HSBC Bank Canada

First Quarter 2023 Interim Report

HSBC

HSBC Bank Canada first quarter 2023 performance

Quarter ended 31 March 2023

Total operating income

$677m ↑ 19%

(2022: $570m)

Profit before income tax expense

$309m ↑ 5.8%

(2022: $292m)

Profit attributable to the common shareholder

$205m ↑ 1.0%

(2022: $203m)

At 31 March 2023

Total assets

$123.3bn ↓ 3.9%

(At 31 Dec 2022: $128.3bn)

Common equity tier 1 ratio[1]

12.4% ↑ 80 bps

(At 31 Dec 2022: 11.6%)

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

"It has been a good start to the year, and we performed well despite the significant global volatility in the quarter. We continued to see the benefit from our robust balance sheet growth in 2022 as well as from central bank rate increases. Compared to the first quarter of 2022, we also saw growth in deposit balances and the online brokerage business in Wealth and Personal Banking; transaction banking in Global Banking; and lending and deposits in Commercial Banking. Thank you to our team for all they have accomplished, and for their dedication to serving our clients through this unique time with the agreed sale of HSBC Bank Canada.

"Over the coming year, we expect conditions to be more challenging given the economic outlook. As always, we remain fully focused on serving our clients, supporting their plans and helping them to navigate these headwinds, for themselves and their businesses."

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

Award and recognition

Trade Finance Market Leader and Best Service Awards in Canada

Euromoney (2023)

Interim report contents

Our business segments[1]

Our operating model consists of four businesses and a Corporate Centre, supported by a number of corporate functions and our Digital Business Services teams.

Commercial Banking ('CMB')

We support business customers with banking products and services to help them operate and grow. Our customers range from small enterprises, through to large companies that operate globally.

Wealth and Personal Banking ('WPB')

We offer a full range of competitive banking products and services for all Canadians to help them manage their finances, buy their homes, and save and invest for the future. Our business also has a large suite of global investment products and other specialized services available to serve our clients with international needs.

Global Banking ('GB')

We provide financial services and products to corporates, governments and institutions. Our comprehensive range of products and solutions can be combined and customized to meet our customers' specific objectives - from debt capital, global trade and receivables finance to global liquidity and cash management.

Markets and Securities Services ('MSS')

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

Quarter ended 31 March 2023

Total operating income

CMB	WPB	GB	MSS
$310m ↑ 11%	$281m ↑ 29%	$60m ↑ 28%	$22m ↓ 15%
(2022: $280m)	(2022: $217m)	(2022: $47m)	(2022: $26m)

Profit before income tax expense

CMB	WPB	GB	MSS
$207m ↓ 4.6%	$98m ↑ 63%	$39m ↑ 70%	$9m ↓ 31%
(2022: $217m)	(2022: $60m)	(2022: $23m)	(2022: $13m)

At 31 March 2023

Customer related lending assets[2]

CMB	WPB	GB	MSS
$37.7bn ↑ 2.2%	$36.2bn ↓ 1.3%	$4.2bn ↓ 6.7%	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 13 of the MD&A for more information). The Corporate Centre is not an operating segment of the bank. The following numbers provide a reconciliation between operating segments and the entity results. The equivalent results for the Corporate Centre were: Total operating income of $4m for the quarter ended 31 March 2023 (2022 total operating income: nil for the quarter ended), profit/(loss) before income tax expense was a loss of $44m for the quarter ended 31 March 2023 (2022 was a loss of: $21m for the quarter ended) and customer assets of nil (2022: nil).*
2. *Customer related lending assets includes loans and advances to customers and customers' liability under acceptances.*

MD&A contents

Basis of preparation

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

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter ended 31 March 2023, compared to the same period in the preceding year. The MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes for the quarter ended 31 March 2023 ('consolidated financial statements') and our *Annual Report and Accounts 2022*. This MD&A is dated 27 April 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 ended 31 March 2023.

The bank has prepared its consolidated financial statements in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and should be read in conjunction with the bank's 2022 audited annual consolidated financial statements. The bank's 2022 audited annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and in consideration of the accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI'), as required under Section 308(4) of the Bank Act. Certain sections within the MD&A, that are marked with an asterisk (*), form an integral part of the accompanying consolidated financial statements. The abbreviations '$m' and '$bn' represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated.

Our continuous disclosure materials, including interim and annual filings, are available through a link on the bank's website at www.hsbc.ca and on the Canadian Securities Administrators' website at www.sedar.com. The documents are also filed with the bank's Supplementary Prospectus on the United Kingdom Financial Conduct Authority's ('FCA') National Storage Mechanism at www.data.fca.org.uk and the London Stock Exchange at www.londonstockexchange.com. Complete financial, operational and investor information for HSBC Holdings and the HSBC Group, including HSBC Bank Canada, can be obtained from its website, www.hsbc.com, including copies of *HSBC Holdings Annual Report and Accounts 2022*. Information contained in or otherwise accessible through the websites mentioned does not form part of this report.

Caution regarding forward-looking statements

This document contains forward-looking information, including statements regarding the business and anticipated actions of the bank. These statements can be identified by the fact that they do not pertain strictly to historical or current facts. Forward-looking statements often include words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words and terms of similar substance in connection with discussions of future operating or financial performance. By their very nature, these statements require us to make a number of assumptions and are subject to a number of inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. We caution you to not place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. The 'Risk' section of the MD&A of our *Annual Report and Accounts 2022* describes the most significant risks to which the bank is exposed and, if not managed appropriately, could have a material impact on our future financial results. These risk factors include: credit risk, treasury risk (inclusive of capital management, liquidity and funding risk and interest rate risk), market risk, resilience risk, climate risk (inclusive of transition and physical risk impacts), regulatory compliance risk, financial crime risk, model risk and pension risk. Additional factors that may cause our actual results to differ materially from the expectations expressed in such forward-looking statements include: general economic and market conditions, inflation, fiscal and monetary policies, changes in laws, regulations and approach to supervision, level of competition and disruptive technology, cyber threat and unauthorized access to systems, changes to our credit rating, interbank offered rate ('IBOR') and Canadian Dollar Offered Rate ('CDOR') transition, changes in accounting standards, changes in tax rates, tax law and policy, and its interpretation of taxing authorities, risk of fraud by employees or others, unauthorized transactions by employees and human error. Furthermore, 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 now 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$2,990bn at 31 March 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 30.

Use of supplementary financial measures

In evaluating our performance, we use supplementary financial measures which have been calculated from IFRS figures. Following is a glossary of the relevant measures used throughout this document but not presented within the consolidated financial statements. The following supplementary financial measures include average balances and annualized income statement figures, as noted, are used throughout this document.

Return on average common shareholder's equity is calculated as the annualized profit attributable to the common shareholder for the period divided by average[1] common equity.

Return on average risk-weighted assets is calculated as annualized profit before income tax expense divided by the average[1] risk-weighted assets.

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

Operating leverage ratio is calculated as the difference between the rates of change for operating income and operating expenses.

Net interest margin is net interest income expressed as an annualized percentage of average[1] interest earning assets[2].

Change in expected credit losses to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[3] as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[3] on stage 3 assets as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances is calculated as the total allowance for expected credit losses[3] relating to stage 3 loans and advances to customers and customers' liabilities under acceptances as a percentage of stage 3 loans and advances to customers and customers' liabilities under acceptances.

Net write-offs as a percentage of average customer advances and acceptances is calculated as annualized net write-offs as a percentage of average[1] net customer advances and customers' liabilities under acceptances.

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

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

Financial highlights

($millions, except where otherwise stated)	Footnotes	Quarter ended 31 Mar 2023	Quarter ended 31 Mar 2022
Financial performance for the period			
Total operating income		**677**	570
Change in expected credit losses and other credit impairment charges - (charge)/release		**(2)**	42
Operating expenses		**(366)**	(320)
Profit before income tax expense		**309**	292
Profit attributable to the common shareholder		**205**	203
Basic and diluted earnings per common share ($)		**0.37**	0.37
Financial ratios (%)	1		
Return on average common shareholder's equity		**16.7**	15.5
Return on average risk-weighted assets		**2.8**	2.9
Cost efficiency ratio		**54.1**	56.1
Operating leverage ratio		**4.4**	5.6
Net interest margin		**1.66**	1.28
Change in expected credit losses to average gross loans and advances and acceptances	2	**0.01**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances		**0.03**	0.01
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**24.9**	33.1
Net write-offs as a percentage of average loans and advances and acceptances		**0.04**	0.02

	Footnotes	At 31 Mar 2023	At 31 Dec 2022
Financial position at period end			
Total assets		**123,267**	128,302
Loans and advances to customers		**75,000**	74,862
Customer accounts		**80,910**	82,253
Ratio of customer advances to customer accounts (%)	1	**92.7**	91.0
Common shareholder's equity		**5,166**	4,818
Capital, leverage and liquidity measures			
Common equity tier 1 capital ratio (%)	3	**12.4**	11.6
Tier 1 ratio (%)	3	**14.9**	14.1
Total capital ratio (%)	3	**17.3**	16.4
Leverage ratio (%)	3	**5.1**	4.7
Risk-weighted assets ($m)	3	**44,086**	44,656
Liquidity coverage ratio (%)	4	**172**	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 bank is in a net release position resulting in a negative ratio.*
3. *Capital ratios and risk weighted assets are calculated using OSFI's Capital Adequacy Requirements ('CAR') guideline, and the Leverage ratio is calculated using OSFI's Leverage Requirements ('LR') guideline. The CAR and LR guidelines are based on the Basel III guidelines. Refer to the 'Capital risk' section of this document for more information.*
4. *The Liquidity coverage ratio is calculated using OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates the Basel liquidity standards. The LCR in this table has been calculated using averages of the three month-end figures in the quarter. Refer to the 'Liquidity and funding risk' section of this document for more information.*

Financial performance

Summary consolidated income statement

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Net interest income	**452**	337
Net fee income	**189**	197
Net income from financial instruments held for trading	**27**	27
Other items of income	**9**	9
Total operating income	**677**	570
Change in expected credit losses and other credit impairment charges - (charge)/release	**(2)**	42
Net operating income	**675**	612
Total operating expenses	**(366)**	(320)
Profit before income tax expense	**309**	292
Income tax expense	**(86)**	(78)
Profit for the period	**223**	214

For the quarter ended 31 March 2023 compared with the same period in the prior year, unless otherwise stated.

Profit before income tax expense was $309m, up $17m or 5.8%, our highest recorded[1] profit before tax compared to previous quarters. The increase for the quarter was largely due to an increase in net interest income. This was partly offset by an increase in operating expenses and a nominal charge in expected credit losses compared with a release in the prior year.

Operating income for the quarter was $677m, up $107m or 19% from the prior year, increasing across three of our four business segments. Net interest income was higher as a result of the central bank rate increases over the past year and balance sheet growth with average loans and advances to customers increasing by 8.0% compared to the first quarter of 2022. Increased activity in cards across our businesses and an increase in credit facility fees in Commercial Banking from higher volumes of bankers' acceptances, 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. Trading income and other operating income remained flat for the quarter.

Expected credit losses resulted in a nominal charge of $2m for the quarter. This was primarily due to a charge on performing loans driven by the continued unfavourable forward-looking macro-economic variables partly offset by a release in non-performing loans. In 2022, the release was primarily from an improvement in macro-economic variables at that time.

Total operating expenses increased by $46m or 14% for the quarter mainly due to the re-assessment of the useful life and impairment of intangible assets[2] as a consequence of the agreed sale of HSBC Bank Canada and higher staff-related costs.

1. *Record quarter surpassing the highest profit before tax reported in the third quarter of 2022.*
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.*

Performance by income and expense item

For the quarter ended 31 March 2023 compared with the same period in the prior year.

Net interest income

Net interest income increased by $115m or 34% for the quarter due to the impact of the central bank rate increases over the past year and balance sheet growth with average loans and advances to customers increasing by 8.0% compared to the first quarter of 2022.

