encompasses a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities.

The personal lending credit quality is disclosed based on a 12-month point-in-time ('PIT') weighted probability of default ('PD'). The credit quality classifications for wholesale lending are based on internal credit risk ratings.

#### Credit quality classification

	Debt securities and other bills	Wholesale lending		Personal lending	
	External credit rating	Internal credit rating	12-month Basel probability of default %	Internal credit rating	12-month Basel probability- weighted PD %
<b>Quality classification</b>					
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

## Management's Discussion and Analysis

### Distribution of financial instruments by credit quality and stage allocation\*

	Gross carrying/notional amount						Allowance for ECL	Net
	Strong \$m	Good \$m	Satisfactory \$m	Sub- standard \$m	Credit- impaired \$m	Total \$m		
Debt instruments at fair value through other comprehensive income <sup>1</sup>	14,848	—	—	—	—	14,848	(1)	14,847
– stage 1	14,848	—	—	—	—	14,848	(1)	14,847
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	35,282	20,381	16,285	1,910	424	74,282	(326)	73,956
– stage 1	35,188	17,154	8,433	214	—	60,989	(52)	60,937
– stage 2	94	3,227	7,852	1,695	—	12,868	(147)	12,721
– stage 3	—	—	—	1	424	425	(127)	298
Loans and advances to banks at amortized cost	329	8	1	—	—	338	—	338
– stage 1	329	8	1	—	—	338	—	338
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	19,922	2,095	1,029	43	18	23,107	(22)	23,085
– stage 1	19,922	2,061	881	2	—	22,866	(3)	22,863
– stage 2	—	34	148	41	—	223	(1)	222
– stage 3	—	—	—	—	18	18	(18)	—
<b>Total gross carrying amount on-balance sheet</b>	<b>70,381</b>	<b>22,484</b>	<b>17,315</b>	<b>1,953</b>	<b>442</b>	<b>112,575</b>	<b>(349)</b>	<b>112,226</b>
Percentage of total credit quality	62.5 %	20.0 %	15.4 %	1.7 %	0.4 %	100.0 %		
Loan and other credit-related commitments	18,490	17,796	9,337	615	145	46,383	(22)	46,361
– stage 1	18,400	16,223	7,098	147	—	41,868	(11)	41,857
– stage 2	90	1,573	2,239	468	—	4,370	(10)	4,360
– stage 3	—	—	—	—	145	145	(1)	144
Financial guarantees <sup>2</sup>	830	385	564	35	25	1,839	(3)	1,836
– stage 1	830	382	522	6	—	1,740	(1)	1,739
– stage 2	—	3	42	29	—	74	(1)	73
– stage 3	—	—	—	—	25	25	(1)	24
<b>Total nominal amount off-balance sheet</b>	<b>19,320</b>	<b>18,181</b>	<b>9,901</b>	<b>650</b>	<b>170</b>	<b>48,222</b>	<b>(25)</b>	<b>48,197</b>
<b>At 30 Jun 2023</b>	<b>89,701</b>	<b>40,665</b>	<b>27,216</b>	<b>2,603</b>	<b>612</b>	<b>160,797</b>	<b>(374)</b>	<b>160,423</b>

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					Total	Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired			
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Debt instruments at fair value through other comprehensive income <sup>1</sup>	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 <sup>2</sup>	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.

## Management's Discussion and Analysis

### Wholesale lending

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

	At			
	30 Jun 2023		31 Dec 2022	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	\$m	\$m	\$m	\$m
Corporate and commercial				
– agriculture, forestry and fishing	822	(2)	954	(3)
– mining and quarrying	1,636	(15)	1,677	(19)
– manufacture	6,746	(51)	6,835	(38)
– electricity, gas, steam and air-conditioning supply	244	(4)	255	(7)
– water supply, sewerage, waste management and remediation	118	–	109	(1)
– construction	1,092	(6)	1,024	(9)
– wholesale and retail trade, repair of motor vehicles and motorcycles	6,874	(59)	7,116	(37)
– aviation, transportation and storage	3,117	(9)	2,818	(15)
– accommodation and food	1,729	(12)	1,658	(13)
– publishing, audiovisual and broadcasting	815	(8)	866	(6)
– real estate	10,552	(22)	10,723	(29)
– professional, scientific and technical activities	1,065	(2)	976	(3)
– administrative and support services	806	(2)	727	(12)
– education	131	–	113	(1)
– health and care	419	(13)	413	(14)
– arts, entertainment and recreation	233	–	255	(1)
– other services	228	–	240	(1)
– government	42	–	35	–
– non-bank financial institutions	2,034	(6)	2,259	(7)
<b>Total</b>	<b>38,703</b>	<b>(211)</b>	<b>39,053</b>	<b>(216)</b>
<b>By geography</b>				
Canada	35,706	(202)	36,058	(206)
– British Columbia	10,660	(28)	10,704	(28)
– Ontario	13,160	(93)	13,541	(100)
– Alberta	5,052	(28)	5,199	(40)
– Quebec	4,749	(45)	4,534	(23)
– Saskatchewan and Manitoba	1,373	(3)	1,342	(12)
– Atlantic provinces	712	(5)	738	(3)
United States of America	1,572	(6)	1,808	(8)
Other	1,425	(3)	1,187	(2)
<b>Total</b>	<b>38,703</b>	<b>(211)</b>	<b>39,053</b>	<b>(216)</b>

1. Mining and quarrying includes energy related exposures which constitute approximately 53% of the gross carrying amount and 73% of the allowance for ECL at 30 June 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\*<sup>1</sup>

	Footnote	Quarter ended							
		30 Jun 2023				30 Jun 2022			
		Non-credit impaired		Credit-impaired	Total	Non-credit impaired		Credit-impaired	Total
		Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at the beginning of the period</b>		<b>53</b>	<b>110</b>	<b>76</b>	<b>239</b>	56	67	125	248
Transfers of financial instruments:	2	33	(33)	—	—	1	(1)	—	—
– transfers from stage 1 to stage 2		(2)	2	—	—	(3)	3	—	—
– transfers from stage 2 to stage 1		35	(35)	—	—	4	(4)	—	—
– transfers to stage 3		—	—	—	—	—	—	—	—
– transfers from stage 3		—	—	—	—	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	(9)	3	—	(6)	(2)	2	—	—
New financial assets originated or purchased		3	—	—	3	6	—	—	6
Changes to risk parameters		(27)	(3)	46	16	(23)	34	64	75
Asset derecognized (including final repayments)		(1)	(3)	—	(4)	—	(2)	—	(2)
Assets written off		—	—	(11)	(11)	—	—	(123)	(123)
Foreign exchange		—	(1)	(1)	(2)	1	1	1	3
<b>Balance at the end of the period</b>		<b>52</b>	<b>73</b>	<b>110</b>	<b>235</b>	39	101	67	207
ECL charge/(release) for the period		(34)	(3)	46	9	(19)	34	64	79
Recoveries		—	—	—	—	—	—	(1)	(1)
<b>Total ECL charge/(release) for the period</b>		<b>(34)</b>	<b>(3)</b>	<b>46</b>	<b>9</b>	<b>(19)</b>	<b>34</b>	<b>63</b>	<b>78</b>

