HSBC Bank Canada

First Quarter 2019 Interim Report

HSBC

HSBC Bank Canada first quarter 2019 performance

As at and for the quarter ended 31 March 2019

Total operating income ($m)	Profit before income tax expense ($m)	Profit attributable to the common shareholder ($m)
$545m ▲0.7%	$229m ▼8.8%	$158m ▼8.7%
(2018: $541m)	(2018: $251m)	(2018: $173m)
Total assets ($bn)	**Return on average common equity[1] (%)**	**Common equity tier 1 ratio[1] (%)**
$108.2bn ▲4.6%	13.3% ▼220bps	11.3% ► 0bps
(At 31 Dec 2018: $103.4bn)	(2018: 15.5%)	(At 31 Dec 2018: 11.3%)

For the quarter ended 31 March 2019 compared with the same period in the prior year.

HSBC Bank Canada reported growth in operating income of $4m, or 0.7%, for the quarter. Our global businesses experienced strong growth in operating income of $35m, or 7.4%, primarily driven by higher net interest income as a result of higher interest rates and growth in lending balances. This growth was partly offset by lower operating income of $17m as a result of corporate restructuring[2] activity and lower gains on the disposal of financial investments of $14m.

In Commercial Banking, higher loans and advances from new and existing customers and higher volumes of bankers' acceptances led to an increase in operating income of $18m, or 8%, for the quarter. In addition, trade corridor revenue saw double digit growth despite market uncertainties. This growth has been achieved by continuing our focus on new to bank customers, deepening relationships with our existing customers, and leveraging our global network and product offerings.

In Global Banking and Markets, total operating income for the quarter increased by $8m, or 11%. Higher net interest income from increased interest rates, together with increased trade finance activities contributed to the increase. In addition, sales and trading activities were favourable in all Markets asset classes.

In Retail Banking and Wealth Management, total operating income increased by $9m, or 5.1%, due to higher margins and strong growth in total relationship balances[3] as a result of our strong branding, innovation and strategic investments to make our bank simpler, faster and better for our customers.

The change in expected credit losses for the quarter resulted in a recovery of $12m compared with a recovery of $28m in the prior year. The recovery in 2019 was primarily due the release of provisions as a result of improvements in the outlook of certain customers in the energy service sector. The recovery in 2018 was driven by reversals relating to non-performing (stage 3) loans, mostly from accounts in the oil and gas industry.

We continue to invest in people and technology to grow our business and making it more convenient for our customers to bank with us. As a result, operating expenses increased by $10m, or 3.1%, for the quarter. This is partly offset by a decrease in expenses as a result of corporate restructuring[2] activity.

Profit before income tax expense decreased by $22m, or 8.8%, for the quarter. Higher operating income from our global businesses was more than offset by lower expected credit loss recoveries, investments to grow our businesses and lower gains on the disposal of financial investments.

Commenting on the results, Sandra Stuart, President and Chief Executive Officer of HSBC Bank Canada, said:

"We are off to a solid start to 2019 with strong revenue growth in all three of our business lines as we deepened relationships with existing customers and welcomed new ones. Products and services leveraging our global network, like Receivables Finance in Commercial Banking and our Multinationals business in Global Banking and Markets saw significant growth. Momentum continued in Retail Banking and Wealth Management with strong sales growth and new customer acquisition. However, overall profit before tax decreased compared to the first quarter of 2018 which had unusually high releases of loan loss provisions and gains on disposals of financial investments. As we continue to invest in providing the new products and services our customers are asking for, costs increased as planned. We are carefully watching the headwinds we see in the economy and are mindful of maintaining cost discipline, ensuring our continuing investments are appropriately balanced with revenues."

1 *The following non-IFRS financial measures include average balances and annualized income statement figures are used throughout this document. These measures are described in the 'Use of non-IFRS financial measures' section of the Management's Discussion and Analysis ('MD&A').*

2 *A corporate restructure took place on 1 January 2019, as described in the 'Implementation of the ServCo group' section of the MD&A and note 15 of the condensed interim consolidated financial statements for the quarter ended 31 March 2019.*

3 *Total relationship balances are comprised of lending, deposits and wealth balances.*

Our global businesses[1]

Our operating model consists of three global businesses and a Corporate Centre, supported by HSBC Operations Services and Technology and 11 global functions.

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.

Global Banking and Markets ('GB&M')

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 primary equity and debt capital to global trade and receivables finance.

Retail Banking and Wealth Management ('RBWM')

We 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 an international flavor with a large suite of global investment products and other specialized services available.

As at and for the quarter ended 31 March 2019

Total operating income

CMB		GB&M		RBWM	
$244m	▲8.0%	$80m	▲11.1%	$184m	▲5.1%
(2018: $226m)		(2018: $72m)		(2018: $175m)	

Profit before income tax expense

CMB		GB&M		RBWM	
$157m	► 0%	$39m	▲5.4%	$7m	▲133.3%
(2018: $157m)		(2018: $37m)		(2018: $3m)	

Customer assets[2]

CMB		GB&M		RBWM	
$27.9bn	▲0.2%	$5.7bn	► 0%	$28.1bn	► 0%
(At 31 Dec 2018: $27.2bn)		(At 31 Dec 2018: $5.7bn)		(At 31 Dec 2018: $28.1bn)	

1 *We manage and report our operations around three global 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 11 of the MD&A for more information). The equivalent results for the Corporate Centre were: Total operating income $37m (2018: $68m), profit before income tax expense $26m (2018: $54m) and Customer Assets nil (2018: nil).*

2 *Customer assets includes loans and advances to customers and customers' liability under acceptances.*

Select awards and recognition

Canada's #1 Trade Finance Bank AND Best Bank for Service Quality

Euromoney (2018-2019)

Named as one of British Columbia's Top Employers (2019)

Canada's Top 100 Employers

Named as one of Canada's Best Diversity Employers (2019)

Mediacorp Canada Inc. competition

Interim report contents

Basis of preparation

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

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter ended 31 March 2019, compared to the same period in the preceding year. The MD&A should be read in conjunction with our unaudited condensed interim consolidated financial statements and related notes for the quarter ended 31 March 2019 ('consolidated financial statements') and our *Annual Report and Accounts 2018*. This MD&A is dated 1 May 2019, 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 2019.

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 2018 audited annual consolidated financial statements. The bank's 2018 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. The abbreviations '$m' and '$bn' represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated.

Our continuous disclosure materials, including interim and annual filings, are available through a link on the bank's website at www.hsbc.ca. These documents, together with the bank's *Annual Information Form*, are also available on the Canadian Securities Administrators' website at www.sedar.com. 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 2018*. Information contained in or otherwise accessible through the websites mentioned does not form part of this report.

MD&A Contents

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 management section in the MD&A of our *Annual Report and Accounts 2018* 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, liquidity and funding risk, market risk, operational risks (including regulatory compliance, financial crime risk, security risk, and fiduciary risks), reputational risks, pension risks and sustainability risks. 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, fiscal and monetary policies, changes in laws, regulations and approach to supervision, level of competition and disruptive technology, changes to our credit rating, operational and infrastructure risks, and other risks such as the physical risks associated with climate change, changes in accounting standards, changes in tax rates, tax law and policy, and our ability to attract, develop and retain key personnel. Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2018* 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 the country. We help companies and individuals across Canada to do business and manage their finances here and internationally through three global businesses: Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management. No international bank has our Canadian presence and no domestic bank has our international reach.

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

The HSBC Group is one of the world's largest banking and financial services groups with assets of US$2,659bn at 31 March 2019. The HSBC Group serves customers worldwide from offices across 66 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa.

Throughout our history we have been where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, helping people fulfill their hopes and dreams and realize their ambitions.

Shares in HSBC Holdings are listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges. The HSBC Holdings shares are traded in New York in the form of American Depositary Receipts.

Implementation of the ServCo group

The HSBC Group has made recent changes to its corporate structure to mitigate or remove critical inter-dependencies. In particular, to remove operational dependencies (where one subsidiary bank provides critical services to another), the Group is in the process of transferring critical shared services, such as Information Technology related services, from subsidiary banks to a separately incorporated group of service companies ('ServCo group'), which is a subsidiary of HSBC Holdings plc.

Effective 1 January 2019, 608 employees and general and administrative expenses related to these shared services in Canada have been transferred from HSBC Bank Canada to the ServCo group. There were no changes to employment terms and conditions or pension benefits as a result of these transfers. From 1 January 2019, the bank will recognize an expense for the services provided by the ServCo group.

The net impact of the transfer of people, systems and other supporting assets did not have a significant impact on the performance or operations of the bank. Historically, the income and expenses associated with these shared services were shown in the Corporate Centre and, to a smaller extent, in Commercial Banking, and the transfer has resulted in a decrease in net operating income and total operating expenses in both of Corporate Centre and Commercial Banking.

Further details are provided in note 15.

Use of non-IFRS financial measures

In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However, these are not presented within the consolidated financial statements and are not defined under IFRS. These are considered non-IFRS financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRS 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.

Operating leverage/jaws is calculated as the difference between the rates of change for revenue and operating expenses.

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

Change in expected credit losses to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[2] 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[2] 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[2] relating to stage 3 loans and advances to customers and customer 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.

The following supplementary financial measure calculated from IFRS figures as noted is used throughout this document.

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

1. *Average balances are calculated using quarter end balances.*
2. *Change in expected credit losses relates primarily to loans, acceptances and commitments.*

Financial highlights

	Footnotes	Quarter ended 31 Mar 2019	 31 Mar 2018
Financial performance for the period			
Total operating income		**545**	541
Profit before income tax expense		**229**	251
Profit attributable to the common shareholder		**158**	173
Change in expected credit losses and other credit impairment charges - (charge)/release		**12**	28
Operating expenses		**(328)**	(318)
Basic and diluted earnings per common share ($)		**0.32**	0.35
Financial measures %	1		
Return on average common shareholder's equity		**13.3**	15.5
Return on average risk-weighted assets	2	**2.3**	2.2
Cost efficiency ratio		**60.2**	58.8
Operating leverage/jaws		**(2.4)**	4.7
Net interest margin		**1.46**	1.50
Change in expected credit losses to average gross loans and advances and acceptances	3	**n/a**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	3	**–**	n/a
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**32.6**	29.1
Net write-offs as a percentage of average loans and advances and acceptances		**0.11**	0.16

	Footnote	At 31 Mar 2019	 31 Dec 2018
Financial position at period end			
Total assets		**108,164**	103,406
Loans and advances to customers		**55,781**	57,123
Customer accounts		**59,043**	59,812
Ratio of customer advances to customer accounts (%)		**94.5**	95.5
Common shareholder's equity		**4,873**	4,733
Capital, Leverage & Liquidity non-IFRS financial measures	2		
Common equity tier 1 capital ratio (%)		**11.3**	11.3
Tier 1 ratio (%)		**13.3**	13.4
Total capital ratio (%)		**15.9**	16.0
Leverage ratio (%)		**4.5**	4.6
Risk-weighted assets ($m)		**40,916**	40,142
Liquidity coverage ratio (%)		**138**	132

1. *Refer to the 'Use of non-IFRS financial measures' section of this document for a discussion of non-IFRS financial measures.*
2. *The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.*
3. *n/a is shown where the bank is in a net release position resulting in a negative ratio.*

Financial performance

Summary consolidated income statement

	Quarter-ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Net interest income	**323**	306
Net fee income	**156**	155
Net income from financial instruments held for trading	**48**	36
Other items of income	**18**	44
Total operating income	**545**	541
Change in expected credit losses and other credit impairment charges - (charge)/release	**12**	28
Net operating income	**557**	569
Total operating expenses	**(328)**	(318)
Profit before income tax expense	**229**	251
Income tax expense	**(62)**	(68)
Profit for the period	**167**	183

Performance by income and expense item

For the quarter ended 31 March 2019 compared with the same period in the prior year.

Net interest income

Net interest income increased by $17m, or 5.6%, for the quarter. We benefited from higher interest rates compared with the first quarter of 2018. In addition, volume growth in loans and advances relating to new and existing customers in Commercial Banking contributed to the increase, as well as higher volumes in both lending and deposits within Retail Banking and Wealth Management.