Summary of interest income by types of assets

		Quarter ended					
		31 Mar 2023			31 Mar 2022		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnotes	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks	*1*	**6,469**	**70**	**4.38**	12,578	9	0.29
Loans and advances to customers	*2*	**75,109**	**901**	**4.86**	69,566	425	2.48
Reverse repurchase agreements - non-trading	*3*	**4,868**	**74**	**6.18**	8,423	7	0.34
Financial investments	*4*	**23,107**	**202**	**3.54**	16,077	29	0.73
Other interest-earning assets	*5*	**864**	**9**	**4.35**	495	1	0.84
Total interest-earning assets (A)		**110,417**	**1,256**	**4.58**	107,139	471	1.77
Trading assets and financial assets designated at fair value	*6*	**3,635**	**34**	**3.74**	3,166	12	1.51
Non-interest-earning assets	*7*	**11,168**	**—**	**—**	9,560	—	—
Total		**125,220**	**1,290**	**4.14**	119,865	483	1.62

1. *'Short-term funds and loans and advances to banks' includes interest-earning cash and balances at central bank and loans and advances to banks.*
2. *'Loans and advances to customers' includes gross interest-earning loans and advances to customers.*
3. *'Reverse repurchase agreements - non trading' yield is presented using netted average repurchase agreement balances which may result in a higher yield than contractual amounts which are based on gross repurchase agreement balances.*
4. *'Financial investments' includes debt instruments at fair value through other comprehensive income ('FVOCI') and debt instruments measured at amortized costs.*
5. *'Other interest-earning assets' includes cash collateral and other interest-earning assets included within 'Other assets' on the balance sheet.*
6. *Interest income and expense on trading assets and liabilities is reported in `Net income from financial instruments held for trading' in the consolidated income statement.*
7. *'Non-interest-earning assets' includes non-interest earning cash and balances at central bank, items in the course of collection from other banks, equity shares held included within 'Trading assets', other financial assets mandatorily measured at fair value through profit or loss, derivatives, non-interest-earning loans and advances to banks and customers and impairment allowances, equity instruments at FVOCI included within 'Financial investments' on the balance sheet, customers' liability under acceptances, property, plant and equipment, goodwill and intangible assets, deferred and current tax assets and non-interest-earning other assets.*

Summary of interest expense by types of liability and equity

		Quarter ended					
		31 Mar 2023			31 Mar 2022		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
	Footnotes	**$m**	**$m**	**%**	$m	$m	%
Deposits by banks	*1*	**736**	**5**	**2.98**	1,339	—	0.04
Customer accounts	*2*	**74,404**	**577**	**3.14**	64,195	45	0.28
Repurchase agreements - non-trading	*3*	**3,546**	**60**	**6.86**	7,807	5	0.26
Debt securities in issue and subordinated debt		**15,667**	**144**	**3.74**	15,668	69	1.77
Other interest-bearing liabilities	*4*	**2,456**	**18**	**2.97**	2,526	15	2.48
Total interest bearing liabilities (B)		**96,809**	**804**	**3.34**	91,535	134	0.59
Trading liabilities	*5*	**3,108**	**28**	**3.63**	3,194	12	1.45
Non-interest bearing current accounts	*6*	**7,748**	**—**	**—**	8,665	—	—
Total equity and other non-interest bearing liabilities	*7*	**17,555**	**—**	**—**	16,471	—	—
Total		**125,220**	**832**	**2.67**	119,865	146	0.49
Net interest income (A-B)			**452**			337	

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	
	31 Mar 2023	31 Mar 2022
	$m	$m
Account services	**19**	19
Broking income	**3**	4
Cards	**25**	21
Credit facilities	**85**	82
Funds under management	**54**	58
Imports/exports	**3**	3
Insurance agency commission	**1**	1
Guarantee and other	**14**	14
Remittances	**12**	10
Underwriting and advisory	**5**	10
Fee income	**221**	222
Less: fee expense	**(32)**	(25)
Net fee income	**189**	197

Net fee income decreased by $8m or 4.1% for the quarter as challenging market conditions resulted in lower fees on investment funds under management in Wealth and Personal Banking and lower underwriting fees in Global Banking. Lower client activity in our online brokerage business in Wealth and Personal Banking also contributed to the decrease. These decreases were partly offset by increased activity in cards across our businesses and an increase in credit facility fees in Commercial Banking from higher volumes of bankers' acceptances. Fee expense increased due to increased activity mainly in cards.

Net income from financial instruments held for trading

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Trading activities	**25**	29
Credit valuation, debit valuation and funding fair value adjustments	**(1)**	2
Net interest from trading activities	**6**	—
Hedge ineffectiveness	**(3)**	(4)
Net income from financial instruments held for trading	**27**	27

Net income from financial instruments held for trading remained flat for the quarter. Net interest income from trading activities increased due to the higher interest rate environment. This was offset by lower income from trading activities as a result of current market conditions.

Other items of income

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Gains less losses from financial investments	**2**	2
Other operating income	**7**	7
Other items of income	**9**	9

Other items of income remained flat for the quarter.

Change in expected credit losses

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2) - charge/(release)	**3**	(57)
Change in expected credit loss and other credit impairment charges - non-performing (stage 3) - (release)/charge	**(1)**	15
Change in expected credit loss and other credit impairment charges - charge/(release)	**2**	(42)

The change in expected credit losses for the quarter resulted in a nominal charge of $2m compared to a release of $42m in the same period in the prior year. The charge for the quarter was primarily driven by the continued unfavourable forward-looking macro-economic variables in performing loans partly offset by a release in non-performing loans. In 2022, the release for the quarter was driven by a release in performing loans from an improvement in the macro-economic variables, at that time, partly offset by a net charge for a material stage 3 loan.

Total operating expenses

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Employee compensation and benefits	**157**	151
General and administrative expenses	**150**	142
Depreciation and impairment of property, plant and equipment	**14**	15
Amortization and impairment of intangible assets	**45**	12
Total operating expenses	**366**	320

Total operating expenses increased by $46m or 14% for the quarter mainly due to the re-assessment of the useful life and impairment of intangible assets[1] as a consequence of the agreed sale of HSBC Bank Canada and higher staff-related costs.

Income tax expense

The effective tax rate in the first quarter of 2023 was 27.7%. 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 decrease in tax liabilities. The effective tax rate for the first 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	
	31 Mar 2023	31 Dec 2022
	$m	$m
Assets		
Cash and balances at central bank	**5,958**	6,326
Trading assets	**2,877**	4,296
Derivatives	**4,861**	6,220
Loans and advances	**76,003**	75,206
Reverse repurchase agreements – non-trading	**4,930**	6,003
Financial investments	**22,751**	23,400
Customers' liability under acceptances	**3,050**	3,147
Other assets	**2,837**	3,704
Total assets	**123,267**	128,302
Liabilities and equity		
Liabilities		
Deposits by banks	**650**	712
Customer accounts	**80,910**	82,253
Repurchase agreements – non-trading	**4,281**	4,435
Trading liabilities	**2,639**	3,732
Derivatives	**5,074**	6,575
Debt securities in issue	**14,794**	15,735
Acceptances	**3,057**	3,156
Other liabilities	**5,596**	5,786
Total liabilities	**117,001**	122,384
Total shareholder's equity	**6,266**	5,918
Total liabilities and equity	**123,267**	128,302

Assets

Total assets at 31 March 2023 were $123.3bn, a decrease of $5.0bn or 3.9% from 31 December 2022. This was mainly due to reduced balance sheet use for trading activities resulting in a decrease in trading assets of $1.4bn, reverse repurchases non-trading assets of $1.1bn and settlement balances of $0.9bn in other assets. Lower derivatives of $1.4bn from interest rate movements also contributed to the decrease. These decreases were partly offset by higher loans and advances of $0.8bn from increased volumes of loans to banks and to customers mainly from commercial loans.

Liabilities

Total liabilities at 31 March 2023 were $117.0bn, a decrease of $5.4bn or 4.4% from 31 December 2022. The decrease was primarily from lower derivatives of $1.5bn, trading liabilities of $1.1bn and other liabilities of $0.2bn which correspond with the movement in derivative assets, trading assets and other assets. Lower volumes in deposits, mainly from customer accounts of $1.3bn, also contributed to the decrease.

Equity

Total equity at 31 March 2023 was $6.3bn, an increase of $0.3bn or 5.9% from 31 December 2022. The increase was primarily from profits after tax of $0.2bn generated in the quarter and other comprehensive income ('OCI') of $0.1bn from favourable movements on cash flow hedges.

Our business segments

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

Commercial Banking

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

Review of financial performance[1]

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Net interest income	**188**	162
Non-interest income	**122**	118
Total operating income	**310**	280
Change in expected credit losses and other credit impairment charges - release	**6**	40
Net operating income	**316**	320
Total operating expenses	**(109)**	(103)
Profit before income tax expense	**207**	217

Overview

Total operating income increased by $30m or 11% for the quarter. CMB has maintained positive momentum in 2023 with average loan balances increasing by $4.4bn or 13% and average deposit balances increasing by $2.3bn or 9% compared to the first quarter of 2022. Net interest income improved due to the impact of the central bank rate increases over the past year and higher average 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 decreased by $10m or 4.6% for the quarter primarily due to a decrease of releases in expected credit losses compared to the prior year.

Financial performance by income and expense item

Net interest income for the quarter increased by $26m or 16% 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 quarter of 2022.

Non-interest income for the quarter increased by $4m or 3.4% 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 release of $6m for the quarter. The release was primarily from the impaired loan book partly offset by a charge on performing loans driven by the continued unfavourable forward-looking macro-economic variables. In 2022, the release was primarily from a release in performing loans.

Total operating expenses for the quarter increased by $6m or 5.8% mainly due to higher staff-related costs.

1. *For the quarter ended 31 March 2023 compared with the same period in the prior year, unless otherwise stated.*

Wealth and Personal Banking

Wealth and Personal Banking ('WPB') offers a full range of competitive banking products and services for all Canadians to help them manage their finances, buy their homes, and save and invest for the future. Our business also has a large suite of global investment products and other specialized services available to serve our clients with international needs.

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Net interest income	**204**	141
Non-interest income	**77**	76
Total operating income	**281**	217
Change in expected credit losses and other credit impairment charges - (charge)/release	**(7)**	4
Net operating income	**274**	221
Total operating expenses	**(176)**	(161)
Profit before income tax expense	**98**	60

Overview

Total operating income increased by $64m or 29% for the quarter. The increase was driven by improved margins as a result of the central bank rate increases over the past year, strong growth in 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[2] profit before income tax expense for the quarter. Profit before income tax expense increased by $38m or 63% for the quarter due to higher operating income, as noted, partly offset by an unfavourable change in expected credit losses and an increase in operating expenses.

Financial performance by income and expense item

Net interest income increased by $63m or 45% for the quarter due to improved margins as a result of the central bank rate increases over the past year and higher deposit balances, partly offset by changes in product mix.

Non-interest income increased by $1m or 1.3% for the quarter due to higher income from our online brokerage business, offset by lower fees from investment funds under management.

Change in expected credit losses were $11m unfavourable for the quarter as a result of the continued adverse forward-looking macro-economic variables compared to a release in performing loans in the prior year.

Total operating expenses increased by $15m or 9.3% for the quarter mainly due to higher staff-related costs.

1. *For the quarter ended 31 March 2023 compared with the same period in the prior year, unless otherwise stated.*
2. *Record for the first quarter since inception of WPB (previously Retail Banking and Wealth Management ('RBWM')) as a single business segment in 2011.*

Global Banking

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

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Net interest income	**44**	25
Non-interest income	**16**	22
Total operating income	**60**	47
Change in expected credit losses and other credit impairment charges - (charge)	**(1)**	(2)
Net operating income	**59**	45
Total operating expenses	**(20)**	(22)
Profit before income tax expense	**39**	23

Overview

Total operating income increased by $13m or 28% for the quarter. Results from transaction banking activities remain strong, due mainly to higher spreads. This was 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 $16m or 70% for the quarter as a result of higher operating income, as noted above, and lower charges in expected credit losses.

Financial performance by income and expense item

Net interest income for the quarter increased by $19m or 76% as a result of the central bank rate increases over the past year.

Non-interest income for the quarter decreased by $6m or 27%. This decrease was primarily due to lower underwriting fees largely driven by the challenging market conditions and lower credit facility fees from lower originations.