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\*<sup>1</sup>

	Footnote	Half-year ended							
		30 Jun 2023				30 Jun 2022			
		Non-credit impaired		Credit-impaired	Total	Non-credit impaired		Credit-impaired	Total
		Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at the beginning of the period</b>		<b>46</b>	<b>119</b>	<b>82</b>	<b>247</b>	67	119	106	292
Transfers of financial instruments:	2	63	(64)	1	—	14	(37)	23	—
– transfers from stage 1 to stage 2		(4)	4	—	—	(4)	4	—	—
– transfers from stage 2 to stage 1		67	(67)	—	—	18	(18)	—	—
– transfers to stage 3		—	(1)	1	—	—	(23)	23	—
– transfers from stage 3		—	—	—	—	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	(15)	5	—	(10)	(10)	3	—	(7)
New financial assets originated or purchased		7	—	—	7	9	—	—	9
Changes to risk parameters		(48)	22	44	18	(40)	22	61	43
Asset derecognized (including final repayments)		(1)	(8)	(2)	(11)	(1)	(6)	—	(7)
Assets written off		—	—	(14)	(14)	—	—	(124)	(124)
Foreign exchange		—	(1)	(1)	(2)	—	—	1	1
<b>Balance at the end of the period</b>		<b>52</b>	<b>73</b>	<b>110</b>	<b>235</b>	(28)	(18)	(39)	207
ECL charge/(release) for the period		(57)	19	42	4	(42)	19	61	38
Recoveries		—	—	—	—	—	—	(1)	(1)
<b>Total ECL charge/(release) for the period</b>		<b>(57)</b>	<b>19</b>	<b>42</b>	<b>4</b>	<b>(42)</b>	<b>19</b>	<b>60</b>	<b>37</b>

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 \$12m or 5% as compared to 31 December 2022, and the change in ECL for the half-year ended 30 June 2023 resulted in an income statement charge of \$4m. The charge was primarily from new defaults 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 half-year ended 30 June 2023 of \$4m presented in the above table consisted of a \$18m charge relating to underlying risk parameter changes, including the credit quality

impact of financial instruments transferred between stages, offset by a \$10m 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 June 2023 was 0.5%, a decrease of 0.1 percentage point as compared to 31 December 2022.

## Management's Discussion and Analysis

### Personal lending

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

	Footnote	At			
		30 Jun 2023		31 Dec 2022	
		Gross carrying amount \$m	Allowance for ECL \$m	Gross carrying amount \$m	Allowance for ECL \$m
Residential mortgages		32,788	(76)	33,388	(58)
Home equity lines of credit		1,360	(5)	1,407	(11)
Personal revolving loan facilities		395	(12)	427	(10)
Retail card		406	(14)	405	(13)
Run-off consumer loan portfolio		22	(3)	26	(3)
Other personal loan facilities		608	(5)	474	(7)
<b>Total</b>		<b>35,579</b>	<b>(115)</b>	<b>36,127</b>	<b>(102)</b>
<b>By geography</b>	1				
Canada		35,559	(115)	36,107	(101)
– British Columbia		14,968	(43)	15,372	(38)
– Ontario		16,654	(57)	16,704	(47)
– Alberta		1,749	(6)	1,793	(7)
– Quebec		1,580	(5)	1,618	(5)
– Saskatchewan and Manitoba		323	(2)	327	(2)
– Atlantic provinces		277	(2)	285	(2)
– Territories		8	—	8	—
Other		20	—	20	(1)
<b>Total</b>		<b>35,579</b>	<b>(115)</b>	<b>36,127</b>	<b>(102)</b>

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\*<sup>1</sup>

	Footnote	Quarter ended							
		30 Jun 2023				30 Jun 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
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>Balance at the beginning of the period</b>		11	78	19	108	11	47	16	74
Transfers of financial instruments:	2	13	(13)	—	—	19	(18)	(1)	—
– transfers from stage 1 to stage 2		(1)	1	—	—	—	—	—	—
– transfers from stage 2 to stage 1		13	(13)	—	—	18	(18)	—	—
– transfers to stage 3		—	(2)	2	—	—	(1)	1	—
– transfers from stage 3		1	1	(2)	—	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	2	(5)	1	—	(4)	(9)	2	—	(7)
New financial assets originated or purchased		1	—	—	1	1	—	—	1
Changes to risk parameters		(8)	20	4	16	(9)	20	3	14
Asset derecognized (including final repayments)		—	(1)	—	(1)	(1)	(2)	—	(3)
Assets written off		—	—	(4)	(4)	—	—	(3)	(3)
Foreign exchange		—	—	—	—	—	—	—	—
<b>Balance at the end of the period</b>		<b>12</b>	<b>85</b>	<b>19</b>	<b>116</b>	<b>12</b>	<b>49</b>	<b>15</b>	<b>76</b>
ECL charge/(release) for the period		(12)	20	4	12	(18)	20	3	5
Recoveries		—	—	(1)	(1)	—	—	(2)	(2)
<b>Total ECL charge/(release) for the period</b>		<b>(12)</b>	<b>20</b>	<b>3</b>	<b>11</b>	<b>(18)</b>	<b>20</b>	<b>1</b>	<b>3</b>

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\*<sup>1</sup>

		Half-year ended							
		30 Jun 2023				30 Jun 2022			
		Non-credit impaired		Credit-impaired	Total	Non-credit impaired		Credit-impaired	Total
Footnote		Stage 1	Stage 2	Stage 3		Stage 1	Stage 2	Stage 3	
		\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
	<b>Balance at the beginning of the period</b>	<b>13</b>	<b>71</b>	<b>19</b>	<b>103</b>	<b>11</b>	<b>44</b>	<b>22</b>	<b>77</b>
	Transfers of financial instruments:	<b>24</b>	<b>(22)</b>	<b>(2)</b>	<b>—</b>	<b>33</b>	<b>(30)</b>	<b>(3)</b>	<b>—</b>
	– transfers from stage 1 to stage 2	(2)	2	—	—	(1)	1	—	—
	– transfers from stage 2 to stage 1	24	(24)	—	—	32	(32)	—	—
	– transfers to stage 3	—	(4)	4	—	—	(3)	3	—
	– transfers from stage 3	2	4	(6)	—	2	4	(6)	—
	Net remeasurement of ECL arising from transfer of stage	(10)	5	—	(5)	(19)	4	—	(15)
	New financial assets originated or purchased	2	—	—	2	2	—	—	2
	Changes to risk parameters	(16)	34	10	28	(14)	35	3	24
	Asset derecognized (including final repayments)	(1)	(3)	—	(4)	(1)	(4)	(1)	(6)
	Assets written off	—	—	(8)	(8)	—	—	(6)	(6)
	Foreign exchange	—	—	—	—	—	—	—	—
	<b>Balance at the end of the period</b>	<b>12</b>	<b>85</b>	<b>19</b>	<b>116</b>	<b>12</b>	<b>49</b>	<b>15</b>	<b>76</b>
	ECL charge/(release) for the period	(25)	36	10	21	(32)	35	2	5
	Recoveries	—	—	(3)	(3)	—	—	(3)	(3)
	<b>Total ECL charge/(release) for the period</b>	<b>(25)</b>	<b>36</b>	<b>7</b>	<b>18</b>	<b>(32)</b>	<b>35</b>	<b>(1)</b>	<b>2</b>

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 \$13m or 13% during the half-year ended 30 June 2023, and resulted in an income statement charge of \$18m. The charge during the half-year ended 30 June 2023 was driven by the impact of rising interest rates on the performing mortgage portfolio.