Summary of interest income by types of assets

		Quarter-ended					
		31 Mar 2019			31 Mar 2018		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnotes	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks		**852**	**2**	**0.78**	886	1	0.37
Loans and advances to customers		**55,309**	**511**	**3.75**	50,042	422	3.42
Reverse repurchase agreements - non-trading		**6,524**	**36**	**2.21**	6,175	24	1.61
Financial investments		**24,662**	**128**	**2.11**	23,480	91	1.57
Other interest-earning assets		**639**	**3**	**2.21**	338	2	2.18
Total interest-earning assets (A)		**87,986**	**680**	**3.14**	80,921	540	2.71
Trading assets and financial assets designated at fair value	*1*	**4,787**	**25**	**2.08**	5,211	24	1.86
Non-interest-earning assets		**11,968**	**—**	**—**	11,548	—	—
Total		**104,741**	**705**	**2.73**	97,680	564	2.34

1. *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.*

Summary of interest expense by types of liability and equity

		Quarter-ended					
		31 Mar 2019			31 Mar 2018[4]		
		Average balance	Interest expense	Cost	Average balance	Interest expense	Cost
	Footnotes	$m	$m	%	$m	$m	%
Deposits by banks	2	**865**	**—**	**0.23**	810	—	0.15
Customer accounts	3	**53,135**	**199**	**1.52**	50,739	132	1.05
Repurchase agreements - non-trading		**7,952**	**41**	**2.09**	6,075	23	1.57
Debt securities in issue and subordinated debt		**14,768**	**102**	**2.79**	11,663	69	2.39
Other interest-bearing liabilities		**2,128**	**15**	**2.93**	1,863	10	2.09
Total interest bearing liabilities (B)		**78,848**	**357**	**1.84**	71,150	234	1.33
Trading liabilities	1	**2,210**	**11**	**1.96**	2,902	15	2.10
Non-interest bearing current accounts		**5,993**	**—**	**—**	6,223	—	—
Total equity and other non-interest bearing liabilities		**17,690**	**—**	**—**	17,405	—	—
Total		**104,741**	**368**	**1.42**	97,680	249	1.03
Net interest income (A-B)			**323**			306	

1. 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.
2. Includes interest-bearing bank deposits only.
3. Includes interest-bearing customer accounts only.
4. Certain prior period amounts have been reclassified to conform to the current period presentation.

Net fee income

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Account services	**15**	16
Broking income	**2**	1
Cards	**15**	13
Credit facilities	**71**	67
Funds under management	**45**	47
Imports/exports	**3**	2
Insurance agency commission	**1**	2
Other	**12**	13
Remittances	**8**	8
Underwriting	**7**	7
Fee income	**179**	176
Less: fee expense	**(23)**	(21)
Net fee income	**156**	155

Net fee income increased by $1m, or 0.6%, for the quarter. Credit facility fees increased as a result of higher volumes of bankers' acceptances. This was partly offset by lower income from funds under management and online broker business, and an increase in fee expenses driven by higher investment advisory fees.

Net income from financial instruments held for trading

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Trading activities	**28**	27
Credit valuation, debit valuation and funding fair value adjustments	**4**	1
Net interest from trading activities	**14**	9
Hedge ineffectiveness	**2**	(1)
Net income from financial instruments held for trading	**48**	36

Net income from financial instruments held for trading for the quarter increased by $12m, or 33%. Tightening credit spreads led to favourable credit and debit valuations and funding fair value adjustments. Higher volumes of foreign exchange transactions, higher net interest from trading activities from higher yields and product mix, and favourable hedge ineffectiveness also contributed to the increase. This was partly offset by accounting volatility from balance sheet management activities.

Other items of income

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Gains less losses from financial investments	**8**	22
Other operating income	**10**	22
Other items of income	**18**	44

Other items of income decreased by $26m, or 59%, for the quarter. The decrease was primarily due to lower gains on the disposal of financial investments from the re-balancing of the bank's liquid asset portfolio compared to the prior year, and lower other operating income as a result of the implementation of ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A. This led to a reduction in other operating income and a related decrease in operating expenses.

Change in expected credit losses

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Change in expected credit loss - performing loans (stage 1 and 2) - charge/(release)	**(12)**	18
Change in expected credit loss - non-performing loans (stage 3) - charge/(release)	**—**	(46)
Change in expected credit loss - charge/(release)	**(12)**	**(28)**

The change in expected credit losses for the quarter resulted in a recovery of $12m compared with a recovery of $28m in the prior year. The recovery in 2019 was primarily due the release of provisions as a result of improvements in the outlook of certain customers in the energy service sector. The recovery in 2018 was driven by reversals relating to non-performing (stage 3) loans, mostly from accounts in the oil and gas industry.

Total operating expenses

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Employee compensation and benefits	**174**	182
General and administrative expenses	**131**	126
Depreciation	**18**	8
Amortization of intangible assets	**5**	2
Total operating expenses	**328**	318

Total operating expenses increased by $10m, or 3.1%, for the quarter, as we continue to make strategic investments to grow our businesses and making it more convenient for our customers to bank with us. These investments were partly offset by a decrease in employee compensation and benefits partly offset by an increase in general and administrative expenses as a result of the implementation of ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 15. In addition, general and administrative expenses decreased with an offsetting increase in depreciation relating to the amortization of the right-of-use assets as a result of the implementation of IFRS 16, as described in note 1(h).

Income tax expense

The effective tax rate for the quarter was 27.1%, which was consistent with the same period in the prior year.

Movement in financial position

Summary consolidated balance sheet

	At	
	31 Mar 2019	31 Dec 2018
	$m	$m
Assets		
Cash and balances at central bank	**57**	78
Trading assets	**5,956**	3,875
Derivatives	**3,289**	4,469
Loans and advances	**56,792**	58,344
Reverse repurchase agreements – non-trading	**6,561**	5,860
Financial investments	**25,355**	24,054
Customers' liability under acceptances	**6,028**	3,932
Other assets	**4,126**	2,794
Total assets	**108,164**	103,406
Liabilities and equity		
Liabilities		
Deposits by banks	**1,224**	1,148
Customer accounts	**59,043**	59,812
Repurchase agreements – non-trading	**9,845**	8,224
Trading liabilities	**3,234**	2,164
Derivatives	**3,464**	4,565
Debt securities in issue	**14,499**	13,863
Acceptances	**6,037**	3,937
Other liabilities	**5,095**	4,110
Total liabilities	**102,441**	97,823
Total equity	**5,723**	5,583
Total liabilities and equity	**108,164**	103,406

Assets

Total assets at 31 March 2019 were $108.2bn, an increase of $4.8bn, or 4.6%, from 31 December 2018. Customers' liability under acceptances increased by $2.1bn due to higher volumes of acceptances. Trading assets increased by $2.1bn, mainly in debt securities, due to volume of trading activities. Financial investments increased by $1.3bn mainly in treasury bills due to the impact of net liquid assets from balance sheet management positions. Other assets increased by $1.3bn mainly due to increases in settlement balances from timing of client facilitation trades, together with an increase in right of use lease assets as a result of the implementation of IFRS 16, as described in note 1(h). Higher reverse repurchase volumes and balance sheet management activities led to an increase in non-trading reverse repurchase agreements of $0.7bn.

These increases above were partly offset by a decrease in loans and advances of $1.6bn as result of lower volumes in unfunded bankers acceptances in our Commercial Banking business and lower trade finance portfolio balances in Global Banking & Markets, which was partly offset by an increase in residential mortgages in Retail Banking & Wealth Management. Additionally, derivatives reduced by $1.2bn primarily due to the mark-to-market impact of foreign exchange rate and interest rate during the quarter.

Liabilities

Total liabilities at 31 March 2019 were $102.4bn, an increase of $4.6bn, or 4.7%, from 31 December 2018. Acceptances increased by $2.1bn, which corresponds to the movement within assets. Higher repurchase volumes and balance sheet management activities led to an increase in non-trading repurchase agreements of $1.6bn. In addition, trading liabilities increased by $1.1bn mainly in debt securities due to volume of trading activities.

These increases were partly offset by a reduction in derivative balances of $1.1bn primarily due to the mark-to-market impact of foreign exchange rate and interest rate during the quarter, in line with movement in derivate assets. In addition, customer accounts decreased by $0.8bn due to expected seasonal reductions in Commercial Banking and Global Banking & Markets' deposits, which were partly offset by an increase in Retail Banking and Wealth Management as a result of successful campaigns.

Equity

Total equity at 31 March 2019 was $5.7bn, an increase of $0.1bn, or 2.5%, from 31 December 2018, driven by the profits generated in the period of $0.2bn and gains of $0.2bn recorded in other reserves on account of financial assets at fair value through other comprehensive income and cash flow hedges. This was offset by dividends declared in the period of $0.1bn.

Global businesses

We manage and report our operations around the following global businesses: Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management.

Commercial Banking

Commercial Banking ('CMB') offers a full range of commercial financial services and tailored solutions to customers ranging from small enterprises focused primarily on their domestic markets to corporates operating globally.

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Net interest income	**151**	139
Non-interest income	**93**	87
Total operating income	**244**	226
Change in expected credit losses and other credit impairment charges- (charge)/release	**14**	34
Net operating income	**258**	260
Total operating expenses	**(101)**	(103)
Profit before income tax expense	**157**	157

Overview

Total operating income increased by $18m, or 8%, driven mainly by higher lending balances and, to a lesser extent, higher deposit margins as a result of Bank of Canada rate increases.

CMB continued the strong momentum from 2018. Lending balances grew by 2.9% in the quarter. This was achieved by continuing our focus on new to bank customers, deepening relationships with our existing customers, and leveraging our global network and product offerings. Balances of Receivable Finance, a recent addition to our trade product suite, grew more than 50% year over year. Trade corridor revenue saw double-digit growth despite market uncertainties.

We continue to simplify, streamline and re-engineer the end to end banking process, and as a result, we are seeing marked improvement in our domestic account opening time and customer due diligence completion time. This improves efficiency and returns the focus of our front line sales to helping our customers thrive.

Profit before income tax remained unchanged, as a result of lower favourable changes in expected credit losses than in the prior year, partly offset by higher operating income and lower operating expenses.

Financial performance by income and expense item

Net interest income increased by $12m, or 8.6%. The growth reflects higher loans and advances from new and existing customers and improved deposit margins from interest rate increases.

Non-interest income increased by $6m, or 6.9%. This was driven primarily by higher volumes of bankers' acceptances.

Change in expected credit losses resulted in a release of $14m, driven mainly by lower expected credit losses due the release of provisions as a result of improvements in the outlook of certain customers in the energy service sector. In the first quarter of 2018, change in expected credit losses was a release of $34m, as a result of reversals relating to non-performing (stage 3) loans, mostly from accounts in the oil and gas industry.

Total operating expenses decreased by $2m, or 1.9%. This is mainly driven by the implementation of ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 15. Adjusting for this movement, operating expenses were largely flat.

1. *For the quarter ended 31 March 2019 compared with the same period in the prior year.*

Global Banking and Markets

Global Banking and Markets ('GB&M') provides tailored financial services and products to major government, corporate and institutional customers worldwide.

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Net interest income	**24**	23
Non-interest income	**56**	49
Total operating income	**80**	72
Change in expected credit losses and other credit impairment charges - (charge)/release	**(1)**	3
Net operating income	**79**	75
Total operating expenses	**(40)**	(38)
Profit before income tax expense	**39**	37

Overview

GBM's total operating income increased by $8m, or 11%, driven by increased interest rates, and higher Markets trading and sales activities.

We continue to leverage the Group's global network to provide products and solutions to meet our global clients' needs. We have also increased the scale of our Multinational business by improving product penetration with existing customers.

For the quarter, profit before income tax was $39m, an increase of $2m, or 5.4%, as strong revenue growth more than covered the cost of business investment and a higher change in expected credit losses charge for the period, compared to recoveries in the prior year.

Financial performance by income and expense item

Net interest income increased by $1m, or 4.3%, mainly due to the impact of the Bank of Canada interest rate increases, together with increased trade finance activities.

Non-interest income increased by $7m, or 14%, primarily due to favourable movement in credit and funding valuation reserves due to tightening of credit spreads. Also, sales and trading activities were favourable in all Markets asset classes.

Change in expected credit losses resulted in a charge of $1m compared with loan impairment recoveries and other credit risk provisions of $3m in the prior year. Recoveries in the prior year were a result of the continued improvements in the energy industry.

Total operating expenses increased by $2m, or 5.3%, due to streamlining initiatives.

1. *For the quarter ended 31 March 2019 compared with the same period in the prior year.*

Retail Banking and Wealth Management

Retail Banking and Wealth Management ('RBWM') 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 an international flavor with a large suite of global investment products and other specialized services available.

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Net interest income	**126**	114
Non-interest income	**58**	61
Total operating income	**184**	175
Change in expected credit losses and other credit impairment charges - (charge)/release	**(1)**	(9)
Net operating income	**183**	166
Total operating expenses	**(176)**	(163)
Profit before income tax expense	**7**	3

Overview

Total operating income in RBWM increased by $9m, or 5.1% due to higher margins and strong growth in total relationship balances[2] as a result of strong branding, innovation and strategic investments to make our bank simpler, faster and better for our customers. This was partly offset by the continued run-off of our consumer finance portfolio, resulting in a $1m decrease in revenues compared to the prior year.