Change in expected credit losses improved by $1m for the quarter due to lower charges in the current year.

Total operating expenses decreased by $2m or 9.1% for the quarter as we prudently managed costs.

1. *For the quarter ended 31 March 2023 compared with the same period in the prior year, unless otherwise stated.*

Markets and Securities Services

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

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Net interest income	**17**	9
Non-interest income	**5**	17
Total operating income	**22**	26
Total operating expenses	**(13)**	(13)
Profit before income tax expense	**9**	13

Overview

Total operating income decreased by $4m or 15% for the quarter. The decrease was mainly due to lower trading income as a result of current market conditions 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 $4m or 31% for the quarter mainly due to lower operating income, as noted.

Financial performance by income and expense item

Net interest income for the quarter increased by $8m or 89%, mainly due to central bank rate increases over the past year.

Non-interest income for the quarter decreased by $12m or 71% mainly from lower trading income as a result of current market conditions.

Total operating expenses for the quarter remained flat as we prudently managed costs.

1. *For the quarter ended 31 March 2023 compared with the same period in the prior year, unless otherwise stated.*

Corporate Centre

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

Review of financial performance[1, 2]

Summary income statement

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Net interest income	**(1)**	—
Non-interest income	**5**	—
Net operating income	**4**	—
Total operating expenses	**(48)**	(21)
Profit/(loss) before income tax expense	**(44)**	(21)

Overview

Profit before income tax expense decreased by $23m for the quarter. This was mainly due to increased costs as a result of the re-assessment of the useful life and impairment of intangible assets[3] as a consequence of the agreed sale of HSBC Bank Canada. This was partly offset by higher non-interest income.

1. *For the quarter ended 31 March 2023 compared with the same period in the prior year, unless otherwise stated.*
2. *Corporate Centre is not an operating segment of the bank. The numbers included above provides a reconciliation between operating segments and the entity results.*
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		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**452**	479	449	369	337	323	315	306
Net fee income	**189**	192	194	196	197	205	197	196
Net income from financial instruments held for trading	**27**	33	15	24	27	28	26	28
Other items of income	**9**	10	7	10	9	23	22	17
Total operating income	**677**	714	665	599	570	579	560	547
Change in expected credit losses and other credit impairment charges - release/(charge)	**(2)**	(28)	(42)	(82)	42	(8)	(3)	40
Net operating income	**675**	686	623	517	612	571	557	587
Total operating expenses	**(366)**	(394)	(325)	(319)	(320)	(344)	(323)	(328)
Profit before income tax expense	**309**	292	298	198	292	227	234	259
Income tax expense	**(86)**	(78)	(79)	(53)	(78)	(40)	(63)	(69)
Profit for the period	**223**	214	219	145	214	187	171	190
Profit attributable to:								
– common shareholder	**205**	199	206	133	203	176	159	179
– preferred shareholder	**18**	15	13	12	11	11	12	11
Basic and diluted earnings per common share ($)	**0.37**	0.36	0.38	0.24	0.37	0.32	0.29	0.32

Comments on trends over the past eight quarters

In 2021, 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 current quarter, the decrease was 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 second 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 steadily increased, reaching its highest point on record[1] in the fourth quarter of 2021. However, 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.

Net income from financial instruments held for trading is, by its nature, subject to fluctuations from quarter to quarter. From the first 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. The decrease in the current quarter was mainly a result of market volatility.

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 from the third quarter of 2022 to the first quarter of 2023 resulted in a charge primarily driven by the continued unfavourable movement in forward-looking macro-economic variables in performing loans. Expected credit losses resulted in a charge for the second quarter of 2022 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. Expected credit losses resulted in releases in performing loans in the second quarter of 2021, as forward-looking macro-economic variables improved.

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[2] 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 current quarter, 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.

Cross currents

In early 2023, the economic outlook is being hit by two important cross currents. The first is that the global economy started the year on firmer footing, which, together with still elevated inflation readings in many countries suggests that central banks might still have some work to do. In Canada, despite there being essentially no economic growth in the fourth quarter, there were significant upside surprises to employment from October 2022 to March 2023. In addition, economic output grew by 0.5% month-over-month in January, and Statistics Canada projects growth of 0.3% in February. Hence, amid a burst of job creation, gross domestic product ('GDP') growth is tracking between 2.5% and 3% on an annualized basis in the first quarter. The Bank of Canada ('BoC') April Monetary Policy Report forecasts first quarter GDP growth of 2.3%. Hence, there are upside risks to the consensus expectation for the first quarter GDP growth of 1.6%.

The other cross current is linked to the onset of global banking stress in mid-March, potentially a reflection of the impact of central bank's raising interest rates. In the US, increased banking stress among regional banks presents a risk of a sudden tightening of credit conditions and a sharp slowdown in credit growth. Though risks of a severe contraction have been mitigated by a rapid response by relevant authorities, credit conditions are likely to tighten and weigh on loan growth. This could reinforce the impact of Federal Reserve rates hikes to slow US economic growth. Hence even though the US economy demonstrated some resilience in early 2023, momentum is expected to slow through the rest of the year. We also expect slower growth in Canada beyond the first quarter, with slower credit growth in the US potentially negatively impacting demand for Canadian exports. However, there are few concerns about the stability of the Canadian banking system and the BoC stands ready to respond should any undue strains on the financial system develop.

Signs higher rates are having their desired effect

Meanwhile, even though the economy has shown some signs of resilience, there is also evidence that past rate hikes are having the intended effect of slowing domestic demand, which will, eventually, help to reduce the rate of inflation. For example, in the housing market, real residential investment has declined sharply, down 22.4% from its fourth quarter 2021 peak, while home prices have fallen by 17% from their March 2022 peak. Meanwhile, the BoC's first quarter 2023 Business Outlook Survey ('BOS'), showed that even though firms still look to increase machinery and equipment investment, investment intentions have decreased each quarter since early 2022, as interest rates increased.

In addition, the BOS showed that some labour market conditions have started to ease. For example, the number of firms feeling labour market shortages fell to its lowest reading in seven quarters in the first quarter of 2023, while the intensity of reported labour shortages also declined. Consistent with these readings, the BOS reported less upward pressure on wages.

As economic growth cooled in late 2022, and as global supply chain disruptions eased, the share of firms reporting to the BoC that they faced capacity constraints or would have some difficulty meeting an unexpected increase in demand, fell to 59% in the first quarter from a peak of 81% in 2022. It thus seemed that demand and supply were moving into better balance, helping to reduce, though not eliminate, some cost pressures.

These developments supported the BoC's shift to a "conditional pause" in January to assess the effects of 425bp of rate hikes.

The labour market is still tight

That said, with firmer growth in early 2023, the Canadian economy remains in excess demand, and the labour market remains very tight. For example, the unemployment rate remained near a record low at 5% for four straight months through March 2023, there were upside risks to employment from October through March, and the employment rate for the prime working age cohort (25 to 54 years) remains near record highs at 85.1%.

In addition, wage growth remains between 4% and 5% on a year-over-year basis, and the recent BOS showed that firms expect wages to grow by an average 4.7% over the next year. This matters because the BoC's Governing Council has said that wage growth of between 4% and 5% per annum is not consistent with inflation getting all the way back to 2%.

Inflation expectations are elevated

In addition to the tight labour market, inflation expectations remain elevated. For example, 79% of firms expect inflation to remain above 3% year-over-year for the next two years. Consumers also expect inflation to remain above 3% for the next five years. These present notable challenges to the BoC's forecast that inflation will fall to 2% in 2024. This implies a risk that inflation expectations get stuck above the inflation target and get built into wage contracts. This could make it more difficult for the BoC to return inflation to the 2% target, potentially requiring more aggressive rate hikes to lower inflation expectations.

These indicators justify the BoC's Governing Council continuing to assess whether monetary policy is sufficiently restrictive to get inflation back to the 2% target. Thus, the door to additional rate hikes is still open.

An uneasy balance

With the improved economic performance in early 2023, we now look for GDP growth of 1% in the first quarter, as opposed to our earlier forecast of a small contraction. We also note that current tracking points toward an upside risk to this forecast. With the upward revision to the first quarter GDP growth, we now see the economy growing by 0.7% year-over-year in 2023.

There are three developments to watch regarding the economic outlook and the potential response by the BoC. First, if the global banking challenges lead to a sharp decline in credit growth, the outlook for investment, GDP growth, employment and inflation will deteriorate. If severe, the BoC could reduce interest rates. We do not see this scenario unfolding.

We will also closely watch employment and inflation.

Inflation heading down, but the last mile is key

Inflation has already declined to 4.3% year-over-year as of March 2023 from a peak of 8.1% in June 2022. Much of that drop is due to the decline in gasoline prices as oil prices fell during the second half of last year. Base effects suggest that gasoline prices will continue to drag inflation lower over the next few months. Hence, it is possible for inflation to get to 3% year-over-year around mid-year.

That said, there has been less progress on underlying inflation pressures. It is thus not clear that inflation pressures overall are on track to head to 2% over time. Hence, finishing the last mile of reducing the rate of inflation, that is, getting inflation from 3% all the way to 2%, could be challenging.

Looking ahead, the labour market will be key, particularly wage growth. There needs to a further progress on labour market rebalancing and an easing on wage pressures to convince the BoC's Governing Council economic trends are consistent with inflation returning the 2% target.

Early economic resilience to fade as job market softens

We expect the early 2023 economic resilience to fade. Specifically, for the economy, we look for the job market to begin to weaken on a sustained basis, lifting the unemployment rate to 6.5% in late 2023, before peaking at 6.7% in second half of 2024. Some of the increase in unemployment will be due to job losses, but another factor will be higher immigration levels that lift the labour supply. As the job market cools and labour supply increases, we see wage growth declining steadily through the rest of 2023.

Adding further stress to the household sector

Thus far, even though the housing market has cooled and stresses on household finances have increased, the strong labour market has helped limit the economic shock from higher interest rates. As the job market cools, however, financial strains in the household sector could become more evident, potentially weighing more heavily on domestic demand. The challenges will be most intense at the lower end of the income spectrum. Those with higher incomes tend to have higher excess savings levels that can cushion the impact of labour market uncertainty.

Consumption spending slowing down

Three factors point toward a lower growth profile for consumer spending growth in 2023 and 2024 compared to the prior two years: a weaker labour market, higher interest, and the fading effect of pandemic-related pent-up demand. Consumption spending is expected to increase by 1% in both 2023 and 2024, down from an average of 4.9% in 2021 and 2022.

Assessing the risks to growth and inflation in Canada, we think that the BoC is most likely to leave its policy rate at 4.5% until around mid-2024 before it starts the process of cutting the policy rate toward neutral, which is estimated to be around 2.5%.

Fiscal policy set to remain mildly stimulative

While monetary policy is still focused on making sure financial conditions are restrictive enough to bring inflation back to the 2% target, fiscal policy is set to remain mildly stimulative. The recent federal government budget dropped plans to return the budget balance to surplus by 2027-28. Instead, a deficit of $14bn, or 0.4% of GDP, is forecast. Higher deficits are also now projected for all intervening years as well.

The federal government faced competing challenges, with demands to help fund health care improvement, expand a national dental care program, help to accommodate the projected 1.5 million immigrants over the next three years, and support the transition to a low carbon economy, while not stoking domestic demand so as to make it more difficult for the BoC to achieve its inflation goal.

In part, the higher profile for spending reflected the response to the US Inflation Reduction Act, which provided significant measures to support investment aimed at reducing carbon emissions. Similarly, Canada needs to jolt investments in electricity grids to support the transition to a low carbon economy and achieve emissions reduction goals.

The increase in spending also came at a time when the labour market is very tight and will most likely be weaker over the next couple of years. This potentially presents a downside risk to the revenue outlook and could result in a higher profile for program spending to deal with rising unemployment.

Overall, the federal budget does not necessarily make the BoC's inflation target more difficult to reach, nor, however, it did not make it easier.

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 first quarter of 2023 with the potential to impact our results or operations:

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

In March 2023, OSFI issued a statement to reinforce guidance around the regulatory treatment of Tier 1 and Tier 2 capital instruments. The statement noted that additional Tier 1 and Tier 2 instruments are and will remain an important component of the capital structure of Canadian deposit-taking banks.