The ECL charge for the half-year ended 30 June 2023 of \$18m presented in the above table consisted of \$28m charge relating to underlying risk parameter changes which includes the credit quality impact of financial instruments transferred between stages, offset by a \$5m release relating to the net remeasurement impact of stage transfers and a \$2m release relating to underlying net volume movement. There were recoveries of \$3m during the half-year ended 30 June 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<sup>1, 2</sup>

	Residential mortgages				HELOC <sup>3</sup>		
	Insured <sup>4</sup>		Uninsured <sup>4</sup>		Total	Uninsured	
	\$m	%	\$m	%	\$m	\$m	%
British Columbia	1,356	10 %	12,694	90 %	14,050	629	100 %
Western Canada <sup>5</sup>	774	42 %	1,056	58 %	1,830	132	100 %
Ontario	2,534	16 %	13,452	84 %	15,986	536	100 %
Quebec and Atlantic provinces	696	42 %	981	58 %	1,677	69	100 %
<b>At 30 Jun 2023</b>	<b>5,360</b>	<b>16 %</b>	<b>28,183</b>	<b>84 %</b>	<b>33,543</b>	<b>1,366</b>	<b>100 %</b>
British Columbia	1,432	10 %	12,995	90 %	14,427	659	100 %
Western Canada <sup>4</sup>	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.



## Management's Discussion and Analysis

### Amortization period<sup>1</sup>

	Residential mortgages				
	≤ 20 years	> 20 years ≤ 25 years	> 25 years ≤ 30 years	> 30 years < 35 years <sup>2</sup>	> 35 years <sup>2</sup>
<b>At 30 Jun 2023</b>	<b>18.8%</b>	<b>34.8%</b>	<b>18.2%</b>	<b>6.2%</b>	<b>22.0%</b>
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<sup>1, 2</sup>

	Quarter ended	
	Uninsured % LTV <sup>3</sup>	
	Residential mortgages %	HELOC %
British Columbia	56.9 %	53.6 %
Western Canada <sup>4</sup>	66.7 %	62.0 %
Ontario	60.5 %	55.9 %
Quebec and Atlantic provinces	59.4 %	57.0 %
<b>Total Canada for the three months ended 30 Jun 2023</b>	<b>60.0 %</b>	<b>55.9 %</b>
Total Canada for the three months ended 31 Dec 2022	58.9 %	56.8 %

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

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

The bank performs stress testing on its personal lending portfolio to assess the impact of increased levels of unemployment, rising interest rates, reduction in property values and changes in other relevant macro-economic variables. Potential increase in losses in the mortgage portfolio under downturn economic scenarios are considered manageable given the diversified composition of the portfolio, the low Loan-to-Value in the portfolio and risk mitigation

strategies in place. 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 Jun 2023		31 Dec 2022	
	Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	\$m	\$m	\$m	\$m
Corporate and commercial	283	(108)	245	(82)
– agriculture, forestry and fishing	2	—	2	—
– mining and quarrying	51	(8)	86	(14)
– manufacture	98	(37)	43	(16)
– electricity, gas, steam and air-conditioning supply	10	(3)	16	(7)
– construction	14	(2)	5	(2)
– wholesale and retail trade, repair of motor vehicles and motorcycles	70	(37)	47	(17)
– aviation, transportation and storage	4	(2)	5	(2)
– accommodation and food	1	(1)	—	—
– publishing, audiovisual and broadcasting	6	(6)	6	(4)
– real estate	—	—	1	(1)
– administrative and support services	—	—	8	(8)
– health and care	26	(11)	25	(10)
– non-bank financial institutions	1	(1)	1	(1)
Households	142	(19)	132	(19)
<b>Total</b>	<b>425</b>	<b>(127)</b>	<b>377</b>	<b>(101)</b>

1. Mining and quarrying includes energy related exposures which constitute approximately 89% of the gross carrying amount and 64% of the allowance for ECL at 30 June 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 \$821m at 30 June 2023 (31 December 2022: \$497m) and the allowance for ECL was \$61m (31 December 2022: \$43m).

Refer 'Credit risk management' on page 29 of the *Annual Report and Accounts 2022* for 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 has 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. For further details of the bank's implementation of the Basel III reform guidelines issued by OSFI, refer to the 'Regulatory developments' section on page 17.

### 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.

## Management's Discussion and Analysis

### Liquidity and funding risk

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

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

The bank remained above regulatory minimum liquidity and funding levels in the second quarter of 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 June 2023 decreased to 161% from 172%. This was predominately due to a decrease in HQLA in the quarter driven by a decrease in customer deposits in excess of a decrease in customer loans and debt maturities.

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<sup>1</sup>

	Average for the three months ended <sup>1</sup>	
	30 Jun 2023	31 Mar 2023
Total HQLA <sup>2</sup> (\$m)	28,426	29,941
Total net cash outflows <sup>2</sup> (\$m)	17,694	17,424
Liquidity coverage ratio (%)	161	172

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 will be as of 30 June 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 first OSFI NSFR was 132% with total available funding of \$76.1bn and total required stable funding of \$57.7bn. 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 June 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 June 2023 decreased by \$4.8bn from 31 December 2022 predominately due to a decrease in customer deposits and a decrease in debt securities in issue.

#### Liquid assets<sup>1</sup>

	At	
	30 Jun 2023	31 Dec 2022
	\$m	\$m
Level 1	25,430	30,065
Level 2a	1,850	2,025
Level 2b	69	108
<b>Total</b>	<b>27,349</b>	<b>32,198</b>

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 June 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.

For further details of the bank's implementation of the Basel III reforms according to the final Capital Adequacy Requirements ('CAR') Guideline and Leverage Requirements ('LR') Guideline issued by OSFI, refer to the 'Regulatory developments' section on page 17.

### Regulatory capital

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

#### Total regulatory capital\*

	Footnotes	At	
		30 Jun 2023 \$m	31 Dec 2022 \$m
Gross common equity	1	5,207	4,818
Regulatory adjustments		511	380
<b>Common equity tier 1 capital</b>		<b>5,718</b>	5,198
Additional tier 1 eligible capital	2	1,100	1,100
<b>Tier 1 capital</b>		<b>6,818</b>	6,298
<b>Tier 2 capital</b>		<b>1,003</b>	1,039
<b>Total capital</b>		<b>7,821</b>	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

	Footnotes	At	
		30 Jun 2023 \$m	31 Dec 2022 \$m
<b>Risk-weighted assets ('RWA')</b>	1, 2	<b>44,519</b>	44,656
		%	%
<b>Actual regulatory capital ratios</b>			
– common equity tier 1 capital ratio	3	<b>12.8</b>	11.6
– tier 1 capital ratio	3	<b>15.3</b>	14.1
– total capital ratio	3	<b>17.6</b>	16.4
– leverage ratio	4, 5	<b>5.2</b>	4.7
<b>Regulatory capital requirements</b>	6		
– minimum common equity tier 1 capital ratio		<b>7.0</b>	7.0
– minimum tier 1 capital ratio		<b>8.5</b>	8.5
– minimum total capital ratio		<b>10.5</b>	10.5
– minimum leverage ratio		<b>3.0</b>	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 second quarter are based on Basel III reforms 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 in the second quarter of 2023.
4. Leverage Ratio is calculated as tier 1 capital divided by leverage exposure measures, in accordance with Leverage Requirements ('LR') Guideline issued by OSFI. Leverage exposure measures represent the sum of on-balance sheet assets and specified off-balance sheet items.
5. 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 June 2023 includes central bank reserves from leverage ratio exposures.
6. OSFI target capital ratios including mandated capital conservation buffer.