Investments in our distribution channels and digital technologies, along with competitive products and qualification criteria for Premier and Advance propositions, helped us grow our customer base and total relationship balances[2]. We continued to enhance our distribution channel by opening new branches in key urban centres. We also launched HSBC +Rewards MasterCard offering customers our lowest interest rate and rewards on eligible purchases. As a result of these initiatives, we welcomed more than 11,000 new customers to RBWM during the quarter.

Profit before income tax expense increased by $4m, or 133%, due to higher revenues and a decrease in expected credit loss charges, partly offset by higher operating expenses. Higher margins and strong growth in total relationship balances[2] resulted in higher revenues, while the decrease in expected credit losses is largely driven by the impact of forward looking economic factors. These were partly offset by higher operating expenses due to continued investments in our distribution channels as noted above. In addition, we also continued to invest in the roll-out of retail business banking, credit cards, and Jade, an exclusive service for high-net-worth customers.

Financial performance by income and expense item

Net interest income was $126m, an increase of $12m, or 11%, primarily due to higher margins on deposits, and strong growth in both lending and deposits balances.

Non-interest income was $58m, a decrease of $3m, or 4.9% due to lower income from funds under management and online broker business compared to prior year.

Change in expected credit losses resulted in a charge of $1m, compared with a charge of $9m in the prior year. The decrease in the expected credit losses was primarily due to the impact of forward looking economic factors, continued wind-down of our consumer finance portfolio and lower write-offs.

Total operating expenses were $176m, an increase of $13m, or 8%. This was primarily due to strategic investments to grow our business and higher cost base associated with offering an enhanced service model to our growing client base.

1. *For the quarter ended 31 March 2019 compared with the same period in the prior year.*
2. *Total relationship balances is comprised of lending, deposits and wealth balances.*

Corporate Centre

Corporate Centre contains Balance Sheet Management; interests in associates and joint ventures; and other transactions which do not directly relate to our global businesses.

Review of financial performance[1]

Summary income statement

	Quarter ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Net interest income	**22**	30
Non-interest income	**15**	38
Net operating income	**37**	68
Total operating expenses	**(11)**	(14)
Profit before income tax expense	**26**	54

Overview

Net operating income decreased by $31m, or 46%, primarily due to lower gains on the disposal of financial investments from the re-balancing of the bank's liquid asset portfolio compared to the prior year, and lower other operating income as a result of the implementation of ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A.

Operating expenses decreased by $3m, or 21%, primarily due to the implementation of ServCo group partly offset by investments in our support functions.

The impact of these movements decreased profit before income tax by $28m for the quarter.

1. *For the quarter ended 31 March 2019 compared with the same period in the prior year.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2019	2018				2017		
	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**323**	335	332	319	306	318	292	285
Net fee income	**156**	164	175	179	155	159	169	165
Net income from financial instruments held for trading (2017: Net trading income)	**48**	26	35	39	36	31	41	22
Other items of income	**18**	40	46	33	44	32	26	24
Total operating income	**545**	565	588	570	541	540	528	496
Change in expected credit losses and other credit impairment charges - (charge)/release	**12**	(19)	7	11	28	n/a	n/a	n/a
Loan impairment (charges)/recoveries and other credit risk provisions	**n/a**	n/a	n/a	n/a	n/a	(1)	14	46
Net operating income	**557**	546	595	581	569	539	542	542
Total operating expenses	**(328)**	(324)	(324)	(334)	(318)	(333)	(327)	(318)
Operating profit	**229**	222	271	247	251	206	215	224
Share of profit/(loss) in associates	**—**	—	—	—	—	—	3	4
Profit before income tax expense	**229**	222	271	247	251	206	218	228
Income tax expense	**(62)**	(65)	(73)	(67)	(68)	(54)	(56)	(60)
Profit for the period	**167**	157	198	180	183	152	162	168
Profit attributable to:								
– common shareholder	**158**	148	189	171	173	142	153	158
– preferred shareholder	**9**	9	9	9	10	10	9	10
Basic and diluted earnings per common share ($)	**0.32**	0.29	0.38	0.34	0.35	0.28	0.31	0.32

Comments on trends over the past eight quarters

Net interest income has been trending upwards from the second quarter of 2017 as a result of increased interest rates together with growth in loans and advances and customer accounts. The first quarter of 2019 saw a small decline from as a result of lower loans and advances and customer accounts in CMB, GBM, and RBWM.

Net fee income decreased in the last three quarters. In the most recent quarter, the decrease was mainly due to credit facilities fees and lower income from funds under management and online broker business. In the prior two quarters, lower underwriting fees together with higher clearing fees expenses contributed to the decrease. This follows two quarters of strong growth, primarily as a result of higher credit facility fees as bankers' acceptance volumes grew and higher underwriting fees. Fee income declined in the fourth quarter of 2017 due to lower underwriting fees following steady growth for the preceding quarters in 2017.

Due to the nature of net income from financial instruments held for trading, it can fluctuate from quarter-to-quarter. Net income from financial instruments held for trading increased in the first quarter of 2019 as a result of tightening of credit spreads. 2018 also saw an increase primarily as a result increased volumes of foreign exchange transactions, higher net interest from trading activities from higher yields and product mix, and favourable hedge ineffectiveness, which were partly offset by a loss relating to accounting volatility from balance sheet management activities.

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. In 2018 other items of income increased as a result of higher gains on the disposal of financial investments and in the first quarter of 2019 we saw a decline in these gains. In 2018 and 2017, other items of income also included income from Group entities, which can also fluctuate due to the timing of services performed to Group. In 2019, as a result of the implementation of ServCo group, as described in "Implementation of the ServCo group" section of the MD&A, there was a reduction in this income from Group entities and a related decrease in operating expenses.

The recovery in 2019 was primarily due the release of provisions as a result of improvements in the outlook of certain customers in the energy service sector. Effective 1 January 2018 the bank adopted IFRS 9. Strong credit performance together with active risk management led to a net release on the change in expected credit losses for most periods since the beginning of 2017, although this reduced in 2018 from the high release levels experienced in the prior year. During 2017, we saw recoveries from improvements in several sectors, primarily the energy services sector. The first three quarters of 2018 saw recoveries as a result of improvements in several sectors, most notably the energy services and manufacturing sector, together with allowance reversals relating to certain energy services, manufacturing, construction, and real estate companies. There was a charge of $19m in the fourth quarter of 2018 as a result of a number of small charges in the non-performing wholesale portfolio, as well as an increase in expected credit losses for performing loans driven by forward looking economic factors in both the wholesale and retail portfolios.

From 2018 onwards, our focus has been on growing our business in support of our strategic plan, which resulted in increased operating expenses. In the first quarter of 2019, these investments were partly offset by a decrease in employee compensation and benefits and general and administrative expenses as a result of the implementation of ServCo group, as described in "Implementation of the ServCo group" section of the MD&A and note 15. In 2018, increases were partly offset by lower costs associated with a reduction in office space and leveraging the scale of centralizing specific business activities throughout the Group. The timing of expenses incurred in 2018 led to variances between the quarters. In 2017, operating expenses increased as we invested in risk and compliance activities and certain restructuring and streamlining initiatives.

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.

Headwinds continued to restrain the Canadian economy in late 2018 and early 2019, even as oil prices rebounded. This suggests that there were more issues weighing on the economy than just the challenges in the oil sector. This was reflected in Q4 gross domestic product ('GDP') growth that reported at 0.4% (quarter-on-quarter, annualized) significantly below the expected 1.0% increase. Decreased investment was a key factor in the weak GDP reading. The GDP report also showed that final domestic demand declined for a second straight quarter in Q4. This suggests that Canada came closer to a technical recession in the second half of 2018 than previously thought.

Following the release of the Q4 GDP report, and other soft data into year-end and in early 2019, we made two changes to our forecasts. First, we lowered our 2019 GDP growth forecast to 1.1% from the prior 1.6%. In the April 2019 Monetary Policy Report ('MPR'), the Bank of Canada ('BOC') lowered its 2019 forecast for economic growth to 1.2% (from 1.7%).

Second, we changed our forecast for the BOC policy rate. We now expect the BOC to leave interest rates on hold at 1.75% in 2019.

Factors that also informed our outlook for the BOC are that we now expect inflation this year to be 1.6%, and for core inflation to remain below 2%. The moderate inflation outlook reflects temporary factors, and that there is a greater amount of slack in the economy than had been thought. With less upward pressure on the rate of inflation, there is little reason for the BOC to raise rates further.

Another reason for the BOC to hold rates is the degree of uncertainty over the neutral rate. The BOC had maintained a tightening bias, saying that the policy rate should rise to neutral 'over time'. In the recent MPR, the BOC lowered its estimated range for the neutral rate to 2.25% to 3.25%, and reiterated that the actual neutral rate is unknown. BOC Governor Poloz had said in November that as the policy rate gets closer to whatever the neutral rate is 'we will begin to see signs that we are no longer stimulating demand'. Two straight quarters of negative growth in domestic demand indicate that the policy rate might be quite close to the neutral rate.

That said, there has also been a notably positive theme in the economy. Specifically, the labour market has remained strong, highlighted by the unemployment rate that remains near its historic low, and a near record high employment-to-population ratio for those 25 years-to-64 years of age. Surveys also show that firms plan to continue to add to payrolls in 2019, though not at the same pace as they have over the past two years. As well, despite some headwinds around year-end, economic growth surprised to the upside in January.

Investment

Our new, lower, GDP forecast reflects a weaker outlook for gross fixed capital formation ('GFCF', or investment). We now look for GFCF to decline by 1.9% in 2019. This is down from our prior forecast of a gain of 0.5%. We have revised downward our forecasts for all of the main investment components. For example, residential investment is now expected to a decline of 3.6% (prior: -0.8%). Business investment is expected to decline by 2.1%, down from our prior forecast for a gain of 1.0%. Lastly, government infrastructure investment is expected to fall by 1.2% this year, compared to our earlier forecast of a gain of 1.9%.

Consistent with a more moderate outlook for investment, machinery manufacturing and imports of machinery and equipment, have stalled after posting solid rates of growth in 2017. Surveys also suggest that capital expenditures are constrained by limited cash flows linked to low corporate profits. Additionally, firms suggest that shortages of skilled labour are weighing on business investment.

Prevailing trade policy uncertainty also continues to weigh on business willingness to increase investment. For example, though Canada, the US, and Mexico signed NAFTA's replacement (CUSMA in Canada, USMCA in the US, and T-MEC in Mexico) in late November, none of the three counterparties has yet ratified the agreement. As well, steel and aluminum tariffs remain in place and the US continues to implement protectionist policies. Trade tensions between the US and China are another source of uncertainty.

There have, however, also been some positive developments regarding business investment. For example, in November the federal government introduced several policy initiatives to boost business investment, though it is too soon to have seen any impact from these changes. As well, firms acknowledge a need to increase capital expenditures to satisfy future demand. As headwinds dissipate, business investment should begin to improve later this year.

On exports, we expect moderate growth in 2019 as a result of ongoing competitive headwinds and global economic uncertainty that has led to a general slowdown in global trade. These factors might limit near term gains to Canada's expanding set of free trade partners. With NAFTA termination risk having decreased, Canada now also has free trade agreements with the US, Mexico, the EU (CETA), and with many Asian nations (CPTPP). The broad range of free trade partners provides a unique opportunity for Canadian exporters.

Drivers

In our view, despite the strength of the labour market, households continue to face some notable challenges. For 2019, we look for consumption to grow by 1.4%, which would be the slowest expansion in 10 years. A key reason for this is the impact of higher debt service charges reflecting a high level of household sector debt and past interest rate increases.

We see signs that this is already unfolding. In particular, real retail sales have been flat since mid-2017, including a drop in the pace of auto sales. Further, there are signs that the housing market is slowing, with the pace of home sales cooling and home prices stabilizing.

While we now expect the BOC to leave rates on hold, past increases in interest rates continue to affect the household sector. In particular, even though the BOC last raised the policy rate in October, recent consumer price reports show that mortgage interest costs continue to rise on a monthly basis. This implies that debt service costs might continue to weigh on consumption.

Along with the upward pressure on mortgage interest costs, the consumer price report shows rising costs in other categories that households cannot avoid. For example, home and auto insurance costs have increased as insurance companies raise premiums in response to an increase in claims related to extreme weather events and higher repair costs. Meanwhile, Canada's retaliatory tariffs on imports from the US have put upward pressure on prices of several grocery items.

Despite headwinds restraining consumption, we do look for business investment and exports to begin to improve on a more sustained basis in the second half of 2019. The improved performance would be linked to an expected rebound in global economic growth, and global trade. This would provide an opportunity for Canadian exporters to take advantage of lower trade barriers with potential counterparties in North America, the European Union, and Asia.

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 2018*. The following is a summary of some key regulatory changes in the first quarter of 2019 with the potential to impact our results or operations:

Cyber and Technology Risk

OSFI continues to increase focus on financial institutions' non-financial risk and operational resiliency. In January 2019, OSFI issued an advisory imposing new formal requirements for all banks to report material technology and cyber incidents to OSFI. Should these risks occur, the bank has a control environment around cyber risk.