Also in March, OSFI published the final version of Guideline B-15, Climate Risk Management, which includes two guidelines: governance and risk management, and climate-related financial disclosures. As a small and medium sized deposit-taking institution ('SMSB'), the bank will be expected to report under these guidelines for the fiscal year ending 2025. Greenhouse ('GHG') emissions will be reported on from the fiscal year ending 2026. We continue to monitor and prepare to follow these rapidly evolving developments of climate change regulations, frameworks and guidance that apply to us.

Canada Deposit Insurance Corporation ('CDIC')

In February 2023, CDIC announced that effective 1 April 2023, the deposit insurance framework will be expanded such that eligible deposits held in the First Home Savings Account ('FHSA') will be separately protected for up to $100,000. This will bring the total number of CDIC deposit insurance categories to nine for each member institution.

Consumer Protection

In February 2023, the Financial Consumer Agency of Canada ('FCAC') issued a bulletin entitled: Access to basic banking services: opening a retail deposit account (the 'Bulletin'). The Bulletin clarifies the proper application of the obligation to open a retail deposit account under section 627.17(1) of the Bank Act in circumstances when a Bank is presented with identification documentation that is non-standard. FCAC expects Banks to actively support consumers to gain access to banking services by exercising the flexibility that the Bank Act affords.

Markets and Securities

In February 2023, the Canadian Securities Administrators ('CSA') published a notice to help ensure that market participants are aware of certain developments and transition issues regarding the upcoming cessation of the Canadian Dollar Offered Rate ('CDOR') and the expected related cessation of the issuance of Bankers' Acceptances ('BAs').

Also in March 2023, the CSA announced that it is planning to adopt rules that will require market participants to use a new national filing and information system called SEDAR+. The bank will use SEDAR+ when the system goes live for the bank's second quarter 2023 reporting.

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 31 March 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 31 March 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 34 is a summary of the agreed sale of HSBC Bank Canada.

Credit risk

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

Credit risk management

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

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

Summary of credit risk

The following disclosure presents the gross carrying amount and nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

The allowance for ECL at 31 March 2023 is comprised of $346m in respect of assets held at amortized cost, $27m in respect of loan commitments and financial guarantees and $1m in respect of performance guarantee contracts.

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

	Footnotes	31 Mar 2023 Gross carrying/ nominal amount $m	31 Mar 2023 Allowance for ECL $m	31 Dec 2022 Gross carrying/ nominal amount $m	31 Dec 2022 Allowance for ECL $m
Loans and advances to customers at amortized cost		**75,320**	**(320)**	75,180	(318)
– personal		**35,656**	**(107)**	36,127	(102)
– corporate and commercial		**39,664**	**(213)**	39,053	(216)
Loans and advances to banks at amortized cost		**1,003**	**—**	344	—
Other financial assets measured at amortized cost		**24,950**	**(26)**	26,783	(26)
– cash and balances at central bank		**5,958**	**—**	6,326	—
– items in the course of collection from other banks		**10**	**—**	9	—
– reverse repurchase agreements - non-trading		**4,930**	**—**	6,003	—
– financial investments		**8,884**	**—**	8,361	—
– customers' liability under acceptances		**3,058**	**(8)**	3,155	(8)
– other assets, prepayments and accrued income	1	**2,110**	**(18)**	2,929	(18)
Total gross carrying amount on-balance sheet		**101,273**	**(346)**	102,307	(344)
Loans and other credit related commitments		**46,205**	**(25)**	46,978	(30)
– personal		**8,554**	**(1)**	8,797	(1)
– corporate and commercial		**37,651**	**(24)**	38,181	(29)
Financial guarantees	2	**1,645**	**(2)**	1,725	(2)
– personal		**7**	**—**	7	—
– corporate and commercial		**1,638**	**(2)**	1,718	(2)
Total nominal amount off-balance sheet	3	**47,850**	**(27)**	48,703	(32)
		Fair value $m	**Allowance for ECL $m**	Fair value $m	Allowance for ECL $m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	4	**13,853**	**(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[1]				Allowance for ECL				ECL coverage %			
	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m	Stage 1 $m	Stage 2 $m	Stage 3 $m	Total $m	Stage 1 %	Stage 2 %	Stage 3 %	Total %
Loans and advances to customers at amortized cost	57,772	17,165	383	75,320	(51)	(174)	(95)	(320)	0.1	1.0	24.8	0.4
– personal	31,163	4,346	147	35,656	(10)	(78)	(19)	(107)	—	1.8	12.9	0.3
– corporate and commercial	26,609	12,819	236	39,664	(41)	(96)	(76)	(213)	0.2	0.7	32.2	0.5
Loans and advances to banks at amortized cost	1,003	—	—	1,003	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	24,525	407	18	24,950	(2)	(6)	(18)	(26)	—	1.5	100.0	0.1
Loan and other credit-related commitments	40,492	5,561	152	46,205	(12)	(13)	—	(25)	—	0.2	—	0.1
– personal	8,343	171	40	8,554	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	32,149	5,390	112	37,651	(11)	(13)	—	(24)	—	0.2	—	0.1
Financial guarantees[2]	1,454	165	26	1,645	(1)	(1)	—	(2)	0.1	0.6	—	0.1
– personal	7	—	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,447	165	26	1,638	(1)	(1)	—	(2)	0.1	0.6	—	0.1
At 31 Mar 2023	125,246	23,298	579	149,123	(66)	(194)	(113)	(373)	0.1	0.8	19.5	0.3

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

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

1. *Represents the maximum amount at risk should the contracts be fully drawn upon and the clients default.*
2. *Excludes performance guarantee contracts.*

Measurement uncertainty and sensitivity analysis of ECL estimates*

As at the first 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 first 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.

While heightened macro economic risk remains, the outlook has improved since the fourth quarter of 2022. Inflation is forecast to have peaked, Consumer Price Index series have started to moderate amid lower energy pricing and the easing of supply chain disruptions. Significantly the central bank is also forecast to be close to the peak of the current tightening cycle with interest rates expected to peak in the coming months.

Economic forecasts in the Central scenario remain subject to uncertainty. Upside and Downside scenarios are therefore constructed to encompass the economic outcomes from the crystallization of a number of macro-financial risks. Risks to the Central scenario include inflation and monetary policy. Geopolitical risks also present downside threats. These risks include a prolonged and escalating Russia-Ukraine war, continued differences between the US and China over a range of strategic issues and the evolution of the UK's relationship with the EU.

The four scenarios used for the purpose of calculating ECL at 31 March 2023 are summarized below:

- The consensus Central scenario: This scenario features an initial period of below trend growth in most markets as inflation and tighter monetary policy cause a squeeze on business margins and households' real disposable income. Growth returns to its long-term expected trend in later years as central banks bring growth back to target.
- The consensus Upside scenario: This scenario features stronger economic activity in the near term, compared with the consensus Central scenario. In this scenario, growth accelerates, 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 a temporary demand shock that causes sharp rise in 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: This scenario reflects management's view of the tail of the economic distribution. It incorporates the simultaneous crystallization of a number of risks that drive inflation and interest rates substantially higher than in the Central scenario. The narrative features an escalation geopolitical risks and worsening of supply chain disruptions. As a result inflation and interest rates rise significantly, causing a deep global recession with a rapid increase in unemployment and a sharp decline in house prices.

While the Central scenario remains the most likely outcome, more severe outcomes, while unlikely, are still possible as reflected in the downside scenarios. The overall movement in the amount of loan exposures from stage 1 to stage 2 reflects higher macroeconomic risks, uncertainties and modelled outcomes, which are subject to measurement uncertainty and estimation risk, but which remain management's best estimate as at 31 March 2023.

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

Macroeconomic projections[1, 2]

	Central scenario	Consensus upside			Consensus downside			Downside 2		
	Five-year average	Five-year average	Best outcome		Five-year average	Worst outcome		Five-year average	Worst outcome	
31 March 2023										
GDP growth (%)	**1.6**	**2.6**	**4.3**	**(4Q24)**	**0.6**	**(2.8)**	**(4Q23)**	**0.1**	**(4.6)**	**(1Q24)**
Unemployment rate (%)	**5.9**	**5.6**	**5.1**	**(1Q25)**	**6.4**	**7.6**	**(4Q23)**	**9.4**	**11.9**	**(3Q24)**
House Price Index (%)	**(0.6)**	**1.2**	**5.3**	**(4Q24)**	**(2.9)**	**(21.0)**	**(2Q23)**	**(5.5)**	**(34.7)**	**(1Q24)**
Brent oil prices (US$/barrel)	**73.6**	**67.1**	**76.3**	**(2Q23)**	**83.5**	**80.8**	**(1Q25)**	**63.0**	**45.8**	**(3Q24)**
Inflation rate	**2.2**	**2.0**	**1.0**	**(2Q24)**	**2.4**	**4.5**	**(1Q24)**	**2.1**	**5.0**	**(3Q23)**
Probability (%)	**75**	**5**			**15**			**5**		
31 December 2022										
GDP growth (%)	1.6	2.7	4.3	(3Q24)	0.3	(3.9)	(4Q23)	(0.2)	(5.9)	(4Q23)
Unemployment rate (%)	5.9	5.7	5.2	(3Q24)	6.5	7.6	(3Q23)	9.4	11.6	(2Q24)
House Price Index (%)	(1.1)	0.7	4.9	(2Q24)	(3.5)	(23.8)	(2Q23)	(6.0)	(36.3)	(4Q23)
Brent oil prices (US$/barrel)	77.2	70.7	85.7	(1Q23)	87.6	85.1	(4Q24)	67.2	54.1	(3Q24)
Inflation rate	2.4	2.2	1.0	(1Q24)	2.4	6.0	(1Q23)	2.2	6.5	(1Q23)
Probability (%)	70	5			15			10		

1. *Macroeconomic projections at 31 March 2023 are based on average 2Q2023-1Q2028 (31 December 2022: average 1Q2023-4Q2027).*
2. *The 'worst' or the 'best' outcome refers to the quarter that is either the trough or peak in the respective variable in the first two years of the scenario.*

Scenario probabilities

Scenario weights have changed from those applied at 31 December 2022. At 31 March 2023, the consensus upside and central scenarios had 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 31 March 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 31 March 2023 are set out in the following table.

Management judgmental adjustments to ECL[1]

	Retail	Wholesale	Total
	$m	$m	$m
Expert credit and model adjustments	**22**	**45**	**67**
Adjustments for forward economic guidance and late breaking events	**42**	**—**	**42**
31 March 2023	**64**	**45**	**109**
Expert credit and model adjustments	16	35	51
Adjustments for forward economic guidance and late breaking events	42	—	42
31 December 2022	58	35	93

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

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

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

Economic scenarios sensitivity analysis of ECL estimates

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

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

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

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

Wholesale portfolio analysis

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

IFRS 9 ECL sensitivity to future economic conditions[1]

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

	31 Mar 2023	31 Dec 2022
	$m	$m
Reported ECL	**169**	171
100% consensus central scenario	**139**	108
100% consensus upside scenario	**102**	82
100% consensus downside scenario	**216**	201
100% downside 2	**681**	787
Gross carrying amount/nominal amount[3]	**113,434**	114,583

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

Retail portfolio analysis

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

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers[2]

	31 Mar 2023	31 Dec 2022
	$m	$m
Reported ECL	**102**	96
100% consensus central scenario	**100**	92
100% consensus upside scenario	**93**	87
100% consensus downside scenario	**107**	100
100% downside 2	**151**	142
Gross carrying amount	**35,957**	36,429