At 30 June 2023, our common equity tier 1 ('CET1') capital ratio increased to 12.8% from 11.6% at 31 December 2022, reflecting an increase in CET1 capital of \$520m and a reduction in RWA of \$137m. The increase in CET1 capital was mainly from the increase in retained profits net of preferred share dividends.

## Management's Discussion and Analysis

### Outstanding shares and dividends

		Half-year ended			Year ended		
		30 Jun 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		0.90329	20,000	500	1.08412	20,000	500
– Series I	3	—	—	—	1.15000	—	—
– Series J	3	0.90453	14,000	350	—	14,000	350
– Series K		0.68126	10,000	250	1.36252	10,000	250

1. Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.
2. 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 second quarter 2023

During the second 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 second quarter of 2023.

#### Dividends declared in the third quarter 2023

On 27 July 2023, the bank declared regular quarterly dividends for the third 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 30 September 2023 or the first business day thereafter to the shareholder of record on 15 September 2023.

As the quarterly dividends on preferred shares for the third quarter of 2023 were declared after 30 June 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 third 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 Jun 2023		30 Jun 2022	
	Economic value of equity	Earnings at risk	Economic value of equity	Earnings at risk
	\$m	\$m	\$m	\$m
100 basis points increase	(187)	82	(163)	176
100 basis points decrease	174	(76)	152	(221)

### 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 38 of the MD&A.

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

### Non-trading VaR, 99% 1 day\*

	Interest rate	Credit Spread	Portfolio diversification <sup>1</sup>	Total <sup>2</sup>
	\$m	\$m	\$m	\$m
Balance at 30 Jun 2023	33.2	27.8	(9.3)	51.6
Average	25.8	28.3	(6.2)	48.0
Maximum	35.1	31.6	—	55.6
Minimum	14.7	27.1	—	37.4

Balance at 30 Jun 2022	14.3	28.2	(8.2)	34.2
Average	11.6	25.1	(11.8)	24.9
Maximum	14.7	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 VaR for non-trading activity at 30 June 2023 was \$17m higher than at 30 June 2022 mainly from increased volatility in interest rates during the year. On a stand-alone basis, both interest rate VaR and credit VaR increased due to higher levels of market volatility observed during the current year. 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<sup>1</sup>



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.

## Management's Discussion and Analysis

### 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 second 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.

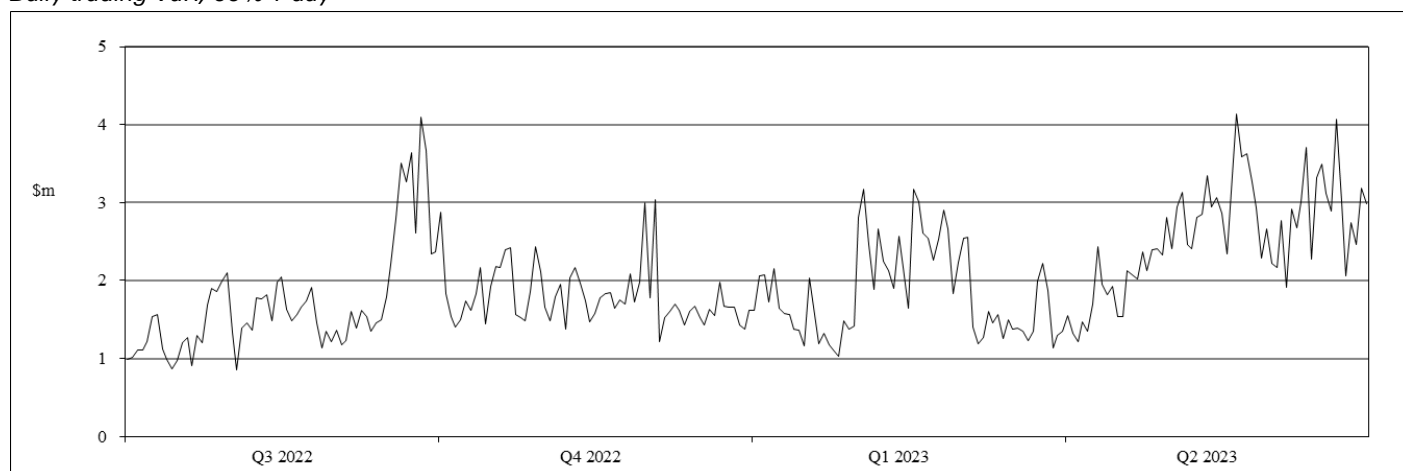
Trading VaR changed materially compared with previous year due to increased volatility in interest rates during the year.

#### Trading VaR (by risk type)\*<sup>1</sup>

	Foreign exchange and commodity \$m	Interest rate \$m	Equity \$m	Credit spread \$m	Portfolio diversification <sup>2</sup> \$m	Total <sup>3</sup> \$m
January - June 2023						
At period end	—	2.8	—	0.8	(0.6)	3.0
Average	—	2.1	—	0.8	(0.7)	2.2
Minimum	—	0.9	—	0.5	—	1.0
Maximum	—	4.1	—	1.5	—	4.1
January - June 2022						
At period end	—	0.8	—	0.5	(0.3)	1.0
Average	—	0.9	—	0.9	(0.5)	1.2
Minimum	—	0.5	—	0.2	—	0.5
Maximum	—	1.9	—	1.6	—	2.2

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 its daily publishing on 15 June 2020. The bank continues to expand its CORRA-linked product offerings and transition customers to CORRA.

On 11 January 2023, the Canadian Alternative Reference Rate ('CARR') confirmed that it is developing 1- and 3-month Term CORRA benchmarks with the objective of making them available for institutions by the end of the third quarter of 2023. We have begun to work on a transition plan for term CORRA and based on market developments, the transition plan will address derivatives and loans linked to Banker's Acceptance ('BA') funding mechanism as it is inherently interconnected with 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 risk 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 RBC for a purchase price of \$13.5bn. Subject to regulatory and governmental review and approval, we expect the sale to complete in the first quarter of 2024 to ensure a smooth transition.

The sale agreement follows a strategic review of HSBC Bank Canada by the HSBC Group. The review considered HSBC Bank Canada's relatively low market share and the Group's ability to invest in HSBC Bank Canada's expansion and growth in the context of opportunities in other markets, and concluded that the best course of action strategically for the HSBC Group and HSBC Bank Canada was to sell the business.



