HSBC Bank Canada

Third Quarter 2019 Interim Report

HSBC

HSBC Bank Canada third quarter 2019 performance

Quarter ended 30 September 2019

Total operating income	Profit before income tax expense	Profit attributable to the common shareholder
$534m ▼9.2%	$206m ▼24.0%	$141m ▼25.4%
(2018: $588m)	(2018: $271m)	(2018: $189m)

Nine months ended 30 September 2019

Total operating income	Profit before income tax expense	Profit attributable to the common shareholder
$1,624m ▼4.4%	$603m ▼21.6%	$411m ▼22.9%
(2018: $1,699m)	(2018: $769m)	(2018: $533m)

At 30 September 2019

Total assets	Common equity tier 1 ratio[1]
$111.6bn ▲8.0%	11.2% ▼10 bps
(At 31 Dec 2018: $103.4bn)	(At 31 Dec 2018: 11.3%)

For the quarter and nine months ended 30 September 2019 compared with the same periods in the prior year.

HSBC Bank Canada reported operating income for the quarter of $534m and for the year-to-date of $1.6bn which decreased by $54m or 9.2% and $75m or 4.4%, respectively. The creation of the ServCo group[2] to manage shared services led to lower reported other operating income of $20m for the quarter and $50m for the year-to-date, along with a related reduction in operating expenses.

For both the year-to-date and quarter, net interest income decreased from balance sheet management activities, lower operating income due to lower underwriting fees and unfavourable Markets trading and sales activities in Global Banking and Markets, and lower gains on disposal of financial investments. This decrease was partly offset by increased operating income for the year-to-date in both Commercial Banking and Retail Banking and Wealth Management of $32m or 4.5% and $15m or 2.7%, respectively. These results were driven by higher net interest income as a result of growth in lending balances and total relationship balances[3]. For the quarter, operating income in Retail Banking and Wealth Management decreased slightly by $3m or 1.6% while Commercial Banking continued to grow, increasing by $8m or 3.3%.

The change in expected credit losses for the quarter and year-to-date resulted in a charge to the income statement compared to a reversal in the prior year. The charge in 2019 was primarily due to the impact of a weakening economic outlook and impairment charges from non-performing loans which were partly offset by the release of provisions in the first quarter from certain customers in the energy service sector. The reversal in 2018 was mostly related to accounts in the energy service, manufacturing and real estate sectors.

Total operating expenses decreased by $13m or 4% for the quarter and remain flat for the year-to-date. The decrease was a result of a reduction in expenses from the creation of the ServCo group[2]. This was offset by our continued strategic investments to grow our businesses, simplify our processes and provide the digital services our customers are asking for.

Profit before income tax expense was down $65m or 24% for the quarter and $166m or 22% for the year-to-date. The decrease was mainly driven by the variance in expected credit losses and lower operating income in Global Banking and Markets, and continued investments to grow our businesses, partly offset by continued growth in operating income from Commercial Banking and Retail Banking and Wealth Management for the year-to-date, and Commercial Banking for the quarter.

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

"Despite challenging market conditions and a declining interest rate environment, we again grew lending and total relationship balances in both Commercial Banking and Retail Banking and Wealth Management. There was a charge in expected credit losses compared to a reversal in the prior year and results in Global Banking and Markets remained soft reflecting market conditions. We continue to make investments in our technological capabilities, to grow our branch footprint, and offer competitive products and services across all our business lines.

"As we make banking more convenient, we are also helping our clients to adapt to the evolving global trade environment, enabling them to leverage our global network as they adjust supply chains and form new trading relationships."

1. *Refer to the 'Use of non-IFRS financial measures' section of the Management's Discussion and Analysis ('MD&A') for a discussion of non-IFRS financial measures.*
2. *The ServCo group was created 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 and the nine months ended 30 September 2019.*
3. *Total relationship balances includes lending, deposits and wealth balances in the Retail Banking and Wealth Management business.*

Select awards and recognition

Named as one of British Columbia's Top 100 Employers
Canada's Top 100 Employers, Mediacorp Canada Inc. (2019)

Winner of Canadian HR team of the Year (Finance or Insurance)
Canadian HR Rewards (Sep 2019)

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

Quarter ended 30 September 2019

	CMB		GB&M		RBWM	
Total operating income	$250m (2018: $242m)	▲3.3%	$75m (2018: $93m)	▼19.4%	$190m (2018: $193m)	▼1.6%
Profit before income tax expense	$141m (2018: $141m)	▶0.0%	$31m (2018: $54m)	▼42.6%	$15m (2018: $39m)	▼61.5%

Nine months ended 30 September 2019

	CMB		GB&M		RBWM	
Total operating income	$739m (2018: $707m)	▲4.5%	$234m (2018: $257m)	▼8.9%	$567m (2018: $552m)	▲2.7%
Profit before income tax expense	$414m (2018: $448m)	▼7.6%	$101m (2018: $140m)	▼27.9%	$33m (2018: $61m)	▼45.9%

At 30 September 2019

	CMB		GB&M		RBWM	
Customer assets[2]	$29.4bn (At 31 Dec 2018: $27.2bn)	▲8.1%	$5.6bn (At 31 Dec 2018: $5.7bn)	▼1.5%	$29.1bn (At 31 Dec 2018: $28.1bn)	▲3.5%

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 12 of the MD&A for more information). The equivalent results for the Corporate Centre were: Total operating income$19m for the quarter and $84m for the nine months ended (2018: $60m for the quarter and $183m for the nine months ended), profit before income tax expense $19m for the quarter and $55m for the nine months ended (2018: $37m for the quarter and $120m for the nine months ended) and Customer Assets nil (2018: nil).*
2. *Customer assets includes loans and advances to customers and customers' liability under acceptances.*

Interim report contents

MD&A contents

Basis of preparation

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

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter and nine months ended 30 September 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 and nine months ended 30 September 2019 ('consolidated financial statements') and our *Annual Report and Accounts 2018*. This MD&A is dated 25 October 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 and nine months ended 30 September 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.