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

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

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

		Quarter ended							
		31 Mar 2023				31 Mar 2022			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**59**	**190**	**101**	**350**	78	163	128	369
Transfers of financial instruments:	2	**41**	**(40)**	**(1)**	**—**	27	(48)	21	—
– transfers from stage 1 to stage 2		**(3)**	**3**	**—**	**—**	(2)	2	—	—
– transfers from stage 2 to stage 1		**43**	**(43)**	**—**	**—**	28	(28)	—	—
– transfers to stage 3		**—**	**(3)**	**3**	**—**	—	(25)	25	—
– transfers from stage 3		**1**	**3**	**(4)**	**—**	1	3	(4)	—
Net remeasurement of ECL arising from transfer of stage	2	**(11)**	**6**	**—**	**(5)**	(18)	3	—	(15)
New financial assets originated or purchased		**5**	**—**	**—**	**5**	4	—	—	4
Changes to risk parameters		**(29)**	**39**	**4**	**14**	(22)	3	(3)	(22)
Asset derecognized (including final repayments)		**(1)**	**(7)**	**(2)**	**(10)**	(1)	(6)	(1)	(8)
Assets written off		**—**	**—**	**(7)**	**(7)**	—	—	(4)	(4)
Foreign exchange		**—**	**—**	**—**	**—**	(1)	(1)	—	(2)
Balance at the end of the period		**64**	**188**	**95**	**347**	67	114	141	322
ECL charge/(release) for the period		**(36)**	**38**	**2**	**4**	(37)	—	(4)	(41)
Recoveries		**—**	**—**	**(2)**	**(2)**	—	—	(1)	(1)
Total ECL charge/(release) for the period		**(36)**	**38**	**—**	**2**	(37)	—	(5)	(42)

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

	At	Quarter ended	At	Quarter ended
	31 Mar 2023	**31 Mar 2023**	31 Mar 2022	31 Mar 2022
	Allowance for ECL/Other credit loss provisions	**ECL charge/ (release)**	Allowance for ECL/ Other credit loss provisions	ECL charge/ (release)
	$m	**$m**	$m	$m
As above	**347**	**2**	322	(42)
Other financial assets measured at amortized cost	**26**	**—**	30	—
Performance guarantee contracts	**1**	**—**	8	—
Debt instruments measured at FVOCI	**1**	**—**	—	—
Total allowance for ECL / Total income statement ECL charge/(release) for the period	**375**	**2**	360	(42)

Credit quality of financial instruments*

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in stage 2.

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

The five credit quality classifications, as defined above, each encompasses a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities. The personal lending credit quality is disclosed based on a 12-month point-in-time ('PIT') weighted probability of default ('PD'). The credit quality classifications for wholesale lending are based on internal credit risk ratings.

Credit quality classification

	Debt securities and other bills	Wholesale lending		Personal lending	
	External credit rating	Internal credit rating	12-month Basel probability of default %	Internal credit rating	12-month Basel probability-weighted PD %
Quality classification					
Strong	A– and above	CRR1 to CRR2	0.000-0.169	Band 1 and 2	0.000-0.500
Good	BBB+ to BBB-	CRR3	0.170-0.740	Band 3	0.501-1.500
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	0.741-4.914	Band 4 and 5	1.501-20.000
Sub-standard	B- to C	CRR6 to CRR8	4.915-99.999	Band 6	20.001-99.999
Credit-impaired	Default	CRR9 to CRR10	100.000	Band 7	100.000

Distribution of financial instruments by credit quality and stage allocation*

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
	$m	$m	$m	$m	$m	$m	$m	$m
Debt instruments at fair value through other comprehensive income[1]	14,441	—	—	—	—	14,441	(1)	14,440
– stage 1	14,441	—	—	—	—	14,441	(1)	14,440
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	34,938	19,856	17,670	2,473	383	75,320	(320)	75,000
– stage 1	34,863	15,450	7,212	247	—	57,772	(51)	57,721
– stage 2	75	4,406	10,458	2,226	—	17,165	(174)	16,991
– stage 3	—	—	—	—	383	383	(95)	288
Loans and advances to banks at amortized cost	1,003	—	—	—	—	1,003	—	1,003
– stage 1	1,003	—	—	—	—	1,003	—	1,003
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	21,387	2,232	1,268	45	18	24,950	(26)	24,924
– stage 1	21,387	2,069	1,067	2	—	24,525	(2)	24,523
– stage 2	—	163	201	43	—	407	(6)	401
– stage 3	—	—	—	—	18	18	(18)	—
Total gross carrying amount on-balance sheet	71,769	22,088	18,938	2,518	401	115,714	(347)	115,367
Percentage of total credit quality	62.0 %	19.1 %	16.4 %	2.2 %	0.3 %	100.0 %		
Loan and other credit-related commitments	17,471	19,736	8,226	620	152	46,205	(25)	46,180
– stage 1	17,372	17,322	5,650	148	—	40,492	(12)	40,480
– stage 2	99	2,414	2,576	472	—	5,561	(13)	5,548
– stage 3	—	—	—	—	152	152	—	152
Financial guarantees[2]	858	411	300	50	26	1,645	(2)	1,643
– stage 1	858	406	184	6	—	1,454	(1)	1,453
– stage 2	—	5	116	44	—	165	(1)	164
– stage 3	—	—	—	—	26	26	—	26
Total nominal amount off-balance sheet	18,329	20,147	8,526	670	178	47,850	(27)	47,823
At 31 Mar 2023	90,098	42,235	27,464	3,188	579	163,564	(374)	163,190

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

Distribution of financial instruments by credit quality and stage allocation (continued)*

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

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

Wholesale lending

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

		At			
		31 Mar 2023		31 Dec 2022	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial					
– agriculture, forestry and fishing		**896**	**(2)**	954	(3)
– mining and quarrying	1	**1,660**	**(17)**	1,677	(19)
– manufacture		**7,103**	**(35)**	6,835	(38)
– electricity, gas, steam and air-conditioning supply		**296**	**(3)**	255	(7)
– water supply, sewerage, waste management and remediation		**119**	**—**	109	(1)
– construction		**1,066**	**(8)**	1,024	(9)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**7,245**	**(40)**	7,116	(37)
– aviation, transportation and storage		**3,076**	**(16)**	2,818	(15)
– accommodation and food		**1,751**	**(18)**	1,658	(13)
– publishing, audiovisual and broadcasting		**834**	**(9)**	866	(6)
– real estate		**10,730**	**(32)**	10,723	(29)
– professional, scientific and technical activities		**1,004**	**(3)**	976	(3)
– administrative and support services		**799**	**(7)**	727	(12)
– education		**139**	**(1)**	113	(1)
– health and care		**431**	**(14)**	413	(14)
– arts, entertainment and recreation		**254**	**—**	255	(1)
– other services		**96**	**—**	240	(1)
– government		**37**	**—**	35	—
– non-bank financial institutions		**2,128**	**(8)**	2,259	(7)
Total		**39,664**	**(213)**	39,053	(216)
By geography	2				
Canada		**36,785**	**(205)**	36,058	(206)
– British Columbia		**10,858**	**(38)**	10,704	(28)
– Ontario		**13,684**	**(88)**	13,541	(100)
– Alberta		**5,239**	**(34)**	5,199	(40)
– Quebec		**4,833**	**(30)**	4,534	(23)
– Saskatchewan and Manitoba		**1,396**	**(10)**	1,342	(12)
– Atlantic provinces		**775**	**(5)**	738	(3)
United States of America		**1,555**	**(6)**	1,808	(8)
Other		**1,324**	**(2)**	1,187	(2)
Total		**39,664**	**(213)**	39,053	(216)

1. *Mining and quarrying includes energy related exposures which constitute approximately 56% of the gross carrying amount and 41% of the allowance for ECL at 31 March 2023 (31 December 2022: Gross carrying amount was 59% and allowance for ECL was 60%).*
2. *Provincial geographic distribution is based on the address of the originating branch and foreign geographic distribution is based on the country of incorporation.*

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

		Quarter ended							
		31 Mar 2023				31 Mar 2022			
		Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
		Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Footnote	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period		**46**	**119**	**82**	**247**	67	119	106	292
Transfers of financial instruments:	2	**30**	**(31)**	**1**	**—**	13	(36)	23	—
– transfers from stage 1 to stage 2		**(2)**	**2**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**32**	**(32)**	**—**	**—**	14	(14)	—	—
– transfers to stage 3		**—**	**(1)**	**1**	**—**	—	(23)	23	—
– transfers from stage 3		**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	2	**(6)**	**2**	**—**	**(4)**	(8)	1	—	(7)
New financial assets originated or purchased		**4**	**—**	**—**	**4**	3	—	—	3
Changes to risk parameters		**(21)**	**25**	**(2)**	**2**	(17)	(12)	(3)	(32)
Asset derecognized (including final repayments)		**—**	**(5)**	**(2)**	**(7)**	(1)	(4)	—	(5)
Assets written off		**—**	**—**	**(3)**	**(3)**	—	—	(1)	(1)
Foreign exchange		**—**	**—**	**—**	**—**	(1)	(1)	—	(2)
Balance at the end of the period		**53**	**110**	**76**	**239**	56	67	125	248
ECL charge/(release) for the period		**(23)**	**22**	**(4)**	**(5)**	(23)	(15)	(3)	(41)
Recoveries		**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period		**(23)**	**22**	**(4)**	**(5)**	(23)	(15)	(3)	(41)

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

The wholesale allowance for ECL decreased by $8m or 3% as compared to 31 December 2022, and the change in ECL for the quarter ended 31 March 2023 resulted in an income statement release of $5m. The release was primarily from customer specific movements in the impaired loan book.

The ECL release for the quarter ended 31 March 2023 of $5m presented in the above table consisted of $4m release relating to the net remeasurement impact of stage transfers and a release of $3m relating to underlying net volume movement, offset by $2m charge relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages.

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

Personal lending

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

		At			
		31 Mar 2023		31 Dec 2022	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Residential mortgages		**32,982**	**(66)**	33,388	(58)
Home equity lines of credit		**1,371**	**(8)**	1,407	(11)
Personal revolving loan facilities		**403**	**(11)**	427	(10)
Retail card		**398**	**(13)**	405	(13)
Run-off consumer loan portfolio		**24**	**(3)**	26	(3)
Other personal loan facilities		**478**	**(6)**	474	(7)
Total		**35,656**	**(107)**	36,127	(102)
By geography	1, 2				
Canada		**35,637**	**(107)**	36,107	(101)
– British Columbia		**15,099**	**(40)**	15,372	(38)
– Ontario		**16,569**	**(52)**	16,704	(47)
– Alberta		**1,757**	**(6)**	1,793	(7)
– Quebec		**1,603**	**(5)**	1,618	(5)
– Saskatchewan and Manitoba		**320**	**(2)**	327	(2)
– Atlantic provinces		**281**	**(2)**	285	(2)
– Territories		**8**	**—**	8	—
Other		**19**	**—**	20	(1)
Total		**35,656**	**(107)**	36,127	(102)

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

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

		Quarter ended							
		31 Mar 2023				31 Mar 2022			
		Non-credit impaired		Credit-impaired		Non-credit impaired		Credit-impaired	
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	Footnote	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of the period		**13**	**71**	**19**	**103**	11	44	22	77
Transfers of financial instruments:	2	**11**	**(9)**	**(2)**	**—**	14	(12)	(2)	—
– transfers from stage 1 to stage 2		**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1		**11**	**(11)**	**—**	**—**	14	(14)	—	—
– transfers to stage 3		**—**	**(2)**	**2**	**—**	—	(2)	2	—
– transfers from stage 3		**1**	**3**	**(4)**	**—**	1	3	(4)	—
Net remeasurement of ECL arising from transfer of stage	2	**(5)**	**4**	**—**	**(1)**	(10)	2	—	(8)
New financial assets originated or purchased		**1**	**—**	**—**	**1**	1	—	—	1
Changes to risk parameters		**(8)**	**14**	**6**	**12**	(5)	15	—	10
Asset derecognized (including final repayments)		**(1)**	**(2)**	**—**	**(3)**	—	(2)	(1)	(3)
Assets written off		**—**	**—**	**(4)**	**(4)**	—	—	(3)	(3)
Foreign exchange		**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period		**11**	**78**	**19**	**108**	11	47	16	74
ECL charge/(release) for the period		**(13)**	**16**	**6**	**9**	(14)	15	(1)	—
Recoveries		**—**	**—**	**(2)**	**(2)**	—	—	(1)	(1)
Total ECL charge/(release) for the period		**(13)**	**16**	**4**	**7**	(14)	15	(2)	(1)

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 $5m or 5% during the quarter ended 31 March 2023, and resulted in an income statement charge of $7m. The charge during the quarter ended 31 March 2023 was driven by the continued adverse forward-looking macro-economic variables.