Liquidity Risk

OSFI published final revisions to four chapters of the Liquidity Adequacy Requirements ('LAR') Guideline to ensure its liquidity metrics remain sound and prudent. Key changes include targeted revisions to the treatment of certain retail deposits in the Liquidity Coverage Ratio and Net Cumulative Cash Flow. Financial institutions will need to comply with the new requirements by January 1, 2020. For further details, refer to 'liquidity and funding risk' section of the MD&A.

Accounting matters

The bank's results are sensitive to the accounting policies that underlie the preparation of our consolidated financial statements. The bank has adopted IFRS 16 Leases effective 1 January 2019 as disclosed in note 1(h) of the consolidated financial statements. A summary of our other significant accounting policies are provided in note 2 of our *Annual Report and Accounts 2018*.

The preparation of financial information requires the use of estimates and judgments about future conditions and are contained in the 'Critical accounting estimates and judgments' section of the Management's Discussion and Analysis of our *Annual Report and Accounts 2018*.

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 2018*.

Financial instruments

Due to the nature of the bank's business, financial instruments compose a large proportion of our balance sheet, from which the bank can earn profits in trading, interest, and fee income. Financial instruments include, but are not limited to, cash, customer accounts, securities, loans, acceptances, hedging and trading derivatives, repurchase agreements, securitization liabilities and subordinated debt. We use financial instruments for both non-trading and trading activities. Non-trading activities include lending, investing, hedging and balance sheet management. Trading activities include the buying and selling of securities and dealing in derivatives and foreign exchange as part of facilitating client trades and providing liquidity and, to a lesser extent, market making activity.

Financial instruments are accounted for according to their classification which involves the use of judgment. A detailed description of the classification and measurements of financial instruments is included in note 2 of our *Annual Report and Accounts 2018*.

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 2018*.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer ('CEO') and 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 2019. 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 2019 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 and operational services. In particular, as a member of one of the world's largest financial services organizations, we share in 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 in 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 30 of our *Annual Report and Accounts 2018.*

During the quarter, the bank transferred certain shared services to HSBC Global Services (Canada) Limited which is an indirect wholly-owned subsidiary of HSBC Holdings. Further details can be found in note 15 and the 'Implementation of the ServCo group' section of the MD&A.

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

Risk

Refer to the 'Risk Management' section of our Annual Report and Accounts 2018 for a description of how the bank manages risk on an enterprise wide level, as well as the management of reputation and operational risk.

Credit risk profile

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under 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.

There were no material changes to the policies and practices for the management of credit risk in the first quarter of 2019.

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 2018*.

Credit risk in the first quarter of 2019

Gross loans and advances to customers of $56bn have decreased by $1.3bn from $57.3bn at 31 December 2018.

The change in expected credit losses and other credit impairment charges during the first quarter of 2019 was a release of $12m.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for expected credit losses ('ECL').

The following tables analyze loans by segments which represents the concentration of exposures in which how credit risks are managed.

The allowance for ECL at 31 March 2019 comprised of $214m in respect of assets held at amortized cost, $23m in respect of loan commitments and financial guarantees, and $1m in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

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

		At 31 Mar 2019		At 31 Dec 2018	
	Footnotes	**Gross carrying/ nominal amount**	**Allowance for ECL**	Gross carrying/ nominal amount	Allowance for ECL
		$m	**$m**	$m	$m
Loans and advances to customers at amortized cost		**55,957**	**(176)**	57,321	(198)
– personal		**28,265**	**(51)**	28,364	(53)
– corporate and commercial		**27,692**	**(125)**	28,957	(145)
Loans and advances to banks at amortized cost		**1,011**	**—**	1,221	—
Other financial assets measured at amortized cost		**16,162**	**(39)**	12,266	(34)
– cash and balances at central banks		**57**	**—**	78	—
– items in the course of collection from other banks		**11**	**—**	8	—
– reverse repurchase agreements non - trading		**6,561**	**—**	5,860	—
– customers' liability under acceptances		**6,037**	**(9)**	3,937	(5)
– other assets, prepayments and accrued income	1	**3,496**	**(30)**	2,383	(29)
Total gross carrying amount on-balance sheet		**73,130**	**(215)**	70,808	(232)
Loans and other credit related commitments		**43,134**	**(22)**	43,378	(32)
– personal		**7,127**	**(2)**	7,186	(2)
– corporate and commercial		**36,007**	**(20)**	36,192	(30)
Financial guarantees	2	**2,472**	**(1)**	2,182	(1)
– personal		**8**	**—**	7	—
– corporate and commercial		**2,464**	**(1)**	2,175	(1)
Total nominal amount off-balance sheet	3	**45,606**	**(23)**	45,560	(33)

		Fair value	**Allowance for ECL**	Fair value	Allowance for ECL
		$m	**$m**	$m	$m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	4	**25,338**	**(1)**	24,033	(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 includes 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 clients default.*
4. *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognized in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

The following table provides an overview of the bank's credit risk by stage and segment, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognized.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognized.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognized.

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

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%
Loans and advances to customers at amortized cost	**51,082**	**4,642**	**233**	**55,957**	**(28)**	**(72)**	**(76)**	**(176)**	**0.1**	**1.6**	**32.6**	**0.3**
– personal	**27,439**	**757**	**69**	**28,265**	**(9)**	**(27)**	**(15)**	**(51)**	**—**	**3.6**	**21.7**	**0.2**
– corporate and commercial	**23,643**	**3,885**	**164**	**27,692**	**(19)**	**(45)**	**(61)**	**(125)**	**0.1**	**1.2**	**37.2**	**0.5**
Loans and advances to banks at amortized cost	**1,011**	**—**	**—**	**1,011**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Other financial assets measured at amortized cost	**15,358**	**774**	**30**	**16,162**	**(3)**	**(6)**	**(30)**	**(39)**	**—**	**0.8**	**100.0**	**0.2**
Loan and other credit-related commitments	**38,717**	**4,375**	**42**	**43,134**	**(6)**	**(16)**	**—**	**(22)**	**—**	**0.4**	**—**	**0.1**
– personal	**6,907**	**210**	**10**	**7,127**	**(1)**	**(1)**	**—**	**(2)**	**—**	**0.5**	**—**	**—**
– corporate and commercial	**31,810**	**4,165**	**32**	**36,007**	**(5)**	**(15)**	**—**	**(20)**	**—**	**0.4**	**—**	**0.1**
Financial guarantees[2]	**2,296**	**175**	**1**	**2,472**	**—**	**(1)**	**—**	**(1)**	**—**	**0.6**	**—**	**—**
– personal	**7**	**1**	**—**	**8**	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– corporate and commercial	**2,289**	**174**	**1**	**2,464**	**—**	**(1)**	**—**	**(1)**	**—**	**0.6**	**—**	**—**
At 31 Mar 2019	**108,464**	**9,966**	**306**	**118,736**	**(37)**	**(95)**	**(106)**	**(238)**	**—**	**1.0**	**34.6**	**0.2**
Loans and advances to customers at amortized cost	53,113	3,965	243	57,321	(36)	(75)	(87)	(198)	0.1	1.9	35.8	0.3
– personal	27,405	889	70	28,364	(13)	(24)	(16)	(53)	—	2.7	22.9	0.2
– corporate and commercial	25,708	3,076	173	28,957	(23)	(51)	(71)	(145)	0.1	1.7	41.0	0.5
Loans and advances to banks at amortized cost	1,221	—	—	1,221	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	11,622	615	29	12,266	(2)	(3)	(29)	(34)	—	0.5	100.0	0.3
Loan and other credit-related commitments	40,443	2,874	61	43,378	(7)	(23)	(2)	(32)	—	0.8	3.3	0.1
– personal	6,978	197	11	7,186	(1)	(1)	—	(2)	—	0.5	—	—
– corporate and commercial	33,465	2,677	50	36,192	(6)	(22)	(2)	(30)	—	0.8	4.0	0.1
Financial guarantees[2]	2,093	87	2	2,182	—	(1)	—	(1)	—	1.1	—	—
– personal	6	1	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	2,087	86	2	2,175	—	(1)	—	(1)	—	1.2	—	—
At 31 Dec 2018	108,492	7,541	335	116,368	(45)	(102)	(118)	(265)	—	1.4	35.2	0.2

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

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

The following disclosure provides a reconciliation of the bank's 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 2019				31 Mar 2018			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**43**	**99**	**89**	**231**	38	91	185	314
Transfers of financial instruments:	**7**	**(8)**	**1**	**—**	5	7	(12)	—
– transfers from stage 1 to stage 2	**(2)**	**2**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**8**	**(8)**	**—**	**—**	6	(6)	—	—
– transfers to stage 3	**—**	**(3)**	**3**	**—**	(1)	(1)	2	—
– transfers from stage 3	**1**	**1**	**(2)**	**—**	1	13	(14)	—
Net remeasurement of ECL arising from transfer of stage	**(7)**	**5**	**—**	**(2)**	(5)	6	1	2
New financial assets originated or purchased	**1**	**—**	**—**	**1**	5	—	—	5
Changes to risk parameters (model inputs)	**(10)**	**(5)**	**7**	**(8)**	2	6	(32)	(24)
Asset derecognized (including final repayments)	**—**	**(2)**	**(3)**	**(5)**	(7)	(2)	—	(9)
Assets written off	**—**	**—**	**(16)**	**(16)**	—	—	(22)	(22)
Foreign exchange	**—**	**—**	**—**	**—**	—	1	—	1
Others	**—**	**—**	**(2)**	**(2)**	—	—	(2)	(2)
Balance at the end of the period	**34**	**89**	**76**	**199**	38	109	118	265
ECL charge/(release) for the period	**(16)**	**(2)**	**4**	**(14)**	(5)	10	(31)	(26)
Recoveries	**—**	**—**	**(2)**	**(2)**	—	—	(2)	(2)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(16)**	**(2)**	**2**	**(16)**	(5)	10	(33)	(28)

1. *Excludes performance guarantee contracts.*

	Quarter-ended			
	31 Mar 2019		31 Mar 2018	
	Allowance for ECL/Other credit loss provisions	**ECL charge/ (release)**	Allowance for ECL/ Other credit loss provisions	ECL charge/ (release)
	$m	**$m**		
As above	**199**	**(16)**	**265**	**(28)**
Other financial assets measured at amortized cost	**39**	**4**	**46**	**—**
Performance guarantee contracts	**2**	**—**	**1**	**—**
Debt instruments measured at FVOCI	**1**	**—**	**—**	**—**
Total allowance for ECL/Total income statement ECL release for the period	**241**	**(12)**	**312**	**(28)**

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, though 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 retail lending businesses and the external ratings attributed by external agencies to debt securities. The retail 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		Retail 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]	25,138	–	–	–	–	25,138	(1)	25,137
– stage 1	25,138	–	–	–	–	25,138	(1)	25,137
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
Loans and advances to customers at amortized cost	26,212	17,216	10,872	1,424	233	55,957	(176)	55,781
– stage 1	26,205	16,648	8,077	152	–	51,082	(28)	51,054
– stage 2	7	568	2,795	1,272	–	4,642	(72)	4,570
– stage 3	–	–	–	–	233	233	(76)	157
Loans and advances to banks at amortized cost	1,011	–	–	–	–	1,011	–	1,011
– stage 1	1,011	–	–	–	–	1,011	–	1,011
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
Other financial assets at amortized cost	9,846	4,131	1,935	220	30	16,162	(39)	16,123
– stage 1	9,846	4,043	1,435	34	–	15,358	(3)	15,355
– stage 2	–	88	500	186	–	774	(6)	768
– stage 3	–	–	–	–	30	30	(30)	–
Total gross carrying amount on-balance sheet	62,207	21,347	12,807	1,644	263	98,268	(216)	98,052
Percentage of total credit quality	63.3%	21.7%	13.0%	1.7%	0.3%	100.0%		
Loan and other credit-related commitments	14,118	19,555	8,550	869	42	43,134	(22)	43,112
– stage 1	13,893	19,003	5,723	98	–	38,717	(6)	38,711
– stage 2	225	552	2,827	771	–	4,375	(16)	4,359
– stage 3	–	–	–	–	42	42	–	42
Financial guarantees[2]	1,526	659	236	50	1	2,472	(1)	2,471
– stage 1	1,517	592	185	1	–	2,295	–	2,295
– stage 2	9	67	51	49	–	176	(1)	175
– stage 3	–	–	–	–	1	1	–	1
Total nominal amount off-balance sheet	15,644	20,214	8,786	919	43	45,606	(23)	45,583
At 31 Mar 2019	77,851	41,561	21,593	2,563	306	143,874	(239)	143,635