## Consolidated Financial Statements

	Page		Page
Consolidated income statement	40	5	Trading assets
Consolidated statement of comprehensive income	41	6	Derivatives
Consolidated balance sheet	42	7	Financial investments
Consolidated statement of cash flows	43	8	Other assets
Consolidated statement of changes in equity	44	9	Trading liabilities
Notes on the Consolidated Financial Statements		10	Debt securities in issue
1 Basis of preparation and significant accounting policies	45	11	Other liabilities
2 Net fee income	46	12	Fair values of financial instruments
3 Employee compensation and benefits	46	13	Legal proceedings and regulatory matters
4 Segment analysis	47	14	Events after the reporting period

### Consolidated income statement

	Notes	Quarter ended		Half-year ended	
		30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
		\$m	\$m	\$m	\$m
Net interest income		442	369	894	706
– interest income		1,291	630	2,547	1,101
– interest expense		(849)	(261)	(1,653)	(395)
Net fee income	2	194	196	383	393
– fee income		225	224	446	446
– fee expense		(31)	(28)	(63)	(53)
Net income from financial instruments held for trading		40	24	67	51
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		–	(1)	–	(1)
Gains less losses from financial investments		–	–	2	2
Other operating income		5	11	12	18
<b>Total operating income</b>		<b>681</b>	<b>599</b>	<b>1,358</b>	<b>1,169</b>
Change in expected credit losses and other credit impairment charges - (charge)		(13)	(82)	(15)	(40)
<b>Net operating income</b>		<b>668</b>	<b>517</b>	<b>1,343</b>	<b>1,129</b>
Employee compensation and benefits	3	(174)	(152)	(331)	(303)
General and administrative expenses		(144)	(138)	(294)	(280)
Depreciation and impairment of property, plant and equipment		(14)	(16)	(28)	(31)
Amortization and impairment of intangible assets		(34)	(13)	(79)	(25)
<b>Total operating expenses</b>		<b>(366)</b>	<b>(319)</b>	<b>(732)</b>	<b>(639)</b>
<b>Profit before income tax expense</b>		<b>302</b>	<b>198</b>	<b>611</b>	<b>490</b>
Income tax expense		(84)	(53)	(170)	(131)
<b>Profit for the period</b>		<b>218</b>	<b>145</b>	<b>441</b>	<b>359</b>
Profit attributable to:					
– the common shareholder		198	133	403	336
– the preferred shareholder		20	12	38	23
<b>Profit for the period</b>		<b>218</b>	<b>145</b>	<b>441</b>	<b>359</b>
Average number of common shares outstanding (000's)		548,668	548,668	548,668	548,668
Basic and diluted earnings per common share (\$)		\$ 0.37	\$ 0.24	\$ 0.74	\$ 0.61

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		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Profit for the period	218	145	441	359
Other comprehensive income				
<b>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</b>				
Debt instruments at fair value through other comprehensive income <sup>1</sup>	28	(90)	61	(272)
– fair value gains/(losses)	39	(122)	87	(368)
– fair value gains transferred to the income statement on disposal	–	–	(2)	(2)
– income taxes	(11)	32	(24)	98
Cash flow hedges <sup>1</sup>	(185)	(145)	(74)	(324)
– fair value gains/(losses)	(438)	(211)	(336)	(476)
– fair value losses/(gains) reclassified to the income statement	182	13	234	35
– income taxes	71	53	28	117
<b>Items that will not be reclassified subsequently to profit or loss:</b>				
Remeasurement of defined benefit plans	(2)	17	(2)	41
– before income taxes	(3)	23	(7)	56
– income taxes	1	(6)	5	(15)
Equity instruments designated at fair value through other comprehensive income	1	–	2	1
– fair value (losses)/gains	1	–	2	1
Other comprehensive income for the period, net of tax	(158)	(218)	(13)	(554)
<b>Total comprehensive income for the period</b>	<b>60</b>	<b>(73)</b>	<b>428</b>	<b>(195)</b>
Attributable to:				
– the common shareholder	40	(85)	390	(218)
– the preferred shareholder	20	12	38	23
<b>Total comprehensive income for the period</b>	<b>60</b>	<b>(73)</b>	<b>428</b>	<b>(195)</b>

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 Financial Statements (unaudited)

### Consolidated balance sheet

	Notes	At	
		30 Jun 2023	31 Dec 2022
		\$m	\$m
<b>Assets</b>			
Cash and balances at central bank		4,682	6,326
Items in the course of collection from other banks		10	9
Trading assets	5	3,006	4,296
Other financial assets mandatorily measured at fair value through profit or loss		20	18
Derivatives	6	5,892	6,220
Loans and advances to banks		338	344
Loans and advances to customers		73,956	74,862
Reverse repurchase agreements – non-trading		4,303	6,003
Financial investments	7	23,050	23,400
Other assets	8	1,787	2,591
Prepayments and accrued income		326	351
Customers’ liability under acceptances		3,176	3,147
Current tax assets		113	172
Property, plant and equipment		342	332
Goodwill and intangible assets		81	160
Deferred tax assets		64	71
<b>Total assets</b>		<b>121,146</b>	<b>128,302</b>
<b>Liabilities and equity</b>			
<b>Liabilities</b>			
Deposits by banks		523	712
Customer accounts		79,141	82,253
Repurchase agreements – non-trading		4,789	4,435
Items in the course of transmission to other banks		233	227
Trading liabilities	9	2,517	3,732
Derivatives	6	6,424	6,575
Debt securities in issue	10	12,068	15,735
Other liabilities	11	3,615	3,577
Acceptances		3,181	3,156
Accruals and deferred income		972	713
Retirement benefit liabilities		209	203
Subordinated liabilities		1,011	1,011
Provisions		40	54
Current tax liabilities		115	—
Deferred tax liability		1	1
<b>Total liabilities</b>		<b>114,839</b>	<b>122,384</b>
<b>Equity</b>			
Common shares		1,125	1,125
Preferred shares		1,100	1,100
Other reserves		(797)	(786)
Retained earnings		4,879	4,479
<b>Total shareholders’ equity</b>		<b>6,307</b>	<b>5,918</b>
<b>Total liabilities and equity</b>		<b>121,146</b>	<b>128,302</b>

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

	Half-year ended	
	30 Jun 2023	30 Jun 2022
	\$m	\$m
<b>Profit before income tax expense</b>	<b>611</b>	490
<b>Adjustments for non-cash items:</b>		
Depreciation, amortization and impairment	107	56
Share-based payment expense	4	2
Change in expected credit losses and other credit impairment charges	15	40
Charge for defined benefit pension plans	4	5
<b>Changes in operating assets and liabilities</b>		
Change in prepayment and accrued income	25	(60)
Change in net trading securities and net derivatives	150	(2,419)
Change in loans and advances to customers	877	(5,679)
Change in reverse repurchase agreements – non-trading	690	2,131
Change in other assets	813	(1,753)
Change in accruals and deferred income	259	(20)
Change in deposits by banks	(189)	(818)
Change in customer accounts	(3,112)	1,634
Change in repurchase agreements – non-trading	354	(717)
Change in debt securities in issue	(3,667)	2,494
Change in other liabilities	4	1,372
Tax received/(paid)	17	(20)
<b>Net cash from operating activities</b>	<b>(3,038)</b>	(3,262)
Purchase of financial investments	(2,352)	(6,774)
Proceeds from the sale and maturity of financial investments	2,789	989
Purchase of intangibles and property, plant and equipment	(6)	(59)
<b>Net cash from investing activities</b>	<b>431</b>	(5,844)
Return of capital to parent	–	(600)
Dividends paid to shareholder	(38)	(313)
Lease principal payments	(21)	(24)
<b>Net cash from financing activities</b>	<b>(59)</b>	(937)
<b>Net decrease in cash and cash equivalents</b>	<b>(2,666)</b>	(10,043)
Cash and cash equivalents at the beginning of the period	7,907	19,759
<b>Cash and cash equivalents at the end of the period</b>	<b>5,241</b>	9,716
<b>Cash and cash equivalents comprise:</b>		
Cash and balances at central bank	4,682	5,172
Items in the course of collection from other banks and Items in the course of transmission to other banks	(223)	(425)
Loans and advances to banks of one month or less	338	517
Non-trading reverse repurchase agreements with banks of one month or less	444	4,452
<b>Cash and cash equivalents at the end of the period</b>	<b>5,241</b>	9,716
<b>Interest:</b>		
Interest paid	(1,358)	(338)
Interest received	2,571	1,043