The ECL charge for the quarter ended 31 March 2023 of $7m presented in the above table consisted of $12m relating to underlying risk parameter changes, including the credit quality impact of financial instruments transferred between stages, offset by $2m release relating to underlying net volume movement and $1m release relating to the net remeasurement impact of stage transfers. There were recoveries of $2m during the quarter ended 31 March 2023.

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

Mortgages and home equity lines of credit

The majority of the bank's mortgage and home equity line of credit portfolios are secured by a first charge against the underlying real estate.

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

Insurance and geographic distribution[1, 5]

	Residential mortgages					HELOC[2]	
	Insured[3]		Uninsured[3]		Total	Uninsured	
	$m	%	$m	%	$m	$m	%
British Columbia	**1,398**	**10 %**	**12,813**	**90 %**	**14,211**	**644**	**100 %**
Western Canada[4]	**788**	**43 %**	**1,039**	**57 %**	**1,827**	**128**	**100 %**
Ontario	**2,566**	**16 %**	**13,329**	**84 %**	**15,895**	**530**	**100 %**
Quebec and Atlantic provinces	**712**	**42 %**	**985**	**58 %**	**1,697**	**68**	**100 %**
At 31 Mar 2023	**5,464**	**16 %**	**28,166**	**84 %**	**33,630**	**1,370**	**100 %**
British Columbia	1,432	10 %	12,995	90 %	14,427	659	100 %
Western Canada[4]	815	44 %	1,046	56 %	1,861	137	100 %
Ontario	2,617	16 %	13,390	84 %	16,007	537	100 %
Quebec and Atlantic provinces	729	42 %	995	58 %	1,724	66	100 %
At 31 Dec 2022	5,593	16 %	28,426	84 %	34,019	1,399	100 %

1. *Geographic distribution is based on the property location.*
2. *HELOC is an abbreviation for Home Equity Lines of Credit, which are lines of credit secured by equity in real estate.*
3. *Insured mortgages are protected from potential losses caused by borrower default through the purchase of insurance coverage, either from the Canadian Housing and Mortgage Corporation or other accredited private insurers.*
4. *Western Canada excludes British Columbia.*
5. *Residential mortgages and HELOC include wholesale lending and personal lending exposures.*

Amortization period[1]

	Residential mortgages				
	≤ 20 years	> 20 years ≤ 25 years	> 25 years ≤ 30 years	> 30 years < 35 years[2]	> 35 years[2]
At 31 Mar 2023	**17.6%**	**36.1%**	**16.8%**	**5.2%**	**24.3%**
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.*

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

	Quarter ended	
	Uninsured % LTV[3]	
	Residential mortgages	HELOC
	%	%
British Columbia	**55.3 %**	**48.7 %**
Western Canada[4]	**60.3 %**	**64.1 %**
Ontario	**60.4 %**	**56.0 %**
Quebec and Atlantic provinces	**61.9 %**	**57.0 %**
Total Canada for the three months ended 31 Mar 2023	**58.8 %**	**54.3 %**
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.

Credit-impaired loans

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

Credit-impaired loans and advances to banks and customers*

		At			
		31 Mar 2023		31 Dec 2022	
		Gross carrying amount	Allowance for ECL	Gross carrying amount	Allowance for ECL
	Footnotes	$m	$m	$m	$m
Corporate and commercial		**236**	**(76)**	245	(82)
– agriculture, forestry and fishing		**2**	**—**	2	—
– mining and quarrying	*1*	**86**	**(12)**	86	(14)
– manufacture		**44**	**(17)**	43	(16)
– electricity, gas, steam and air-conditioning supply		**12**	**(3)**	16	(7)
– construction		**7**	**(1)**	5	(2)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**42**	**(18)**	47	(17)
– aviation, transportation and storage		**5**	**(2)**	5	(2)
– accommodation and food		**1**	**(1)**	—	—
– publishing, audiovisual and broadcasting		**6**	**(6)**	6	(4)
– real estate		**—**	**—**	1	(1)
– administrative and support services		**4**	**(4)**	8	(8)
– health and care		**26**	**(11)**	25	(10)
– non-bank financial institutions		**1**	**(1)**	1	(1)
Households	*2*	**147**	**(19)**	132	(19)
Total		**383**	**(95)**	377	(101)

1. *Mining and quarrying includes energy related exposures which constitute approximately 57% of the gross carrying amount and 24% of the allowance for ECL at 31 March 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 $744m at 31 March 2023 (31 December 2022: $497m) and the allowance for ECL was $50m (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 continues to evaluate and prepare for the impact of these changes on our capital and liquidity requirements. The revised rules will be implemented in the second quarter of 2023, with the exception of credit valuation adjustment and market risk which will be implemented on 1 January 2024.

Assessment of interest rate risk in the banking book

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

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

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

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

Liquidity and funding risk

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

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

The bank remained above regulatory minimum liquidity and funding levels in the first 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 31 March 2023 increased to 172% from 164%. This was predominately due to a decrease in net outflows in the quarter driven by a decrease in outflows on retail customer deposits and an increase in loan inflows.

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

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	31 Mar 2023	31 Dec 2022
Total HQLA[2] ($m)	**29,941**	30,141
Total net cash outflows[2] ($m)	**17,424**	18,360
Liquidity coverage ratio (%)	**172**	164

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

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

During the quarter, the bank issued a Euro denominated covered bond. The bank currently has three Euro denominated covered bonds listed on the London Stock Exchange, in addition to one USD denominated covered bond. 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 31 March 2023 decreased by $2.2bn from 31 December 2022 predominately due to a decrease in customer deposits and a decrease in debt securities in issue.

Liquid assets[1]

	At	
	31 Mar 2023	31 Dec 2022
	$m	$m
Level 1	**28,100**	30,065
Level 2a	**1,835**	2,025
Level 2b	**76**	108
Total	**30,011**	32,198

1. *The liquid asset balances stated here are as at the above dates (spot rate) and are unweighted and therefore do not match the liquid asset balances stated in the LCR calculations which are the average for the quarter and are weighted.*

Capital risk

Our objective in the management of capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory requirements.

Refer to the 'Capital' section of our *Annual Report and Accounts 2022* for a discussion of how the bank manages its capital.

The bank remained within its required regulatory capital limits during the quarter ended 31 March 2023.

Basel III capital and leverage rules

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

The Basel III capital adequacy framework significantly revised the definitions of regulatory capital and introduced the requirement that all regulatory capital must be able to absorb losses in a failed financial institution.

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

Regulatory capital

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

Total regulatory capital*

		At	
		31 Mar 2023	31 Dec 2022
	Footnotes	**$m**	$m
Gross common equity	1	**5,166**	4,818
Regulatory adjustments		**301**	380
Common equity tier 1 capital		**5,467**	5,198
Additional tier 1 eligible capital	2	**1,100**	1,100
Tier 1 capital		**6,567**	6,298
Tier 2 capital		**1,060**	1,039
Total capital		**7,627**	7,337

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

Regulatory capital ratios

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

		At	
		31 Mar 2023	31 Dec 2022
	Footnotes	**$m**	$m
Risk-weighted assets ('RWA')	1, 2	**44,086**	44,656
		%	%
Actual regulatory capital ratios	3		
– common equity tier 1 capital ratio		**12.4**	11.6
– tier 1 capital ratio		**14.9**	14.1
– total capital ratio		**17.3**	16.4
– leverage ratio	4, 5	**5.1**	4.7
Regulatory capital requirements	6		
– minimum common equity tier 1 capital ratio		**7.0**	7.0
– minimum tier 1 capital ratio		**8.5**	8.5
– minimum total capital ratio		**10.5**	10.5
– minimum leverage ratio		**3.0**	3.0

1. *RWA represent the amounts by which assets are adjusted by risk-weight factors to reflect the riskiness of on and off-balance sheet exposures in accordance with the Capital Adequacy Requirements ('CAR') Guideline issued by OSFI. Certain assets are not risk-weighted, but deducted from capital.*
2. *In April 2020, OSFI announced certain regulatory flexibility measures to support COVID-19 efforts in light of the evolving situation. Effective 31 March 2020, OSFI lowered the capital floor factor from 75% to 70%. The revised floor factor will be in place until the second quarter 2023.*
3. *The common equity tier 1, tier 1, and total capital ratios are calculated as the respective capital base divided by risk-weighted assets, in accordance with CAR Guideline issued by OSFI.*
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.*
6. *OSFI target capital ratios including mandated capital conservation buffer.*

At 31 March 2023, our common equity tier 1 ('CET1') capital ratio increased to 12.4% from 11.6% at 31 December 2022, reflecting a decrease in RWAs and an increase in CET1 capital of $269m. The increase in CET1 capital was mainly a result of an increase in retained profits for the quarter, net of preferred share dividends.

Outstanding shares and dividends

		Quarter ended			Year ended		
		31 Mar 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, 2	**—**	**548,668**	**1,125**	0.69259	548,668	1,125
Class 1 preferred shares	3						
– Series H		**0.43582**	**20,000**	**500**	1.08412	20,000	500
– Series I	4	**—**	**—**	**—**	1.15000	—	—
– Series J	4	**0.43644**	**14,000**	**350**	—	14,000	350
– Series K		**0.34063**	**10,000**	**250**	1.36252	10,000	250

1. *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
2. *On 15 March 2022, the bank returned $600m of common share capital to HSBC Overseas Holdings (UK) Limited; no changes occurred in the number of issued shares.*
3. *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*
4. *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 first quarter 2023

During the first quarter of 2023, the bank declared regular quarterly dividends of $18m 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 first quarter of 2023.

Dividends declared in the second quarter 2023

On 27 April 2023, the bank declared regular quarterly dividends for the second 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 June 2023 or the first business day thereafter to the shareholder of record on 15 June 2023.

As the quarterly dividends on preferred shares for the second quarter of 2023 were declared after 31 March 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 second 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):

		31 Mar 2023			31 Mar 2022	
		Economic value of equity	Earnings at risk		Economic value of equity	Earnings at risk
	Footnote	$m	$m		$m	$m
100 basis points increase		**(140)**	**110**	100 basis points increase	(239)	204
100 basis points decrease	1	**126**	**(108)**	25 basis points decrease	58	(56)

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

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 33 of the MD&A.

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

Non-trading VaR, 99% 1 day*

	Interest rate	Credit Spread	Portfolio diversification[1]	Total[2]
	$m	$m	$m	$m
Balance at 31 Mar 2023	**26**	**28**	**(3.7)**	**50.3**
Average	**23.2**	**28.8**	**(7.6)**	**44.4**
Maximum	**14.7**	**27.9**	**—**	**37.4**
Minimum	**35.1**	**29.4**	**—**	**52.5**
Balance at 31 Mar 2022	9.4	25	(15.9)	18.6
Average	11.9	23.6	(12.2)	23.3
Maximum	8.8	16.8	—	18.5
Minimum	14.3	26.6	—	26.6

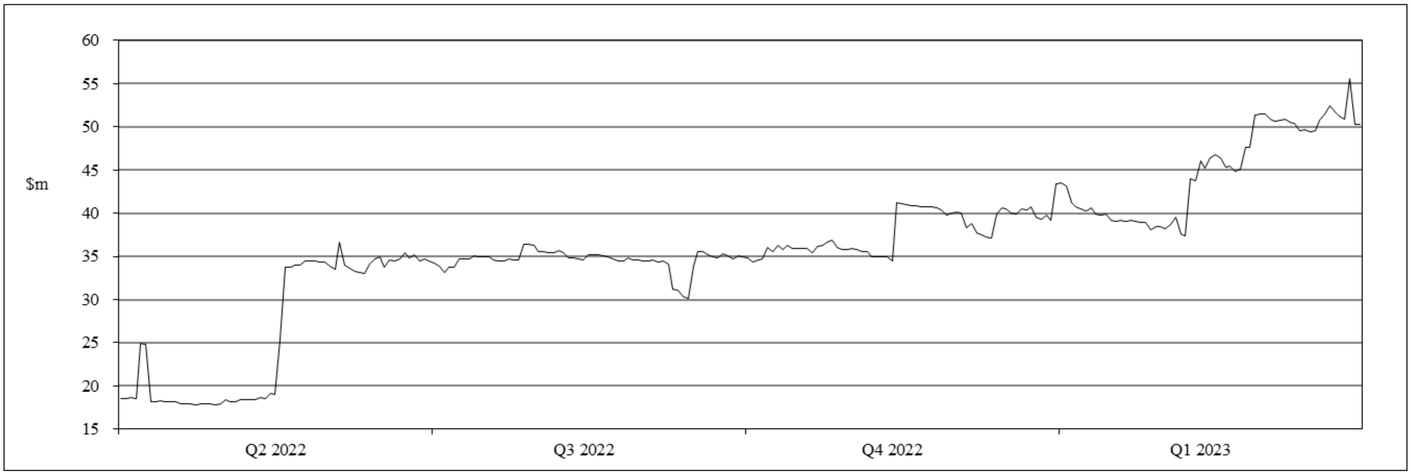
1. *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types – such as interest rate and credit spreads – together in one portfolio. 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 31 March 2023 was $32m higher than at 31 March 2022. The increase arose mainly from an increase in the interest rate volatility 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[1]



1. *The total VaR increase in the second quarter of 2022 was due to an increase in market volatility in interest rates. The total VaR shows a trending 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.*

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 first 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.