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]	24,145	—	—	—	—	24,145	(1)	24,144
– stage 1	24,145	—	—	—	—	24,145	(1)	24,144
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	25,936	18,238	11,558	1,346	243	57,321	(198)	57,123
– stage 1	25,839	18,000	9,089	185	—	53,113	(36)	53,077
– stage 2	97	238	2,469	1,161	—	3,965	(75)	3,890
– stage 3	—	—	—	—	243	243	(87)	156
Loans and advances to banks at amortized cost	1,221	—	—	—	—	1,221	—	1,221
– stage 1	1,221	—	—	—	—	1,221	—	1,221
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	7,712	2,789	1,633	103	29	12,266	(34)	12,232
– stage 1	7,472	2,752	1,375	23	—	11,622	(2)	11,620
– stage 2	240	37	258	80	—	615	(3)	612
– stage 3	—	—	—	—	29	29	(29)	—
Total gross carrying amount on-balance sheet	59,014	21,027	13,191	1,449	272	94,953	(233)	94,720
Percentage of total credit quality	62.2%	22.1%	13.9%	1.5%	0.3%	100.0%		
Loan and other credit-related commitments	13,623	20,331	8,500	863	61	43,378	(32)	43,346
– stage 1	13,407	20,137	6,785	114	—	40,443	(7)	40,436
– stage 2	216	194	1,715	749	—	2,874	(23)	2,851
– stage 3	—	—	—	—	61	61	(2)	59
Financial guarantees[2]	1,183	707	245	45	2	2,182	(1)	2,181
– stage 1	1,183	707	203	—	—	2,093	—	2,093
– stage 2	—	—	42	45	—	87	(1)	86
– stage 3	—	—	—	—	2	2	—	2
Total nominal amount off-balance sheet	14,806	21,038	8,745	908	63	45,560	(33)	45,527
At 31 Dec 2018	73,820	42,065	21,936	2,357	335	140,513	(266)	140,247

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

	Footnotes	31 Mar 2019		At 31 Dec 2018	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
		$m	**$m**	$m	$m
Corporate and commercial					
– agriculture, forestry and fishing		**426**	**(1)**	408	(1)
– mining and quarrying	1	**1,862**	**(24)**	1,839	(30)
– manufacture		**4,601**	**(22)**	4,620	(23)
– electricity, gas, steam and air-conditioning supply		**412**	**—**	562	(1)
– water supply, sewerage, waste management and remediation		**97**	**—**	101	—
– construction		**714**	**(10)**	858	(21)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**5,300**	**(31)**	5,567	(35)
– transportation and storage		**2,374**	**(12)**	2,375	(11)
– accommodation and food		**838**	**—**	895	(1)
– publishing, audiovisual and broadcasting		**1,027**	**(5)**	783	(5)
– real estate		**6,544**	**(6)**	7,292	(7)
– professional, scientific and technical activities		**1,104**	**(8)**	1,060	(7)
– administrative and support services		**536**	**(2)**	595	(1)
– education		**149**	**—**	149	—
– health and care		**193**	**—**	190	(1)
– arts, entertainment and recreation		**233**	**—**	273	—
– other services		**237**	**(1)**	311	—
– government		**29**	**—**	30	—
– non-bank financial institutions		**1,016**	**(3)**	1,049	(1)
Total		**27,692**	**(125)**	28,957	(145)

1. *Mining and quarrying includes energy related exposures.*

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

	Quarter-ended							
	31 Mar 2019				31 Mar 2018			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**29**	**74**	**73**	**176**	29	69	165	263
Transfers of financial instruments:	**—**	**(2)**	**2**	**—**	—	11	(11)	—
– transfers from stage 1 to stage 2	**(2)**	**2**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**2**	**(2)**	**—**	**—**	2	(2)	—	—
– transfers to stage 3	**—**	**(2)**	**2**	**—**	(1)	—	1	—
– transfers from stage 3	**—**	**—**	**—**	**—**	—	12	(12)	—
Net remeasurement of ECL arising from transfer of stage	**(2)**	**4**	**—**	**2**	(1)	2	1	2
New financial assets originated or purchased	**1**	**—**	**—**	**1**	4	—	—	4
Changes to risk parameters (model inputs)	**(4)**	**(14)**	**(1)**	**(19)**	(1)	—	(35)	(36)
Asset derecognized (including final repayments)	**—**	**(1)**	**—**	**(1)**	(6)	(2)	—	(8)
Assets written off	**—**	**—**	**(12)**	**(12)**	—	—	(19)	(19)
Foreign exchange	**—**	**—**	**—**	**—**	—	1	—	1
Others	**—**	**—**	**(1)**	**(1)**	—	—	(2)	(2)
Balance at the end of the period	**24**	**61**	**61**	**146**	25	81	99	205
ECL charge/(release) for the period	**(5)**	**(11)**	**(1)**	**(17)**	(4)	—	(34)	(38)
Recoveries	**—**	**—**	**—**	**—**	—	—	—	—
Others	**—**	**—**	**—**	**—**	—	—	1	1
Total ECL charge/(release) for the period	**(5)**	**(11)**	**(1)**	**(17)**	(4)	—	(33)	(37)

1. *Excludes performance guarantee contracts.*

The distribution of exposures by stage remained stable in the wholesale portfolio during the first quarter of 2019. The Wholesale allowance for ECL decreased by $29m, due to a decrease of $13m in the non-performing portfolio as a result of the write-offs relating to specific customers, mainly in the construction and mining and quarrying sectors. In addition, the release of ECL allowance as a result of improvements in the outlook of certain customers in the energy service sector.

Personal lending

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

	At 31 Mar 2019		At 31 Dec 2018	
	Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	$m	**$m**	$m	$m
Residential mortgages	**24,725**	**(17)**	24,580	(17)
Home equity lines of credit	**1,710**	**(4)**	1,714	(4)
Personal revolving loan facilities	**614**	**(11)**	564	(11)
Other personal loan facilities	**652**	**(4)**	932	(5)
Other small to medium enterprises loan facilities	**175**	**—**	146	—
Run-off consumer loan portfolio	**68**	**(7)**	76	(8)
Retail card	**321**	**(8)**	352	(8)
Total	**28,265**	**(51)**	28,364	(53)

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

	Quarter-ended							
	31 Mar 2019				31 Mar 2018			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**14**	**25**	**16**	**55**	9	22	20	51
Transfers of financial instruments:	**7**	**(6)**	**(1)**	**—**	5	(4)	(1)	—
– transfers from stage 1 to stage 2	**—**	**—**	**—**	**—**	—	—	—	—
– transfers from stage 2 to stage 1	**6**	**(6)**	**—**	**—**	4	(4)	—	—
– transfers to stage 3	**—**	**(1)**	**1**	**—**	—	(1)	1	—
– transfers from stage 3	**1**	**1**	**(2)**	**—**	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	**(5)**	**1**	**—**	**(4)**	(4)	4	—	—
New financial assets originated or purchased	**—**	**—**	**—**	**—**	1	—	—	1
Changes to risk parameters (model inputs)	**(6)**	**9**	**8**	**11**	3	6	3	12
Asset derecognized (including final repayments)	**—**	**(1)**	**(3)**	**(4)**	(1)	—	—	(1)
Assets written off	**—**	**—**	**(4)**	**(4)**	—	—	(3)	(3)
Foreign exchange	**—**	**—**	**—**	**—**	—	—	—	—
Others	**—**	**—**	**(1)**	**(1)**	—	—	—	—
Balance at the end of the period	**10**	**28**	**15**	**53**	13	28	19	60
ECL charge/(release) for the period	**(11)**	**9**	**5**	**3**	(1)	10	3	12
Recoveries	**—**	**—**	**(2)**	**(2)**	—	—	(2)	(2)
Others	**—**	**—**	**—**	**—**	—	—	(1)	(1)
Total ECL charge/(release) for the period	**(11)**	**9**	**3**	**1**	(1)	10	—	9

1. *Excludes performance guarantee contracts.*

The distribution of exposures by stage remained stable in the retail portfolio during the first quarter of 2019. The total retail allowance for ECL decreased by $1m during the period. This was due to a decrease in the allowance for ECL on the revolving portfolio.

The total retail loan impairment charges for the period resulted in a charge of $1m. This was driven by an increase in the allowance for ECL on the Mortgage and HELOC portfolios, primarily as a result of the impact of housing prices in our key markets.

Mortgages and home equity lines of credit

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

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

Insurance and geographic distribution[1]

	Quarter-ended						
	Residential mortgages					**HELOC[2]**	
	Insured[3]		**Uninsured[3]**		**Total**	**Uninsured**	
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**928**	**7%**	**12,928**	**93%**	**13,856**	**843**	**100%**
Western Canada[4]	**340**	**24%**	**1,061**	**76%**	**1,401**	**598**	**100%**
Ontario	**910**	**11%**	**7,541**	**89%**	**8,451**	**93**	**100%**
Quebec and Atlantic provinces	**236**	**20%**	**928**	**80%**	**1,164**	**197**	**100%**
At 31 Mar 2019	**2,414**	**10%**	**22,458**	**90%**	**24,872**	**1,731**	**100%**

Insurance and geographic distribution[1] (continued)

	Quarter-ended						
	Residential mortgages					HELOC[2]	
	Insured[3]		Uninsured[3]		Total	Uninsured	
	$m	%	$m	%	$m	$m	%
British Columbia	948	7%	12,986	93%	13,934	853	100%
Western Canada[4]	347	25%	1,060	75%	1,407	603	100%
Ontario	925	11%	7,457	89%	8,382	91	100%
Quebec and Atlantic provinces	241	21%	934	79%	1,175	206	100%
At 31 Dec 2018	2,461	10%	22,437	90%	24,898	1,753	100%

1. *Geographic location is determined by the address of the originating branch.*
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.*

Amortization period[1]

	Quarter-ended				
	Residential mortgages				
	Less than 20 years	**20-24 years**	**25-29 years**	**30-34 years**	**35 years and greater**
At 31 Mar 2019	**20.011%**	**41.654%**	**38.316%**	**0.015%**	**0.004%**
At 31 Dec 2018	19.996%	40.510%	39.469%	0.021%	0.004%

1. *Amortization period is based on the remaining term of residential mortgages.*

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

	Quarter ended	
	Uninsured % LTV[3]	
	Residential mortgages	**HELOC**
	%	**%**
British Columbia	**54%**	**48%**
Western Canada[4]	**65%**	**61%**
Ontario	**61%**	**57%**
Quebec and Atlantic provinces	**60%**	**56%**
Total Canada for the three months ended 31 Mar 2019	**59%**	**53%**
Total Canada for the three months ended 31 Dec 2018	59%	54%

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 Retail 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.

Loans past due but not impaired

Total days past due but not impaired loans and advances

	At	
	31 Mar 2019	31 Dec 2018
	$m	$m
Up to 29 days	**964**	521
30-59 days	**39**	15
60-89 days	**57**	50
Total	**1,060**	586

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 2019		31 Dec 2018	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial		**164**	**(61)**	173	(71)
– mining and quarrying	1	**39**	**(10)**	42	(13)
– manufacture		**20**	**(10)**	18	(10)
– construction		**7**	**(6)**	24	(17)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**20**	**(14)**	16	(15)
– transportation and storage		**7**	**(5)**	7	(2)
– publishing, audiovisual and broadcasting		**17**	**(4)**	16	(4)
– real estate		**13**	**(3)**	7	(2)
– professional, scientific and technical activities		**39**	**(7)**	39	(7)
– other services		**1**	**(1)**	1	—
– non-bank financial institutions		**1**	**(1)**	3	(1)
Households	2	**69**	**(15)**	70	(16)
Loans and advances to banks		**—**	**—**	—	—
Total		**233**	**(76)**	243	(87)

1. *Mining and quarrying includes energy related exposures.*
2. *Households includes the Retail portfolio.*

The wholesale impaired portfolio decreased by $10m primarily driven by certain write-offs and reduction in exposure in construction, and mining and quarrying sectors for the quarter-ended 31 March 2019 with an off-setting increase in the several sectors predominantly in the wholesale and retail trade, and real estate sectors. Accordingly, the allowance for ECL also reduced by $11m as compared to the year-end mainly due to partial write-offs in the construction, and mining and quarrying sectors.

Renegotiated loans

The carrying amount of renegotiated loans was $137m at 31 March 2019 (31 December 2018: $180m).

Liquidity and funding risk

Liquidity risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity and funding risk management

Our liquidity and funding management strategy as described in the 'Liquidity and funding risk' section of our *Annual Report and Accounts 2018* continues to apply. The bank's internal liquidity and funding risk management framework uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, but adds additional metrics, limits and overlays to address the risks that the bank considers are not adequately reflected by the external regulatory framework.

We continue to monitor liquidity and funding risk against our stated risk tolerance and management framework.

Liquid assets

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. Liquid assets consist of cash or assets that can be converted into cash at little or no loss of value.

Our liquid assets increased by $2.1bn from 31 December 2018, primarily due to an increase in short-term funding.