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 Financial Statements (unaudited)

### Consolidated statement of changes in equity

	Share capital \$m	Retained earnings \$m	Other reserves			Total equity \$m
			Financial assets at FVOCI reserve \$m	Cash flow hedging reserve \$m	Total other reserves \$m	
<b>At 1 Jan 2023</b>	<b>2,225</b>	<b>4,479</b>	<b>(248)</b>	<b>(538)</b>	<b>(786)</b>	<b>5,918</b>
Profit for the period	—	441	—	—	—	441
Other comprehensive income/(loss), net of tax	—	(2)	63	(74)	(11)	(13)
– debt instruments at fair value through other comprehensive income	—	—	61	—	61	61
– equity instruments designated at fair value through other comprehensive income	—	—	2	—	2	2
– cash flow hedges	—	—	—	(74)	(74)	(74)
– remeasurement of defined benefit plans	—	(2)	—	—	—	(2)
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>439</b>	<b>63</b>	<b>(74)</b>	<b>(11)</b>	<b>428</b>
Dividends on common shares	—	—	—	—	—	—
Dividends on preferred shares	—	(38)	—	—	—	(38)
Return of capital to parent	—	—	—	—	—	—
Movement in respect of share-based payment arrangements	—	(1)	—	—	—	(1)
<b>At 30 Jun 2023</b>	<b>2,225</b>	<b>4,879</b>	<b>(185)</b>	<b>(612)</b>	<b>(797)</b>	<b>6,307</b>

	Share capital \$m	Retained earnings \$m	Other reserves			Total equity \$m
			Financial assets at FVOCI reserve \$m	Cash flow hedging reserve \$m	Total other reserves \$m	
<b>At 1 Jan 2022</b>	<b>2,825</b>	<b>4,074</b>	<b>(22)</b>	<b>(1)</b>	<b>(23)</b>	<b>6,876</b>
Profit for the period	—	359	—	—	—	359
Other comprehensive income/(loss), net of tax	—	41	(271)	(324)	(595)	(554)
– debt instruments at fair value through other comprehensive income	—	—	(272)	—	(272)	(272)
– equity instruments designated at fair value through other comprehensive income	—	—	1	—	1	1
– cash flow hedges	—	—	—	(324)	(324)	(324)
– remeasurement of defined benefit plans	—	41	—	—	—	41
<b>Total comprehensive income for the period</b>	<b>—</b>	<b>400</b>	<b>(271)</b>	<b>(324)</b>	<b>(595)</b>	<b>(195)</b>
Dividends on common shares	—	(290)	—	—	—	(290)
Dividends on preferred shares	—	(23)	—	—	—	(23)
Return of capital to parent	(600)	—	—	—	—	(600)
Movement in respect of share-based payment arrangements	—	(1)	—	—	—	(1)
<b>At 30 Jun 2022</b>	<b>2,225</b>	<b>4,160</b>	<b>(293)</b>	<b>(325)</b>	<b>(618)</b>	<b>5,767</b>

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 as at 30 June 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*.

## Notes on the Consolidated Financial Statements (unaudited)

### 2 Net fee income

#### Net fee income by business segment

	Quarter ended											
	30 Jun 2023						30 Jun 2022					
	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre <sup>1</sup>	Total	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre <sup>1</sup>	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Account services	13	5	3	—	—	21	12	5	2	—	—	19
Broking income	—	3	—	—	—	3	—	3	—	—	—	3
Cards	9	19	1	—	—	29	8	15	1	—	—	24
Credit facilities	81	—	3	—	—	84	78	—	8	—	—	86
Funds under management	—	54	—	—	—	54	—	57	—	—	—	57
Imports/exports	2	—	—	—	—	2	2	—	1	—	—	3
Insurance agency commission	—	2	—	—	—	2	—	1	—	—	—	1
Guarantees and other	8	1	2	—	—	11	8	2	1	1	—	12
Remittances	8	1	3	—	—	12	9	2	3	—	—	14
Underwriting and advisory	—	—	4	3	—	7	—	—	5	1	(1)	5
<b>Fee income</b>	<b>121</b>	<b>85</b>	<b>16</b>	<b>3</b>	<b>—</b>	<b>225</b>	<b>117</b>	<b>85</b>	<b>21</b>	<b>2</b>	<b>(1)</b>	<b>224</b>
Less: fee expense	(9)	(20)	(1)	(1)	—	(31)	(5)	(21)	(1)	(1)	—	(28)
<b>Net fee income</b>	<b>112</b>	<b>65</b>	<b>15</b>	<b>2</b>	<b>—</b>	<b>194</b>	<b>112</b>	<b>64</b>	<b>20</b>	<b>1</b>	<b>(1)</b>	<b>196</b>

	Half-year ended											
	30 Jun 2023						30 Jun 2022					
	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre <sup>1</sup>	Total	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre <sup>1</sup>	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Account services	25	9	6	—	—	40	24	9	5	—	—	38
Broking income	—	6	—	—	—	6	—	7	—	—	—	7
Cards	18	35	1	—	—	54	14	30	1	—	—	45
Credit facilities	161	—	8	—	—	169	152	—	16	—	—	168
Funds under management	—	108	—	—	—	108	—	115	—	—	—	115
Imports/exports	5	—	—	—	—	5	5	—	1	—	—	6
Insurance agency commission	—	3	—	—	—	3	—	2	—	—	—	2
Guarantee and other	17	3	5	—	—	25	18	4	4	—	—	26
Remittances	16	2	6	—	—	24	16	3	5	—	—	24
Underwriting and advisory	—	—	7	5	—	12	—	—	12	6	(3)	15
<b>Fee income</b>	<b>242</b>	<b>166</b>	<b>33</b>	<b>5</b>	<b>—</b>	<b>446</b>	<b>229</b>	<b>170</b>	<b>44</b>	<b>6</b>	<b>(3)</b>	<b>446</b>
Less: fee expense	(19)	(40)	(2)	(2)	—	(63)	(9)	(40)	(2)	(2)	—	(53)
<b>Net fee income</b>	<b>223</b>	<b>126</b>	<b>31</b>	<b>3</b>	<b>—</b>	<b>383</b>	<b>220</b>	<b>130</b>	<b>42</b>	<b>4</b>	<b>(3)</b>	<b>393</b>