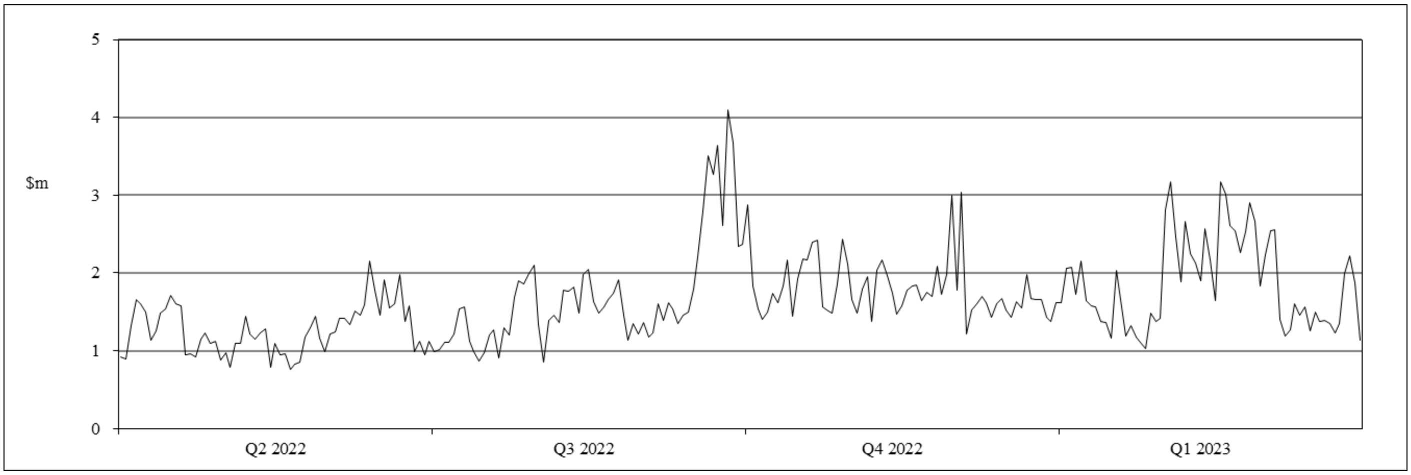
Trading VaR did not change materially compared with previous year and it remained within a relatively narrow range for most of the quarter.

Trading VaR (by risk type)*[1]

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification[2]	Total[3]
	$m	$m	$m	$m	$m	$m
January - March 2023						
At period end	**—**	**0.9**	**—**	**0.8**	**(0.6)**	**1.1**
Average	**—**	**1.8**	**—**	**0.8**	**(0.7)**	**1.9**
Minimum	**—**	**0.9**	**—**	**0.5**	**—**	**1.0**
Maximum	**—**	**3.4**	**—**	**1.5**	**—**	**3.2**
January - March 2022						
At period end	—	0.6	—	0.6	(0.3)	0.9
Average	—	0.9	—	0.7	(0.4)	1.2
Minimum	—	0.5	—	0.2	—	0.5
Maximum	—	1.9	—	1.4	—	2.1

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 are on track to complete the remediation of all US Dollar LIBOR contracts by the expected demise date of 30 June 2023.

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 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 now 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

Consolidated income statement

		Quarter ended	
		31 Mar 2023	31 Mar 2022
	Notes	**$m**	$m
Net interest income		**452**	337
– interest income		**1,256**	471
– interest expense		**(804)**	(134)
Net fee income	2	**189**	197
– fee income		**221**	222
– fee expense		**(32)**	(25)
Net income from financial instruments held for trading		**27**	27
Gains less losses from financial investments		**2**	2
Other operating income		**7**	7
Total operating income		**677**	570
Change in expected credit losses and other credit impairment charges - (charge)/release		**(2)**	42
Net operating income		**675**	612
Employee compensation and benefits	3	**(157)**	(151)
General and administrative expenses		**(150)**	(142)
Depreciation and impairment of property, plant and equipment		**(14)**	(15)
Amortization and impairment of intangible assets		**(45)**	(12)
Total operating expenses		**(366)**	(320)
Profit before income tax expense		**309**	292
Income tax expense		**(86)**	(78)
Profit for the period		**223**	214
Profit attributable to:			
– the common shareholder		**205**	203
– the preferred shareholder		**18**	11
Profit for the period		**223**	214
Average number of common shares outstanding (000's)		**548,668**	548,668
Basic and diluted earnings per common share ($)		**$ 0.37**	$ 0.37

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

Consolidated statement of comprehensive income

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Profit for the period	**223**	214
Other comprehensive income		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income[1]	**32**	(182)
– fair value gains/(losses)	**47**	(246)
– fair value gains transferred to the income statement on disposal	**(2)**	(2)
– income taxes	**(13)**	66
Cash flow hedges[1]	**111**	(179)
– fair value gains/(losses)	**102**	(265)
– fair value losses/(gains) reclassified to the income statement	**52**	22
– income taxes	**(43)**	64
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	**–**	24
– before income taxes	**(4)**	33
– income taxes	**4**	(9)
Equity instruments designated at fair value through other comprehensive income	**1**	1
– fair value (losses)/gains	**1**	1
Other comprehensive income for the period, net of tax	**144**	(336)
Total comprehensive income for the period	**367**	(122)
Attributable to:		
– the common shareholder	**349**	(133)
– the preferred shareholder	**18**	11
Total comprehensive income for the period	**367**	(122)

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

Consolidated balance sheet

		At	
		31 Mar 2023	31 Dec 2022
	Notes	**$m**	$m
Assets			
Cash and balances at central bank		**5,958**	6,326
Items in the course of collection from other banks		**10**	9
Trading assets	*5*	**2,877**	4,296
Other financial assets mandatorily measured at fair value through profit or loss		**19**	18
Derivatives	*6*	**4,861**	6,220
Loans and advances to banks		**1,003**	344
Loans and advances to customers		**75,000**	74,862
Reverse repurchase agreements – non-trading		**4,930**	6,003
Financial investments	*7*	**22,751**	23,400
Other assets	*8*	**1,750**	2,591
Prepayments and accrued income		**378**	351
Customers' liability under acceptances		**3,050**	3,147
Current tax assets		**141**	172
Property, plant and equipment		**346**	332
Goodwill and intangible assets		**114**	160
Deferred tax assets		**79**	71
Total assets		**123,267**	128,302
Liabilities and equity			
Liabilities			
Deposits by banks		**650**	712
Customer accounts		**80,910**	82,253
Repurchase agreements – non-trading		**4,281**	4,435
Items in the course of transmission to other banks		**270**	227
Trading liabilities	*9*	**2,639**	3,732
Derivatives	*6*	**5,074**	6,575
Debt securities in issue	*10*	**14,794**	15,735
Other liabilities	*11*	**3,180**	3,577
Acceptances		**3,057**	3,156
Accruals and deferred income		**776**	713
Retirement benefit liabilities		**207**	203
Subordinated liabilities		**1,011**	1,011
Provisions		**45**	54
Current tax liabilities		**106**	—
Deferred tax liabilities		**1**	1
Total liabilities		**117,001**	122,384
Equity			
Common shares		**1,125**	1,125
Preferred shares		**1,100**	1,100
Other reserves		**(642)**	(786)
Retained earnings		**4,683**	4,479
Total shareholder's equity		**6,266**	5,918
Total liabilities and equity		**123,267**	128,302

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

Consolidated statement of cash flows

	Quarter ended	
	31 Mar 2023	31 Mar 2022
	$m	$m
Profit before income tax expense	**309**	292
Adjustments for non-cash items:		
Depreciation, amortization and impairment	**59**	27
Share-based payment expense	**1**	1
Change in expected credit losses and other credit impairment charges	**2**	(42)
Charge for defined benefit pension plans	**2**	3
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**(27)**	(35)
Change in net trading securities and net derivatives	**338**	(1,367)
Change in loans and advances to customers	**(146)**	(2,503)
Change in reverse repurchase agreements – non-trading	**110**	1,355
Change in other assets	**937**	(1,874)
Change in accruals and deferred income	**63**	(93)
Change in deposits by banks	**(62)**	101
Change in customer accounts	**(1,343)**	(2,190)
Change in repurchase agreements – non-trading	**(154)**	(603)
Change in debt securities in issue	**(941)**	2,415
Change in other liabilities	**(520)**	1,781
Tax paid	**(7)**	(7)
Net cash from operating activities	**(1,379)**	(2,739)
Purchase of financial investments	**(761)**	(2,191)
Proceeds from the sale and maturity of financial investments	**1,456**	566
Purchase of intangibles and property, plant and equipment	**(2)**	(28)
Net cash from investing activities	**693**	(1,653)
Return of capital to parent	**—**	(600)
Dividends paid to shareholder	**(18)**	(211)
Lease principal payments	**(10)**	(12)
Net cash from financing activities	**(28)**	(823)
Net increase in cash and cash equivalents	**(714)**	(5,215)
Cash and cash equivalents at the beginning of the period	**7,907**	19,759
Cash and cash equivalents at the end of the period	**7,193**	14,544
Cash and cash equivalents comprise:		
Cash and balances at central bank	**5,958**	9,241
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(260)**	(314)
Loans and advances to banks of one month or less	**1,003**	1,437
Non-trading reverse repurchase agreements with banks of one month or less	**492**	4,180
Cash and cash equivalents at the end of the period	**7,193**	14,544
Interest:		
Interest paid	**(675)**	(143)
Interest received	**1,233**	440

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

Consolidated statement of changes in equity

			Other reserves			
	Share capital	**Retained earnings**	**Financial assets at FVOCI reserve**	**Cash flow hedging reserve**	**Total other reserves**	**Total equity**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 Jan 2023	**2,225**	**4,479**	**(248)**	**(538)**	**(786)**	**5,918**
Profit for the period	**—**	**223**	**—**	**—**	**—**	**223**
Other comprehensive income/(loss), net of tax	**—**	**—**	**33**	**111**	**144**	**144**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**32**	**—**	**32**	**32**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**1**	**—**	**1**	**1**
– cash flow hedges	**—**	**—**	**—**	**111**	**111**	**111**
– remeasurement of defined benefit plans	**—**	**—**	**—**	**—**	**—**	**—**
Total comprehensive income for the period	**—**	**223**	**33**	**111**	**144**	**367**
Dividends on common shares	**—**	**—**	**—**	**—**	**—**	**—**
Dividends on preferred shares	**—**	**(18)**	**—**	**—**	**—**	**(18)**
Issuance of preferred shares	**—**	**—**	**—**	**—**	**—**	**—**
Return of capital to parent	**—**	**—**	**—**	**—**	**—**	**—**
Movement in respect of share-based payment arrangements	**—**	**(1)**	**—**	**—**	**—**	**(1)**
At 31 Mar 2023	**2,225**	**4,683**	**(215)**	**(427)**	**(642)**	**6,266**

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

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

1 Basis of preparation and significant accounting policies

HSBC Bank Canada ('the bank', 'we', 'our') is an indirectly wholly-owned subsidiary of HSBC Holdings plc. ('the Parent', 'HSBC Holdings', 'HSBC Group'). Throughout these interim condensed consolidated financial statements ('consolidated financial statements'), the 'HSBC Group' means the Parent and its subsidiary companies.