Liquid assets[1]

	At	
	31 Mar 2019	31 Dec 2018
	$m	$m
Level 1	**20,474**	18,362
Level 2a	**4,040**	4,009
Level 2b	**50**	61
Total	**24,564**	22,432

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.*

Liquidity regulation

In accordance with OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates Basel liquidity standards, the bank is required to maintain a LCR above 100% as well as monitor the Net Cumulative Cash Flow ('NCCF'). The LCR estimates the adequacy of liquidity over a 30 day stress period while the NCCF calculates a horizon for net positive cash flows in order to capture the risk posed by funding mismatches between assets and liabilities. As at 31 March 2019, the bank was compliant with both requirements.

As a basis to determine the bank's stable funding requirement, the bank calculates the NSFR according to Basel Committee on Banking Supervision ('BCBS') publication number 295, pending its implementation. OSFI will implement the NSFR starting 1 January 2020 for domestic systemically important banks ('D-SIBs') initially. OSFI will conduct further work to assess requirements for non D-SIBs, which includes the bank. In Europe, implementation of NSFR is expected in 2021. 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's OSFI LCR is summarized in the following table. For the quarter ended 31 March 2019, the bank's average LCR of 138% is calculated as the ratio of High-Quality Liquid Assets ('HQLA') to the total net stressed cash outflows over the next 30 calendar days. HQLA is substantially comprised of Level 1 assets such as cash, deposits with central banks and highly rated securities issued or guaranteed by governments, central banks and supranational entities. Compared to the previous quarter, the average LCR increased to 138% from 132% mainly due to an increase in short-term funding and a decrease in net cash outflows on deposits.

OSFI liquidity coverage ratio[1]

	Average for the quarter-ended[1]	
	31 Mar 2019	31 Dec 2018
Total HQLA[2] ($m)	**23,972**	23,464
Total net cash outflows[2] ($m)	**17,368**	17,716
Liquidity coverage ratio (%)	**138**	132

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.*

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, which 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 'Risk management' section of our *Annual Report and Accounts 2018* 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 to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all trading and non-trading portfolios to have a complete picture of risk.

VaR disclosed in the following tables and graph is the bank's total VaR for both trading and non-trading books and remained within the bank's limits.

Total VaR of $13.2m at the period ended 31 March 2019 increased by $1.5m from the prior year, largely due to higher interest rates and credit spread risk in non-trading books. Over the same period, the average VaR of $13.2m increased by $0.6m. Total VaR is largely driven by non-trading VaR.

The average trading VaR of $1.6m decreased by $0.2m due to lower interest rate risk from trading activities.

Total VaR

	Quarter-ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
At period end	**13.2**	11.7
Average	**13.2**	12.6
Minimum	**10.8**	8.5
Maximum	**15.7**	16.8

Non-trading VaR

	Quarter-ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
At period end	**13.2**	12.1
Average	**13.2**	12.3
Minimum	**11.2**	8.3
Maximum	**15.5**	16.7

Trading VaR (by risk type)[1]

		Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification[2]	Total[4]
	Footnotes	$m	$m	$m	$m	$m	$m
January - March 2019							
At period end		**—**	**1.5**	**—**	**1.0**	**(0.6)**	**1.9**
Average		**—**	**1.4**	**—**	**0.6**	**(0.4)**	**1.6**
Minimum	*3*	**—**	**1.1**	**—**	**0.3**	**—**	**1.3**
Maximum	*3*	**—**	**1.8**	**—**	**1.1**	**—**	**2.0**
January - March 2018							
At period end		—	2.0	—	0.4	(0.3)	2.1
Average		—	1.7	—	0.5	(0.4)	1.8
Minimum	*3*	—	1.0	—	0.4	—	1.0
Maximum	*3*	—	3.1	—	0.7	—	3.1

1. *Trading portfolios comprise positions arising from the market-making of financial instruments and customer-driven derivatives positions.*
2. *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the combined total VaR and the sum of the VaRs by individual risk type. A negative number represents the benefit of portfolio diversification.*
3. *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. Some small differences in figures presented are due to rounding.*
4. *The total VaR is non-additive across risk types due to diversification effects.*

Daily total VaR. 1 year history of daily figures

Structural 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 2018* 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 2019		31 Mar 2018	
	Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	$m	**$m**	$m	$m
100 basis point increase	**(103)**	**132**	(302)	72
100 basis point decrease	**40**	**(95)**	252	(86)

Factors that may affect future results

The risk management section in the MD&A 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.

Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2018* for a description of additional factors which may affect future financial results.

Capital

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 2018* for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below are presented under a Basel III 'all-in' basis, under which non-qualifying capital instruments are phased out over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the quarter ended 31 March 2019.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

		31 Mar 2019	31 Dec 2018
	Footnotes	**%**	%
Actual regulatory capital ratios	*1*		
– common equity tier 1 capital ratio		**11.3**	11.3
– tier 1 capital ratio		**13.3**	13.4
– total capital ratio		**15.9**	16.0
– leverage ratio		**4.5**	4.6
Regulatory capital requirements	*2*		
– 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

1. *Presented under a Basel III basis with non-qualifying capital instruments phased out over 10 years starting 1 January 2013.*
2. *OSFI target capital ratios including mandated capital conservation buffer.*

Regulatory capital

Total regulatory capital and risk-weighted assets

		31 Mar 2019	31 Dec 2018
	Footnotes	**$m**	$m
Gross common equity	*1*	**4,873**	4,733
Regulatory adjustments		**(266)**	(202)
Common equity tier 1 capital		**4,607**	4,531
Additional tier 1 eligible capital		**850**	850
Tier 1 capital		**5,457**	5,381
Tier 2 capital	*2*	**1,043**	1,044
Total capital		**6,500**	6,425
Risk-weighted assets ('RWA') used in the calculation	*3*		
– common equity tier 1 capital RWA		**40,916**	40,142
– tier 1 capital RWA		**40,916**	40,142
– total capital RWA		**40,916**	40,142

1. *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2. *Includes a capital instrument subject to phase out and allowances.*
3. *In January 2018, OSFI announced its decision to update the existing capital floor for institutions using advanced approaches for credit risk and operational risk. Effective from the second quarter of 2018, the capital floor was based on the Standardized approach under Basel II framework with the floor factor transitioned in over three quarters. The floor factor was set at 70% for the second quarter of 2018, increasing to 72.5% in the third quarter of 2018 and 75% in the fourth quarter of 2018.*

Outstanding shares and dividends

		Quarter-ended			Year-ended		
		31 Mar 2019			31 Dec 2018		
		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	0.28075	498,668	1,225	1.62433	498,668	1,225
Class 1 preferred shares	2						
– Series G		0.25000	20,000	500	1.00000	20,000	500
– Series I		0.28750	14,000	350	1.23250	14,000	350

1. *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
2. *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*

Dividends declared in the first quarter 2019

During the first quarter of 2019, the bank declared a final dividend of $140m on HSBC Bank Canada common shares in respect of the financial year ended 31 December 2018 and regular quarterly dividends of $9m for the first quarter 2019 on all series of HSBC Bank Canada Class 1 preferred shares.

Dividends declared in the second quarter 2019

On 1 May 2019, the bank declared regular quarterly dividends for the second quarter 2019 on all series of HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 30 June 2019 or the first business day thereafter to shareholder of record on 15 June 2019.

On 1 May 2019, the bank also declared a first interim dividend of $80m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2019, which will be paid on or before 30 June 2019 to the shareholder of record on 1 May 2019.

As the quarterly dividends on preferred shares for the second quarter 2019 and the first interim dividend on common shares for 2019 were declared after 31 March 2019, the amounts have not been included in the balance sheet of the bank as a liability.

Consolidated Financial Statements

Consolidated income statement

		Quarter-ended	
		31 Mar 2019	31 Mar 2018
	Notes	**$m**	$m
Net interest income		**323**	306
– interest income		**680**	540
– interest expense		**(357)**	(234)
Net fee income	*2*	**156**	155
– fee income		**179**	176
– fee expense		**(23)**	(21)
Net income from financial instruments held for trading		**48**	36
Gains less losses from financial investments		**8**	22
Other operating income		**10**	22
Total operating income		**545**	541
Change in expected credit losses and other credit impairment charges		**12**	28
Net operating income		**557**	569
Employee compensation and benefits	*3*	**(174)**	(182)
General and administrative expenses		**(131)**	(126)
Depreciation		**(18)**	(8)
Amortization and impairment of intangible assets		**(5)**	(2)
Total operating expenses		**(328)**	(318)
Profit before income tax expense		**229**	251
Income tax expense		**(62)**	(68)
Profit for the period		**167**	183
Attributable to:			
– the common shareholder		**158**	173
– the preferred shareholder		**9**	10
Profit for the period		**167**	183
Average number of common shares outstanding (000's)		**498,668**	498,668
Basic and diluted earnings per common share ($)		**$ 0.32**	$ 0.35

The accompanying notes on pages 32 to 40, the sections on 'Off-balance sheet arrangements' on page 14, 'Related party transactions' on page 14, 'Capital' on page 25, 'Outstanding shares and dividends' on page 26 and the following disclosures in the 'Risk' section on pages 15 to 25, form an integral part of these financial statements: 'Summary of financial instruments to which the impairment requirements in IFRS 9 are applied', 'Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage', 'Reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees', 'Distribution of financial instruments by credit quality and stage allocation', 'Total wholesale lending for loans and advances to customers at amortized cost', 'Wholesale reconciliation of allowances for loans and advances to banks and customers including loan commitments and financial guarantees', 'Total personal lending for loans and advances to customers at amortized cost', 'Retail reconciliation of allowances for loans and advances to customers including loan commitments and financial guarantees', 'Loans past due but not impaired', 'Credit-impaired loans and advances to banks and customers', 'renegotiated loans', 'Value at Risk', 'Sensitivity of structural interest rate risk in the non-trading portfolio'.

Consolidated statement of comprehensive income

	Quarter-ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Profit for the period	**167**	183
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	**74**	(42)
– fair value gains/(losses)	**109**	(36)
– fair value gains transferred to the income statement on disposal	**(8)**	(22)
– income taxes	**(27)**	16
Cash flow hedges	**43**	(4)
– fair value gains/(losses)	**108**	(160)
– fair value (gains)/losses reclassified to the income statement	**(49)**	154
– income taxes	**(16)**	2
Items that will not be reclassified subsequently to profit or loss:		
Remeasurement of defined benefit plans	**(11)**	14
– before income taxes	**(15)**	19
– income taxes	**4**	(5)
Equity instruments designated at fair value through other comprehensive income	**–**	(1)
– fair value loss	**–**	(1)
– income taxes	**–**	–
Other comprehensive income/(loss) for the period, net of tax	**106**	(33)
Total comprehensive income for the period	**273**	150
Attributable to:		
– the common shareholder	**264**	140
– the preferred shareholder	**9**	10
Total comprehensive income for the period	**273**	150

Consolidated balance sheet

		At	
		31 Mar 2019	31 Dec 2018
	Notes	**$m**	$m
Assets			
Cash and balances at central banks		**57**	78
Items in the course of collection from other banks		**11**	8
Trading assets	*5*	**5,956**	3,875
Other financial assets mandatorily measured at fair value through profit or loss		**12**	4
Derivatives	*6*	**3,289**	4,469
Loans and advances to banks		**1,011**	1,221
Loans and advances to customers		**55,781**	57,123
Reverse repurchase agreements – non-trading		**6,561**	5,860
Financial investments	*7*	**25,355**	24,054
Other assets	*8*	**3,173**	2,200
Prepayments and accrued income		**332**	234
Customers' liability under acceptances		**6,028**	3,932
Current tax assets		**49**	51
Property, plant and equipment		**351**	101
Goodwill and intangible assets		**125**	121
Deferred tax assets		**73**	75
Total assets		**108,164**	103,406
Liabilities and equity			
Liabilities			
Deposits by banks		**1,224**	1,148
Customer accounts		**59,043**	59,812
Repurchase agreements – non-trading		**9,845**	8,224
Items in the course of transmission to other banks		**161**	252
Trading liabilities	*9*	**3,234**	2,164
Derivatives	*6*	**3,464**	4,565
Debt securities in issue	*10*	**14,499**	13,863
Other liabilities	*11*	**3,070**	1,891
Acceptances		**6,037**	3,937
Accruals and deferred income		**453**	574
Retirement benefit liabilities		**270**	270
Subordinated liabilities		**1,039**	1,039
Provisions		**31**	41
Current tax liabilities		**71**	43
Total liabilities		**102,441**	97,823
Equity			
Common shares		**1,225**	1,225
Preferred shares		**850**	850
Other reserves		**6**	(111)
Retained earnings		**3,642**	3,619
Total shareholder's equity		**5,723**	5,583
Total liabilities and equity		**108,164**	103,406