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		Half-year ended	
	30 Jun 2023	30 Jun 2022	30 Jun 2023	30 Jun 2022
	\$m	\$m	\$m	\$m
Defined benefit plans	4	5	8	9
– pension plans	2	3	5	6
– non-pension plans	2	2	3	3
Defined contribution pension plans	10	9	21	15
<b>Total</b>	<b>14</b>	<b>14</b>	<b>29</b>	<b>24</b>

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 Jun 2023						30 Jun 2022					
	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre <sup>1</sup>	Total	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre <sup>1</sup>	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Net interest income	185	212	33	14	(2)	442	173	156	29	10	1	369
Net fee income	112	65	15	2	—	194	112	64	20	1	(1)	196
Net income from financial instruments held for trading	15	17	1	4	3	40	9	7	(10)	19	(1)	24
Other income	(1)	1	—	—	5	5	(1)	5	—	1	5	10
<b>Total operating income</b>	<b>311</b>	<b>295</b>	<b>49</b>	<b>20</b>	<b>6</b>	<b>681</b>	<b>293</b>	<b>232</b>	<b>39</b>	<b>31</b>	<b>4</b>	<b>599</b>
Change in expected credit losses and other credit impairment charges - (charge)/release	(8)	(12)	7	—	—	(13)	(77)	(4)	(1)	—	—	(82)
<b>Net operating income</b>	<b>303</b>	<b>283</b>	<b>56</b>	<b>20</b>	<b>6</b>	<b>668</b>	<b>216</b>	<b>228</b>	<b>38</b>	<b>31</b>	<b>4</b>	<b>517</b>
– external	349	242	41	31	5	668	224	237	21	31	4	517
– inter-segment	(46)	41	15	(11)	1	—	(8)	(9)	17	—	—	—
<b>Total operating expenses</b>	<b>(108)</b>	<b>(172)</b>	<b>(20)</b>	<b>(12)</b>	<b>(54)</b>	<b>(366)</b>	<b>(100)</b>	<b>(163)</b>	<b>(23)</b>	<b>(13)</b>	<b>(20)</b>	<b>(319)</b>
<b>Profit/(loss) before income tax expense</b>	<b>195</b>	<b>111</b>	<b>36</b>	<b>8</b>	<b>(48)</b>	<b>302</b>	<b>116</b>	<b>65</b>	<b>15</b>	<b>18</b>	<b>(16)</b>	<b>198</b>

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.



## Notes on the Consolidated Financial Statements (unaudited)

### Profit for the period

	Half-year ended											
	30 Jun 2023						30 Jun 2022					
	Commercial Banking \$m	Wealth and Personal Banking \$m	Global Banking \$m	Markets and Securities Services \$m	Corporate Centre <sup>1</sup> \$m	Total \$m	Commercial Banking \$m	Wealth and Personal Banking \$m	Global Banking \$m	Markets and Securities Services \$m	Corporate Centre <sup>1</sup> \$m	Total \$m
Net interest income	373	416	77	31	(3)	894	335	297	54	19	1	706
Net fee income	223	126	31	3	—	383	220	130	42	4	(3)	393
Net income from financial instruments held for trading	25	30	1	7	4	67	18	12	(10)	33	(2)	51
Other income	—	4	—	1	9	14	—	10	—	1	8	19
<b>Total operating income</b>	<b>621</b>	<b>576</b>	<b>109</b>	<b>42</b>	<b>10</b>	<b>1,358</b>	<b>573</b>	<b>449</b>	<b>86</b>	<b>57</b>	<b>4</b>	<b>1,169</b>
Change in expected credit losses and other credit impairment charges - (charge)/release	(2)	(19)	6	—	—	(15)	(37)	—	(3)	—	—	(40)
<b>Net operating income</b>	<b>619</b>	<b>557</b>	<b>115</b>	<b>42</b>	<b>10</b>	<b>1,343</b>	<b>536</b>	<b>449</b>	<b>83</b>	<b>57</b>	<b>4</b>	<b>1,129</b>
– external	695	498	78	63	9	1,343	540	472	55	58	4	1,129
– inter-segment	(76)	59	37	(21)	1	—	(4)	(23)	28	(1)	—	—
<b>Total operating expenses</b>	<b>(217)</b>	<b>(348)</b>	<b>(40)</b>	<b>(25)</b>	<b>(102)</b>	<b>(732)</b>	<b>(203)</b>	<b>(324)</b>	<b>(45)</b>	<b>(26)</b>	<b>(41)</b>	<b>(639)</b>
<b>Profit/(loss) before income tax expense</b>	<b>402</b>	<b>209</b>	<b>75</b>	<b>17</b>	<b>(92)</b>	<b>611</b>	<b>333</b>	<b>125</b>	<b>38</b>	<b>31</b>	<b>(37)</b>	<b>490</b>

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

### Balance sheet information

	Commercial Banking \$m	Wealth and Personal Banking \$m	Global Banking \$m	Markets and Securities Services \$m	Corporate Centre <sup>1</sup> \$m	Total \$m
<b>At 30 Jun 2023</b>						
Loans and advances to customers	34,122	36,189	3,645	—	—	73,956
Customers' liability under acceptances	2,795	12	369	—	—	3,176
Total external assets	47,582	48,734	9,174	15,260	396	121,146
Customer accounts	27,882	43,796	7,140	323	—	79,141
Acceptances	2,800	12	369	—	—	3,181
Total external liabilities	37,352	53,286	10,731	13,125	345	114,839
<b>At 31 Dec 2022</b>						
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

	Footnote	At	
		30 Jun 2023 \$m	31 Dec 2022 \$m
Debt securities			
– Canadian and Provincial Government bonds	1	2,265	3,599
– treasury and other eligible bills		524	323
– other debt securities		217	374
<b>At the end of the period</b>		<b>3,006</b>	<b>4,296</b>
Trading assets			
– not subject to repledge or resale by counterparties		1,196	1,438
– which may be repledged or resold by counterparties		1,810	2,858
<b>At the end of the period</b>		<b>3,006</b>	<b>4,296</b>

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 <sup>1</sup>		Fair value – Assets			Fair value – Liabilities		
	Held for trading \$m	Hedge accounting \$m	Held for trading \$m	Hedge accounting \$m	Total \$m	Held for trading \$m	Hedge accounting \$m	Total \$m
Foreign exchange	132,630	3,973	1,466	44	1,510	1,392	59	1,451
Interest rate	282,047	31,512	3,966	414	4,380	4,053	918	4,971
Commodity and other	960	—	2	—	2	2	—	2
<b>At 30 Jun 2023</b>	<b>415,637</b>	<b>35,485</b>	<b>5,434</b>	<b>458</b>	<b>5,892</b>	<b>5,447</b>	<b>977</b>	<b>6,424</b>
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	—	—	—	—	—	—	—
<b>At 31 Dec 2022</b>	<b>409,358</b>	<b>33,449</b>	<b>5,789</b>	<b>431</b>	<b>6,220</b>	<b>5,771</b>	<b>804</b>	<b>6,575</b>

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

### Derivatives in hedge accounting relationships

#### Fair value hedging instrument by hedged risk

	At					
	30 Jun 2023			31 Dec 2022		
	Carrying amount			Carrying amount		
	Notional amount \$m	Assets \$m	Liabilities \$m	Notional amount \$m	Assets \$m	Liabilities \$m
Interest rate	11,575	414	22	14,479	431	34
<b>Total</b>	<b>11,575</b>	<b>414</b>	<b>22</b>	<b>14,479</b>	<b>431</b>	<b>34</b>

#### Cash flow hedging instrument by hedged risk

	At					
	30 Jun 2023			31 Dec 2022		
	Carrying amount			Carrying amount		
	Notional amount \$m	Assets \$m	Liabilities \$m	Notional amount \$m	Assets \$m	Liabilities \$m
Foreign exchange	3,973	44	59	2,534	—	65
Interest rate	19,937	—	896	16,437	—	704
<b>Total</b>	<b>23,910</b>	<b>44</b>	<b>955</b>	<b>18,971</b>	<b>—</b>	<b>769</b>

At 30 June 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.