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and should be read in conjunction with the bank's 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 *Management's Discussion and Analysis*, 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 31 March 2023. The method adopted by the bank to consolidate its subsidiaries is described in note 2(a) of the 2022 annual consolidated financial statements of the bank's *Annual Report and Accounts 2022*.

(g) Material accounting policy information

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

2 Net fee income

Net fee income by business segment

	Quarter ended											
	31 Mar 2023						31 Mar 2022					
	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre[1]	Total	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre[1]	Total
	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m	$m
Account services	12	4	3	—	—	19	12	4	3	—	—	19
Broking income	—	3	—	—	—	3	—	4	—	—	—	4
Cards	9	16	—	—	—	25	6	15	—	—	—	21
Credit facilities	80	—	5	—	—	85	74	—	8	—	—	82
Funds under management	—	54	—	—	—	54	—	58	—	—	—	58
Imports/exports	3	—	—	—	—	3	3	—	—	—	—	3
Insurance agency commission	—	1	—	—	—	1	—	1	—	—	—	1
Guarantees and other	9	2	3	—	—	14	10	2	3	(1)	—	14
Remittances	8	1	3	—	—	12	7	1	2	—	—	10
Underwriting and advisory	—	—	3	2	—	5	—	—	7	5	(2)	10
Fee income	121	81	17	2	—	221	112	85	23	4	(2)	222
Less: fee expense	(10)	(20)	(1)	(1)	—	(32)	(4)	(19)	(1)	(1)	—	(25)
Net fee income	111	61	16	1	—	189	108	66	22	3	(2)	197

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	
	31 Mar 2023	31 Mar 2022
	$m	$m
Defined benefit plans	5	5
– pension plans	3	3
– non-pension plans	2	2
Defined contribution pension plans	11	6
Total	16	11

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											
	31 Mar 2023						31 Mar 2022					
	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre[1]**	**Total**	Commercial Banking	Wealth and Personal Banking	Global Banking	Markets and Securities Services	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m	$m
Net interest income	**188**	**204**	**44**	**17**	**(1)**	**452**	162	141	25	9	—	337
Net fee income	**111**	**61**	**16**	**1**	**—**	**189**	108	66	22	3	(2)	197
Net income from financial instruments held for trading	**10**	**13**	**—**	**3**	**1**	**27**	9	5	—	14	(1)	27
Other income	**1**	**3**	**—**	**1**	**4**	**9**	1	5	—	—	3	9
Total operating income	**310**	**281**	**60**	**22**	**4**	**677**	280	217	47	26	—	570
Change in expected credit losses and other credit impairment charges - (charge)/ release	**6**	**(7)**	**(1)**	**—**	**—**	**(2)**	40	4	(2)	—	—	42
Net operating income	**316**	**274**	**59**	**22**	**4**	**675**	320	221	45	26	—	612
– external	**346**	**256**	**37**	**32**	**4**	**675**	316	235	34	27	—	612
– inter-segment	**(30)**	**18**	**22**	**(10)**	**—**	**—**	4	(14)	11	(1)	—	—
Total operating expenses	**(109)**	**(176)**	**(20)**	**(13)**	**(48)**	**(366)**	(103)	(161)	(22)	(13)	(21)	(320)
Profit/(loss) before income tax expense	**207**	**98**	**39**	**9**	**(44)**	**309**	217	60	23	13	(21)	292

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

Balance sheet information

	Commercial Banking	**Wealth and Personal Banking**	**Global Banking**	**Markets and Securities Services**	**Corporate Centre[1]**	**Total**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 31 Mar 2023						
Loans and advances to customers	**34,936**	**36,232**	**3,832**	**—**	**—**	**75,000**
Customers' liability under acceptances	**2,714**	**6**	**330**	**—**	**—**	**3,050**
Total external assets	**49,098**	**49,005**	**9,298**	**15,295**	**571**	**123,267**
Customer accounts	**29,672**	**44,495**	**6,391**	**352**	**—**	**80,910**
Acceptances	**2,721**	**6**	**330**	**—**	**—**	**3,057**
Total external liabilities	**39,088**	**54,133**	**9,869**	**13,595**	**316**	**117,001**
At 31 Dec 2022						
Loans and advances to customers	34,027	36,713	4,122	—	—	74,862
Customers' liability under acceptances	2,795	12	340	—	—	3,147
Total external assets	48,282	51,701	9,004	18,866	449	128,302
Customer accounts	30,008	45,094	6,871	280	—	82,253
Acceptances	2,804	12	340	—	—	3,156
Total external liabilities	39,919	55,889	10,187	16,182	207	122,384

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

5 Trading assets

		At	
		31 Mar 2023	31 Dec 2022
	Footnote	**$m**	$m
Debt securities		**2,877**	4,296
– Canadian and Provincial Government bonds	*1*	**1,957**	3,599
– treasury and other eligible bills		**710**	323
– other debt securities		**210**	374
At the end of the period		**2,877**	4,296
Trading assets			
– not subject to repledge or resale by counterparties		**803**	1,438
– which may be repledged or resold by counterparties		**2,074**	2,858
At the end of the period		**2,877**	4,296

1. Including government guaranteed bonds.

6 Derivatives

Refer to note 2 and note 12 of the bank's *Annual Report and Accounts 2022* for a detailed description of the types of derivatives, use of derivatives and relevant accounting policies.

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

	Notional contract amount[1]		Fair value – Assets			Fair value – Liabilities		
	Held for trading	Hedge accounting	Held for trading	Hedge accounting	Total	Held for trading	Hedge accounting	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Foreign exchange	**129,622**	**4,040**	**1,332**	**37**	**1,369**	**1,217**	**59**	**1,276**
Interest rate	**297,144**	**32,844**	**3,105**	**387**	**3,492**	**3,205**	**593**	**3,798**
Commodity and other	**10**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Mar 2023	**426,776**	**36,884**	**4,437**	**424**	**4,861**	**4,422**	**652**	**5,074**
Foreign exchange	132,499	2,534	2,051	—	2,051	1,925	66	1,991
Interest rate	276,850	30,915	3,738	431	4,169	3,846	738	4,584
Commodity and other	9	—	—	—	—	—	—	—
At 31 Dec 2022	409,358	33,449	5,789	431	6,220	5,771	804	6,575

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

Derivatives in hedge accounting relationships

Fair value hedging instrument by hedged risk

	At					
	31 Mar 2023			31 Dec 2022		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Interest rate	**13,707**	**345**	**21**	14,479	431	34
Total	**13,707**	**345**	**21**	14,479	431	34

Cash flow hedging instrument by hedged risk

	At					
	31 Mar 2023			31 Dec 2022		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Foreign exchange	**4,040**	**37**	**59**	2,534	—	65
Interest rate	**19,137**	**42**	**572**	16,437	—	704
Total	**23,177**	**79**	**631**	18,971	—	769

As at 31 March 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.

7 Financial investments

Carrying amount of financial investments

		At	
		31 Mar 2023	31 Dec 2022
	Footnote	$m	$m
Financial investments measured at fair value through other comprehensive income		**13,867**	15,039
– Canadian and Provincial Government bonds	1	**9,866**	10,577
– international Government bonds	1	**2,651**	2,678
– other debt securities issued by banks and other financial institutions		**1,147**	1,578
– treasury and other eligible bills		**189**	191
– equity securities		**14**	15
Financial investments measured at amortized cost		**8,884**	8,361
– Canadian and Provincial Government bonds		**5,804**	5,660
– international Government bonds		**2,381**	2,003
– other debt securities issued by banks and other financial institutions		**699**	698
At the end of the period		**22,751**	23,400
Financial investments			
– not subject to repledge or resale by counterparties		**22,481**	23,163
– which may be repledged or resold by counterparties		**270**	237
At the end of the period		**22,751**	23,400

1. *Includes government guaranteed bonds.*

8 Other assets

	At	
	31 Mar 2023	31 Dec 2022
	$m	$m
Accounts receivable	**469**	1,121
Settlement accounts	**592**	463
Cash collateral	**679**	997
Other	**10**	10
At the end of the period	**1,750**	2,591

9 Trading liabilities

	At	
	31 Mar 2023	31 Dec 2022
	$m	$m
Net short positions in securities	**2,639**	3,732
At the end of the period	**2,639**	3,732

10 Debt securities in issue

	At	
	31 Mar 2023	31 Dec 2022
	$m	$m
Bonds and medium term notes	**8,821**	11,432
Covered bonds	**5,382**	3,887
Money market instruments	**591**	416
At the end of the period	**14,794**	15,735

Term to maturity

	At	
	31 Mar 2023	31 Dec 2022
	$m	$m
Less than 1 year	**5,247**	7,502
1-5 years	**9,547**	8,162
5-10 years	**—**	71
At the end of the period	**14,794**	15,735

11 Other liabilities

	At	
	31 Mar 2023	31 Dec 2022
	$m	$m
Mortgages sold with recourse	**1,999**	1,930
Lease liabilities	**281**	264
Accounts payable	**346**	792
Settlement accounts	**373**	272
Cash collateral	**157**	280
Share based payment related liability	**9**	7
Other	**15**	32
At the end of the period	**3,180**	3,577

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 31 March 2023 are consistent with those applied for the *Annual Report and Accounts 2022*.

Financial instruments carried at fair value and bases of valuation

		Valuation techniques		
	Quoted market price Level 1	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total**
	$m	**$m**	**$m**	**$m**
Recurring fair value measurements				
At 31 Mar 2023				
Assets				
Trading assets	**2,724**	**153**	**—**	**2,877**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**19**	**—**	**19**
Derivatives	**—**	**4,861**	**—**	**4,861**
Financial investments	**13,805**	**62**	**—**	**13,867**
Liabilities				
Trading liabilities	**2,447**	**192**	**—**	**2,639**
Derivatives	**—**	**5,074**	**—**	**5,074**
At 31 Dec 2022				
Assets				
Trading assets	3,966	330	—	4,296
Other financial assets mandatorily measured at fair value through profit or loss	—	18	—	18
Derivatives	—	6,220	—	6,220
Financial investments	15,024	15	—	15,039
Liabilities				
Trading liabilities	3,486	246	—	3,732
Derivatives	—	6,575	—	6,575

Transfers between Level 1 and Level 2 fair values

	Assets		Liabilities
	Trading assets	**Financial investments**	**Trading liabilities**
	$m	**$m**	**$m**
Quarter ended 31 Mar 2023			
Transfer from Level 1 to Level 2	**—**	**48**	**—**
Transfer from Level 2 to Level 1	**—**	**—**	**—**
Quarter ended 31 Mar 2022			
Transfer from Level 1 to Level 2	—	—	—
Transfer from Level 2 to Level 1	—	—	1

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

Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of financial instruments not carried at fair value are explained on page 96 of the *Annual Report and Accounts 2022*.

Fair values of financial instruments not carried at fair value

		At			
		31 Mar 2023		31 Dec 2022	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	1	**75,000**	**74,322**	74,862	74,025
Financial investments – at amortized cost		**8,884**	**8,792**	8,361	8,194
Liabilities					
Customer accounts		**80,910**	**81,282**	82,253	82,430
Debt securities in issue		**14,794**	**14,418**	15,735	15,258
Subordinated liabilities		**1,011**	**1,107**	1,011	1,110

1. *Loans and advances to customers specifically relating to Canada: carrying amount $70,371m and fair value $69,735m (31 December 2022: carrying amount $70,168m and fair value $69,383m).*

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 April 2023, the bank declared regular quarterly dividends for the second 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 June 2023 or the first business day thereafter to the shareholder of record on 15 June 2023.

As the quarterly dividends on preferred shares for the second quarter of 2023 were declared after 31 March 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 second quarter.

There have been no other material events after the reporting period which would require disclosure or adjustment to the 31 March 2023 interim condensed consolidated financial statements.

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

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