Consolidated statement of cash flows

		Quarter-ended	
		31 Mar 2019	31 Mar 2018
	Note	**$m**	$m
Profit before income tax expense		**229**	251
Adjustments for:			
– non-cash items included in profit before tax	*13*	**19**	(15)
Changes in operating assets and liabilities			
– change in operating assets	*13*	**(2,489)**	(3,232)
– change in operating liabilities	*13*	**4,412**	3,169
– tax paid		**(35)**	(73)
Net cash from operating activities		**2,136**	100
Purchase of financial investments		**(3,637)**	(3,847)
Proceeds from the sale and maturity of financial investments		**2,437**	3,173
Purchase of intangibles and property, plant and equipment		**(18)**	(17)
Net cash from investing activities		**(1,218)**	(691)
Redemption of preferred shares		**—**	(350)
Dividends paid to shareholder		**(140)**	(205)
Lease principal payments		**(11)**	n/a
Net cash from financing activities		**(151)**	(555)
Net (decrease)/increase in cash and cash equivalents		**767**	(1,146)
Cash and cash equivalents at the beginning of the period		**1,333**	1,880
Cash and cash equivalents at the end of the period	*13*	**2,100**	734
Interest			
Interest paid		**(367)**	(241)
Interest received		**582**	415

Consolidated statement of changes in equity

			Other reserves			
	Share capital[1]	**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 2019	**2,075**	**3,619**	**(93)**	**(18)**	**(111)**	**5,583**
Profit for the period	**—**	**167**	**—**	**—**	**—**	**167**
Other comprehensive income/(loss), net of tax	**—**	**(11)**	**74**	**43**	**117**	**106**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**74**	**—**	**74**	**74**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**—**	**—**	**—**	**—**
– cash flow hedges	**—**	**—**	**—**	**43**	**43**	**43**
– remeasurement of defined benefit asset/liability	**—**	**(11)**	**—**	**—**	**—**	**(11)**
Total comprehensive income for the period	**—**	**156**	**74**	**43**	**117**	**273**
Deemed contribution (Note 15)	**—**	**13**	**—**	**—**	**—**	**13**
Dividends on common shares	**—**	**(140)**	**—**	**—**	**—**	**(140)**
Dividends on preferred shares	**—**	**(9)**	**—**	**—**	**—**	**(9)**
Shares issued under employee remuneration and share plan	**—**	**3**	**—**	**—**	**—**	**3**
At 31 Mar 2019	**2,075**	**3,642**	**(19)**	**25**	**6**	**5,723**

			Other reserves				
	Share capital[1]	Retained earnings	Available-for-sale fair value reserve	Financial assets at FVOCI reserve	Cash flow hedging reserve	Total other reserves	Total equity
	$m	$m	$m	$m	$m	$m	$m
At 1 Jan 2018	2,075	3,696	(12)	n/a	(49)	(61)	5,710
Changes on initial application of IFRS 9	—	11	12	(12)	—	—	11
Restated balance at 1 Jan 2018 under IFRS 9	2,075	3,707	—	(12)	(49)	(61)	5,721
Profit for the period	—	183	n/a	—	—	—	183
Other comprehensive income/(loss), net of tax	—	14	n/a	(43)	(4)	(47)	(33)
– debt instruments at fair value through other comprehensive income	—	—	n/a	(42)	—	(42)	(42)
– equity instruments designated at fair value through other comprehensive income	—	—	n/a	(1)	—	(1)	(1)
– cash flow hedges	—	—	n/a	—	(4)	(4)	(4)
– remeasurement of defined benefit asset/liability	—	14	n/a	—	—	—	14
Total comprehensive income for the year	—	197	n/a	(43)	(4)	(47)	150
Dividends on common shares	—	(200)	n/a	—	—	—	(200)
Dividends on preferred shares	—	(10)	n/a	—	—	—	(10)
Shares issued under employee remuneration and share plan	—	2	n/a	—	—	—	2
At 31 Mar 2018	2,075	3,696	n/a	(55)	(53)	(108)	5,663

1. Share capital is comprised of common shares $1,225m and preferred shares $850m.

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 ('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 2018 audited annual consolidated financial statements. The bank's 2018 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 2019

The bank adopted the requirements of IFRS 16 'Leases' ('IFRS 16') from 1 January 2019. As a result of the adoption of IFRS 16, the bank has recognized a right-of-use asset and a corresponding financial liability on the balance sheet. In accordance with the IFRS 16 transition options, the bank has applied the standard using a modified retrospective approach where the cumulative effect of initially applying the standard, if any, is recognized as an adjustment to the opening balance of retained earnings and comparative balances are not restated. The adoption of IFRS 16 by the bank had no impact to retained earnings as the bank measured right-of-use assets at an amount equal to the lease liability recognized on transition which is a permitted transition options for IFRS 16. The impact on assets and liabilities is set out under note (h) below.

(c) Future accounting developments

Future accounting developments have been disclosed in note 1(c) of the 2018 annual consolidated financial statements of the bank's *Annual Report and Accounts 2018*, excluding the changes noted in (b) above which have been implemented effective 1 January 2019.

(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.

(e) Critical accounting estimates and assumptions

The preparation of financial information requires the use of estimates and judgments about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items listed below, it is possible that the outcomes in future reporting periods could differ from those on which management's estimates are based. This could result in materially different estimates and judgments from those reached by management for the purposes of the consolidated financial statements. Management's selection of the bank's accounting policies which contain critical estimates and judgments are listed below and are described further in the 'Critical accounting estimates and judgments' section of Management's Discussion and Analysis of the bank's *Annual Report and Accounts 2018*. It reflects the materiality of the items to which the policies are applied and the high degree of judgment and estimation uncertainty involved.

- Expected credit loss;
- Hedge accounting;
- Valuation of financial instruments;
- Income taxes and deferred tax assets; and
- Defined benefit obligations.

(f) Consolidation

The consolidated financial statements comprise the consolidated financial statements of the bank and its subsidiaries as at 31 March 2019. The method adopted by the bank to consolidate its subsidiaries is described in note 2(a) of the 2018 annual consolidated financial statements of the bank's *Annual Report and Accounts 2018*.

(g) Significant accounting policies

Except as indicated in note (b) above and supplemented by note (i) below, the consolidated financial statements have been prepared using the same accounting policies used in preparation of our audited 2018 annual consolidated financial statements. The bank adopted IFRS 16 'Leases' on 1 January 2019. Set out below under note (h) is the accounting policy for the bank for leases under IFRS 16. Further, the policies under note (h) have replaced the previous policy relating to 'Lease commitments' under note 2(m) in the bank's *Annual Report and Accounts 2018* for the current period ended 31 March 2019.

(h) Leases

Agreements which convey the right to control the use of an identified asset for a period of time in exchange for consideration are classified as leases. As a lessee, the bank recognizes a right-of-use asset in 'Property, plant and equipment' and a corresponding liability in 'Other liabilities'. The asset will be amortized over the length of the lease, and the financial liability measured at amortized cost. The lease liability is initially recognized as the net present value of the lease payments over the term of the lease. The lease term is considered to be the non-cancellable period of the lease together with the periods covered by an option to extend if the bank is reasonably certain to extend and periods covered by an option to terminate the lease if the bank is reasonably certain not to terminate early. In determining the lease term, the bank considers all relevant facts and circumstances that create an economic incentive for it to exercise an extension option or not to terminate early. The right-of-use asset is initially recognized at an amount equal to the lease liability adjusted by any lease incentives received.

The amortization charge of the right-of-use asset is included in 'Depreciation'. Interest on the lease liability is included in 'interest expense'. As permitted by IFRS 16, the bank has used the practical expedient of excluding lease payments for short-term leases and leases for which the underlying asset value is low when recognizing right-of-use assets and corresponding liabilities. These are recognized as an expense on a straight-line basis over the lease term.

As a lessor, leases which transfer substantially all the risks and rewards incidental to the ownership of assets, are classified as finance leases. Under finance leases, the bank presents the present value of the future finance lease payments receivable and residual value accruing to it in 'Loans and advances to banks' or 'Loans and advances to customers'. All other leases are classified as operating leases. The bank presents assets subject to operating leases in 'Property, plant and equipment'. Impairment losses are recognized to the extent that carrying values are not fully recoverable. Finance income on the finance lease are recognized in 'Net interest income' over the lease term so as to give a constant rate of return. Rentals receivable under operating leases are recognized on a straight-line basis over the lease term and are recognized in 'Other operating income'.

Transition

The bank discounted future lease payments using its incremental borrowing rate at 1 January 2019. The weighted average rate applied is 3.8%. The right-of-use assets were recognized at an amount equal to the lease liability, adjusted by the amount of any remaining liability for incentives received from the lessor recognized in the statement of financial position as at 31 December 2018.

On transition to IFRS 16, the bank recognized an additional $269m of right-of-use assets and $274m of lease liabilities.

	$m
Operating lease commitment at 31 Dec 2018	277
Recognition exemption for:	(109)
– short-term leases	(5)
– leases of low-value assets	(9)
– lease agreements with a commencement date after 1 Jan 2019	(95)
Impact of discounting operating lease commitments at 31 Dec 2018 using the incremental borrowing rate at 1 Jan 2019	(14)
Extension and termination options reasonably certain to be exercised	120
Lease liabilities recognized at 1 Jan 2019	**274**

The recognized right-of-use assets relate to the lease of properties for our branches and offices.

The impact of depreciation charge and interest expense relating to right-of-use assets and lease liabilities is recognized in the income statement effective from 1 January 2019. The comparative figures for 2018 are not restated.

The right-of-use assets were $259m and lease liabilities were $265m at 31 March 2019. Of the total depreciation charge recognized by the bank in the first quarter 2019, $10m pertains to the right-of-use assets. The interest expense recognized on the lease liabilities was $2m.

In applying IFRS 16 for the first time, as permitted by the standard, the bank has elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, IFRS 16 was applied only to contracts that were previously identified as leases under IAS 17 *Leases* and IFRIC 4 *Determining whether an Arrangement contains a Lease*. Additionally, the bank has applied the following practical expedients as permitted by the standard:

- the use of a single discount rate to a portfolio of leases with reasonably similar characteristics; and
- leases with lease terms of less than 12 months as at 1 January 2019 have been accounted for as short-term leases and the lease payments will be recognized as an expense on a straight-line basis over the remaining lease term.

(i) Business combinations of entities under common control

Business combinations between the bank and other entities under the common control of HSBC Holdings plc are accounted for using predecessor accounting. The assets and liabilities are transferred at their existing carrying amount and the difference between the carrying value of the net assets transferred and the consideration received are recorded directly in equity.

2 Net fee income

Net fee income by global business

	Quarter-ended							
	31 Mar 2019				31 Mar 2018			
	Commercial Banking	**Global Banking and Markets**	**Retail Banking and Wealth Management**	**Total**	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Account services	**10**	**2**	**3**	**15**	11	1	4	16
Broking income	**—**	**—**	**2**	**2**	—	(2)	3	1
Cards	**5**	**—**	**10**	**15**	4	—	9	13
Credit facilities	**57**	**14**	**—**	**71**	50	17	—	67
Funds under management	**—**	**—**	**45**	**45**	—	—	47	47
Imports/exports	**3**	**—**	**—**	**3**	2	—	—	2
Insurance agency commission	**—**	**—**	**1**	**1**	—	—	2	2
Other	**6**	**4**	**2**	**12**	6	6	1	13
Remittances	**5**	**2**	**1**	**8**	5	2	1	8
Underwriting	**—**	**7**	**—**	**7**	—	7	—	7
Fee income	**86**	**29**	**64**	**179**	78	31	67	176
Less: fee expense	**(3)**	**(3)**	**(17)**	**(23)**	(4)	(2)	(15)	(21)
Net fee income	**83**	**26**	**47**	**156**	74	29	52	155

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 2019	31 Mar 2018
	$m	$m
Defined benefit plans	**6**	8
– pension plans	**4**	5
– non-pension plans	**2**	3
Defined contribution pension plans	**10**	10
Total	**16**	18

4 Segment analysis

We manage and report our operations according to four operating segments: three global businesses and a corporate centre. The three global businesses are Commercial Banking, Global Banking and Markets, and Retail Banking and Wealth Management. Various estimate and allocation methodologies are used in the preparation of the segment financial information. We allocate expenses directly related to earning revenue, to the segment that earned the related revenue. Expenses not directly related to earning revenue, such as overhead expenses, are allocated using appropriate formulas. Segments' net interest income reflects internal funding charges and credits on the global businesses' assets, liabilities and capital, at market rates, taking into account relevant terms. The offset of the net impact of these charges and credits is reflected in Corporate Centre.