## Notes on the Consolidated Financial Statements (unaudited)

### 7 Financial investments

#### Carrying amount of financial investments

	Footnote	At	
		30 Jun 2023	31 Dec 2022
		\$m	\$m
Financial investments measured at fair value through other comprehensive income		14,218	15,039
– Canadian and Provincial Government bonds	1	9,746	10,577
– international Government bonds	1	2,377	2,678
– other debt securities issued by banks and other financial institutions		1,181	1,578
– treasury and other eligible bills		903	191
– equity securities		11	15
Financial investments measured at amortized cost		8,832	8,361
– Canadian and Provincial Government bonds		5,811	5,660
– international Government bonds		2,335	2,003
– other debt securities issued by banks and other financial institutions		686	698
<b>At the end of the period</b>		<b>23,050</b>	<b>23,400</b>
Financial investments			
– not subject to repledge or resale by counterparties		21,194	23,163
– which may be repledged or resold by counterparties		1,856	237
<b>At the end of the period</b>		<b>23,050</b>	<b>23,400</b>

1. Includes government guaranteed bonds.

### 8 Other assets

	At	
	30 Jun 2023	31 Dec 2022
	\$m	\$m
Accounts receivable	727	1,121
Settlement accounts	361	463
Cash collateral	687	997
Other	12	10
<b>At the end of the period</b>	<b>1,787</b>	<b>2,591</b>

### 9 Trading liabilities

	At	
	30 Jun 2023	31 Dec 2022
	\$m	\$m
Net short positions in securities	2,517	3,732
<b>At the end of the period</b>	<b>2,517</b>	<b>3,732</b>

### 10 Debt securities in issue

	At	
	30 Jun 2023	31 Dec 2022
	\$m	\$m
Bonds and medium term notes	7,942	11,432
Covered bonds	3,962	3,887
Money market instruments	164	416
<b>At the end of the period</b>	<b>12,068</b>	<b>15,735</b>

#### Term to maturity

	At	
	30 Jun 2023	31 Dec 2022
	\$m	\$m
Less than 1 year	2,483	7,502
1-5 years	9,585	8,162
5-10 years	–	71
<b>At the end of the period</b>	<b>12,068</b>	<b>15,735</b>

## 11 Other liabilities

	At	
	30 Jun 2023	31 Dec 2022
	\$m	\$m
Mortgages sold with recourse	1,856	1,930
Lease liabilities	280	264
Accounts payable	704	792
Settlement accounts	500	272
Cash collateral	266	280
Share based payment related liability	7	7
Other	2	32
<b>At the end of the period</b>	<b>3,615</b>	<b>3,577</b>

## 12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 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 \$m	Using observable inputs Level 2 \$m	With significant unobservable inputs Level 3 \$m	Total \$m
<b>Recurring fair value measurements</b>				
<b>At 30 Jun 2023</b>				
<b>Assets</b>				
Trading assets	2,838	168	—	3,006
Other financial assets mandatorily measured at fair value through profit or loss	—	20	—	20
Derivatives	—	5,892	—	5,892
Financial investments	14,152	66	—	14,218
<b>Liabilities</b>				
Trading liabilities	2,312	205	—	2,517
Derivatives	—	6,424	—	6,424
<b>At 31 Dec 2022</b>				
<b>Assets</b>				
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
<b>Liabilities</b>				
Trading liabilities	3,486	246	—	3,732
Derivatives	—	6,575	—	6,575

### Transfers between Level 1 and Level 2 fair values

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. For the quarter ended 30 Jun 2023, there were no transfers between Level 1 and Level 2 fair values.

## Notes on the Consolidated Financial Statements (unaudited)

### 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

	Footnote	At			
		30 Jun 2023		31 Dec 2022	
		Carrying amount <sup>2</sup> \$m	Fair value \$m	Carrying amount \$m	Fair value \$m
<b>Assets</b>					
Loans and advances to customers	1	73,956	73,073	74,862	74,025
Financial investments – at amortized cost		8,832	8,612	8,361	8,194
<b>Liabilities</b>					
Customer accounts		79,141	79,699	82,253	82,430
Debt securities in issue		12,068	11,628	15,735	15,258
Subordinated liabilities		1,011	1,101	1,011	1,110

1 Loans and advances to customers specifically relating to Canada: carrying amount \$69,484m and fair value \$68,847m (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 27 July 2023, the bank declared regular quarterly dividends for the third 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 30 September 2023 or the first business day thereafter to the shareholder of record on 15 September 2023.

As the quarterly dividends on preferred shares for the third quarter of 2023 were declared after 30 June 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 third quarter.

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

These accounts were approved by the Board of Directors on 27 July 2023 and authorized for issue.

## Shareholder information

---

### PRINCIPAL ADDRESSES

**Vancouver:**

HSBC Bank Canada  
300-885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E9  
Tel: 604-685-1000

**Toronto:**

HSBC Bank Canada  
6th Floor - 16 York Street  
Toronto, Ontario  
Canada M5J 0E6

**Media Inquiries:**

English:  
647-388-1202  
647-880-5406  
416-673-6997  
French:  
647-880-5406  
416-673-6997

**Website**

[www.hsbc.ca](http://www.hsbc.ca)

**Social Media**

Twitter: @HSBC\_CA  
Facebook: @HSBCCanada  
YouTube: HSBC Canada  
Instagram: @hsbc\_ca

### INVESTOR RELATIONS CONTACT

Enquiries may be directed to Investor  
Relations by writing to:

HSBC Bank Canada  
Investor Relations -  
Finance Department  
300-885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E9  
Email: [investor\\_relations@hsbc.ca](mailto:investor_relations@hsbc.ca)

## More HSBC contacts

---

**HSBC Global Asset Management (Canada) Limited**

1 (888) 390-3333

**HSBC Investment Funds (Canada) Inc.**

1 (800) 830-8888  
[www.hsbc.ca/funds](http://www.hsbc.ca/funds)

**HSBC Private Investment Counsel (Canada) Inc.**

1 (844) 756-7783

**HSBC Securities (Canada) Inc.**

1 (800) 760-1180

For more information, or to find the HSBC Bank Canada branch nearest you, call 1 (888) 310-4722 or visit our website at [www.hsbc.ca](http://www.hsbc.ca)

**HSBC Bank Canada**

885 West Georgia Street  
Vancouver, British Columbia  
Canada V6C 3E9  
Telephone: 1 604 685 1000  
[www.hsbc.ca](http://www.hsbc.ca)