Profit for the period

	Quarter-ended				
	31 Mar 2019				
	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Corporate Centre	Total
	$m	$m	$m	$m	$m
Net interest income	**151**	**24**	**126**	**22**	**323**
Net fee income	**83**	**26**	**47**	**—**	**156**
Net income from financial instruments held for trading	**9**	**30**	**8**	**1**	**48**
Other income	**1**	**—**	**3**	**14**	**18**
Total operating income	**244**	**80**	**184**	**37**	**545**
Change in expected credit losses and other credit impairment charges - (charge)/release	**14**	**(1)**	**(1)**	**—**	**12**
Net operating income	**258**	**79**	**183**	**37**	**557**
– external	**274**	**78**	**168**	**37**	**557**
– inter-segment	**(16)**	**1**	**15**	**—**	**—**
Total operating expenses	**(101)**	**(40)**	**(176)**	**(11)**	**(328)**
Profit before income tax expense	**157**	**39**	**7**	**26**	**229**
	31 Mar 2018				
Net interest income	139	23	114	30	306
Net fee income	74	29	52	—	155
Net income from financial instruments held for trading	9	20	7	—	36
Other income	4	—	2	38	44
Total operating income	226	72	175	68	541
Change in expected credit losses and other credit impairment charges - (charge)/release	34	3	(9)	—	28
Net operating income	260	75	166	68	569
– external	259	71	165	74	569
– inter-segment	1	4	1	(6)	—
Total operating expenses	(103)	(38)	(163)	(14)	(318)
Profit before income tax expense	157	37	3	54	251

Balance sheet information

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Corporate Centre	Total
	$m	$m	$m	$m	$m
At 31 Mar 2019					
Loans and advances to customers	**23,589**	**4,083**	**28,109**	**—**	**55,781**
Customers' liability under acceptances	**4,380**	**1,634**	**14**	**—**	**6,028**
Total external assets	**28,115**	**21,033**	**34,875**	**24,141**	**108,164**
Customer accounts	**19,453**	**5,022**	**31,655**	**2,913**	**59,043**
Acceptances	**4,401**	**1,636**	**—**	**—**	**6,037**
Total external liabilities	**25,023**	**19,659**	**33,791**	**23,968**	**102,441**
At 31 Dec 2018					
Loans and advances to customers	24,768	4,232	28,123	—	57,123
Customers' liability under acceptances	2,418	1,500	14	—	3,932
Total external assets	26,910	19,524	33,672	23,300	103,406
Customer accounts	20,614	6,156	30,411	2,631	59,812
Acceptances	2,394	1,543	—	—	3,937
Total external liabilities	23,830	18,158	32,593	23,242	97,823

5 Trading assets

		At	
		31 Mar 2019	31 Dec 2018
	Footnote	**$m**	$m
Debt securities		**5,953**	3,875
– Canadian and Provincial Government bonds	1	**5,167**	3,034
– other debt securities		**348**	451
– treasury and other eligible bills		**438**	390
Equity securities		**3**	—
At the end of the period		**5,956**	3,875
Trading assets			
– not subject to repledge or resale by counterparties		**2,237**	1,764
– which may be repledged or resold by counterparties		**3,719**	2,111
At the end of the period		**5,956**	3,875

1. *Including government guaranteed bonds.*

6 Derivatives

For a detailed description of the type, use of derivatives and accounting policies, refer to note 2 and note 12 of the bank's *Annual Report and Accounts 2018*.

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	**134,578**	**1,756**	**1,365**	**26**	**1,391**	**1,332**	**107**	**1,439**
Interest rate	**342,184**	**23,090**	**1,785**	**110**	**1,895**	**1,706**	**316**	**2,022**
Commodity	**52**	**—**	**3**	**—**	**3**	**3**	**—**	**3**
At 31 Mar 2019	**476,814**	**24,846**	**3,153**	**136**	**3,289**	**3,041**	**423**	**3,464**
Foreign exchange	136,521	1,757	2,566	12	2,578	2,535	144	2,679
Interest rate	316,992	21,205	1,758	125	1,883	1,704	174	1,878
Commodity	55	—	8	—	8	8	—	8
At 31 Dec 2018	453,568	22,962	4,332	137	4,469	4,247	318	4,565

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 2019			31 Dec 2018		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Interest rate	**15,226**	**49**	**277**	14,241	90	112
Total	**15,226**	**49**	**277**	14,241	90	112

Cash flow hedging instrument by hedged risk

	At					
	31 Mar 2019			31 Dec 2018		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Foreign currency	**1,757**	**26**	**107**	1,757	12	144
Interest rate	**7,863**	**61**	**39**	6,964	35	62
Total	**9,620**	**87**	**146**	8,721	47	206

7 Financial investments

Carrying amount of financial investments

		At	
		31 Mar 2019	31 Dec 2018
	Footnote	**$m**	$m
Debt securities		**25,338**	24,033
– Canadian and Provincial Government bonds	1	**17,292**	17,545
– international Government bonds	1	**3,031**	2,800
– other debt securities issued by banks and other financial institutions		**3,364**	3,399
– treasury and other eligible bills		**1,651**	289
Equity securities		**17**	21
At the end of the period		**25,355**	24,054
Financial investments		**25,355**	24,054
– not subject to repledge or resale by counterparties		**21,091**	20,409
– which may be repledged or resold by counterparties		**4,264**	3,645

1. *Includes government guaranteed bonds.*

8 Other assets

	At	
	31 Mar 2019	31 Dec 2018
	$m	$m
Accounts receivable and other	**831**	434
Investments in associates	**—**	2
Due from clients, dealers and clearing corporations	**64**	98
Settlement accounts	**1,369**	464
Cash collateral	**895**	1,195
Other	**14**	7
At the end of the period	**3,173**	2,200

9 Trading liabilities

	At	
	31 Mar 2019	31 Dec 2018
	$m	$m
Net short positions in securities	**3,234**	2,164
At the end of the period	**3,234**	2,164

10 Debt securities in issue

	At	
	31 Mar 2019	31 Dec 2018
	$m	$m
Bonds and medium term notes	**12,203**	12,196
Covered bonds	**998**	1,018
Money market instruments	**1,298**	649
At the end of the period	**14,499**	13,863

Term to maturity

	31 Mar 2019	31 Dec 2018
	$m	$m
Less than 1 year	**4,647**	2,749
1-5 years	**9,713**	10,795
5-10 years	**139**	319
At the end of the period	**14,499**	13,863

11 Other liabilities

	Footnote	At 31 Mar 2019 $m	31 Dec 2018 $m
Mortgages sold with recourse		**1,558**	1,572
Lease liabilities		**265**	n/a
Accounts payable		**527**	60
Settlement accounts		**282**	33
Loans payable	1	**334**	—
Cash collateral		**16**	159
Other		**75**	50
Share based payment related liability		**13**	17
At the end of the period		**3,070**	1,891

1. *During the first quarter, the bank entered into a borrowing agreement with the HSBC Group which is a related party transaction. Further details on the related party transactions can be found in note 30 of our Annual Report and Accounts 2018.*

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 31 March 2019 are consistent with those applied for the *Annual Report and Accounts* 2018.

Financial instruments carried at fair value and bases of valuation

		Valuation techniques		
	Quoted market price Level 1 $m	Using observable inputs Level 2 $m	With significant unobservable inputs Level 3 $m	Total $m
Recurring fair value measurements				
At 31 Mar 2019				
Assets				
Trading assets	**5,868**	**88**	**—**	**5,956**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**12**	**—**	**12**
Derivatives	**—**	**3,284**	**5**	**3,289**
Financial investments	**24,485**	**870**	**—**	**25,355**
Liabilities				
Trading liabilities	**3,222**	**12**	**—**	**3,234**
Derivatives	**—**	**3,459**	**5**	**3,464**
At 31 Dec 2018				
Assets				
Trading assets	3,719	156	—	3,875
Other financial assets mandatorily measured at fair value through profit or loss	—	4	—	4
Derivatives	—	4,464	5	4,469
Financial investments	23,726	328	—	24,054
Liabilities				
Trading liabilities	2,152	12	—	2,164
Derivatives	—	4,560	5	4,565

Transfers between Level 1 and Level 2 fair values

	Assets		Liabilities
	Trading assets $m	Financial investments $m	Trading liabilities $m
At 31 Mar 2019			
Transfer from Level 1 to Level 2	**11**	**33**	**—**
Transfer from Level 2 to Level 1	**4**	**276**	**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 observability of valuation inputs and price transparency.

Movement in Level 3 financial instruments

	Assets	Liabilities	
	Derivatives	Trading liabilities	Derivatives
	$m	$m	$m
At 1 Jan 2019	**5**	**—**	**5**
Total losses recognized in profit or loss	**(2)**	**—**	**(2)**
Purchases	**2**	**—**	**2**
Settlements	**—**	**—**	**—**
Transfer out	**—**	**—**	**—**
At 31 Mar 2019	**5**	**—**	**5**
Unrealized losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**(2)**	**—**	**(2)**
At 1 Jan 2018	1	1	1
Total losses recognized in profit or loss	—	—	—
Settlements	—	(1)	—
Transfer in	3	—	3
At 31 Mar 2018	4	—	4
Unrealized losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	—	—	—

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 pages 96 and 97 of the *Annual Report and Accounts* 2018.

Fair values of financial instruments not carried at fair value

		At 31 Mar 2019		At 31 Dec 2018	
		Carrying amount	Fair value	Carrying amount	Fair value
	Footnote	$m	$m	$m	$m
Assets					
Loans and advances to customers	*1*	**55,781**	**55,593**	57,123	56,891
Liabilities					
Customer accounts		**59,043**	**59,402**	59,812	60,119
Debt securities in issue		**14,499**	**14,616**	13,863	13,829
Subordinated liabilities		**1,039**	**1,046**	1,039	1,016

1. *Loans and advances to customers specifically relating to Canada: carrying amount $51,980m and fair value $51,804m.*

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 Notes on the statement of cash flows

Non-cash items included in profit before tax

	Quarter-ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Depreciation and amortization	**23**	10
Share-based payment expense	**4**	1
Change in expected credit losses	**(12)**	(28)
Charge for defined benefit pension plans	**4**	2
Total	**19**	(15)

Change in operating assets

	Quarter-ended	
	31 Mar 2019	31 Mar 2018
	$m	$m
Change in prepayment and accrued income	**(98)**	(71)
Change in net trading securities and net derivatives	**(430)**	(1,578)
Change in loans and advances to banks	**–**	(59)
Change in loans and advances to customers	**1,354**	(410)
Change in reverse repurchase agreements – non-trading	**(240)**	482
Change in other assets	**(3,075)**	(1,596)
Total	**(2,489)**	(3,232)

Change in operating liabilities

Change in accruals and deferred income	**(121)**	(110)
Change in deposits by banks	**76**	(498)
Change in customer accounts	**(769)**	(1,232)
Change in repurchase agreements – non-trading	**1,621**	4,217
Change in debt securities in issue	**636**	(207)
Change in other liabilities	**2,969**	999
Total	**4,412**	3,169

Cash and cash equivalents

	At	
	31 Mar 2019	31 Mar 2018
	$m	$m
Cash and balances at central bank	**57**	69
Items in the course of collection from other banks, net	**(150)**	(226)
Loans and advances to banks of one month or less	**1,011**	550
Reverse repurchase agreements with banks of one month or less	**688**	248
T-Bills and certificates of deposits – three months or less	**494**	93
Total	**2,100**	734

14 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.

15 Significant event in 2019

On 1 January 2019 the bank transferred certain shared services to the HSBC Global Services (Canada) Limited ('ServCo') to meet global recovery and resolution requirements that ensure the operational continuity of critical shared services and facilitate recovery action. The transfer of people, systems and other supporting assets have no significant impact on the overall financial results, position or operations of the bank.

The establishment of ServCo was not designed to deliver economic benefits from changes in business activities, but represents a re-arrangement of the organization of business activities across legal entities under the common control of HSBC Holdings plc in its capacity as the ultimate shareholder in order to be compliant with the certain regulations.

The consideration received as part of the transaction is an investment of $4m, measured at FVPL.

The difference between the net assets removed and the consideration received is recognized in equity as a deemed contribution of $13m from the ultimate shareholder.

16 Events after the reporting period

There have been no material events after the reporting period which would require disclosure or adjustment to the 31 March 2019 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 1 May 2019 and authorized for issue.

Shareholder information

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Investor Relations -
Finance Department
4th Floor
2910 Virtual Way
Vancouver, British Columbia
Canada V5M 0B2
Email: investor_relations@hsbc.ca

Designation of eligible dividends:
For the purposes of the Income Tax Act (Canada), and any similar provincial legislation, HSBC Bank Canada advises that all of its dividends paid to Canadian residents in 2006 and subsequent years are eligible dividends unless indicated otherwise.

More HSBC contacts

HSBC Global Asset Management (Canada) Limited
1 (888) 390-3333

HSBC Investment Funds (Canada) Inc.
1 (800) 830-8888
www.hsbc.ca/funds

HSBC Private Wealth Services (Canada) Inc.
1 (844) 756-7783

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

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