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.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 65 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,728bn at 30 September 2019, HSBC is one of the world's largest banking and financial services organizations.

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 has recognized 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. The transfer has resulted in a decrease in total operating income of $20m for the quarter and $50m for the year-to-date, and a related reduction in total operating expenses of $16m for the quarter and $43m for the year-to-date. Historically, the income and expenses associated with these shared services were shown in the Corporate Centre and, to a smaller extent, in 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. *The net interest margin is calculated using daily average balances. All other financial measures use average balances that are calculated using quarter-end balances.*
2. *Change in expected credit losses relates primarily to loans, acceptances and commitments.*

Financial highlights

($millions, except where otherwise stated)	Footnotes	Quarter ended 30 Sep 2019	Quarter ended 30 Sep 2018	Nine months ended 30 Sep 2019	Nine months ended 30 Sep 2018
Financial performance for the period					
Total operating income		**534**	588	**1,624**	1,699
Profit before income tax expense		**206**	271	**603**	769
Profit attributable to the common shareholder		**141**	189	**411**	533
Change in expected credit losses and other credit impairment charges - (charge)/release		**(17)**	7	**(45)**	46
Operating expenses		**(311)**	(324)	**(976)**	(976)
Basic and diluted earnings per common share ($)		**0.28**	0.38	**0.82**	1.07
Financial measures (%)	1				
Return on average common shareholder's equity		**11.2**	16.5	**11.2**	15.2
Return on average risk-weighted assets	2	**1.9**	2.7	**2.0**	2.5
Cost efficiency ratio		**58.2**	55.1	**60.1**	57.4
Operating leverage/jaws		**(5.2)**	12.3	**(4.4)**	9.0
Net interest margin	3	**1.32**	1.53	**1.40**	1.54
Change in expected credit losses to average gross loans and advances and acceptances	4	**0.11**	n/a	**0.10**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	4	**0.09**	n/a	**0.07**	n/a
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**29.0**	36.9	**29.0**	36.9
Net write-offs as a percentage of average loans and advances and acceptances		**0.06**	0.10	**0.08**	0.14

	Footnotes	At 30 Sep 2019	At 31 Dec 2018
Financial position at period end			
Total assets		**111,629**	103,406
Loans and advances to customers		**58,028**	57,123
Customer accounts		**61,397**	59,812
Ratio of customer advances to customer accounts (%)	1	**94.5**	95.5
Common shareholder's equity		**4,999**	4,733
Capital, leverage and liquidity non-IFRS financial measures	2		
Common equity tier 1 capital ratio (%)		**11.2**	11.3
Tier 1 ratio (%)		**13.8**	13.4
Total capital ratio (%)		**16.3**	16.0
Leverage ratio (%)		**4.7**	4.6
Risk-weighted assets ($m)		**42,116**	40,142
Liquidity coverage ratio (%)		**140**	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. *Certain prior period amounts have been restated to conform to the current period presentation.*
4. *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 30 Sep 2019	Quarter ended 30 Sep 2018	Nine months ended 30 Sep 2019	Nine months ended 30 Sep 2018
	$m	$m	**$m**	$m
Net interest income	**313**	332	**955**	957
Net fee income	**168**	175	**498**	509
Net income from financial instruments held for trading	**36**	35	**117**	110
Other items of income	**17**	46	**54**	123
Total operating income	**534**	588	**1,624**	1,699
Change in expected credit losses and other credit impairment charges - (charge)/release	**(17)**	7	**(45)**	46
Net operating income	**517**	595	**1,579**	1,745
Total operating expenses	**(311)**	(324)	**(976)**	(976)
Profit before income tax expense	**206**	271	**603**	769
Income tax expense	**(56)**	(73)	**(165)**	(208)
Profit for the period	**150**	198	**438**	561

Performance by income and expense item

For the quarter and nine months ended 30 September 2019 compared with the same periods in the prior year.

Net interest income

Net interest income decreased by $19m or 5.7% for the quarter and $2m or 0.2% for the year-to-date. The decrease in both the quarter and year-to-date was a result of higher costs to fund the growth in lending balances, and lower contribution from balance sheet management activities.

Summary of interest income by types of assets

		Quarter ended						Nine months ended					
		30 Sep 2019			30 Sep 2018[1]			**30 Sep 2019**			30 Sep 2018[1]		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield	**Average balance**	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnote	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks		**897**	**1**	**0.63**	793	—	0.53	**888**	**4**	**0.65**	810	3	0.55
Loans and advances to customers		**57,303**	**533**	**3.69**	53,404	484	3.61	**56,254**	**1,569**	**3.73**	51,758	1,343	3.47
Reverse repurchase agreements - non-trading		**8,762**	**49**	**2.26**	7,693	32	1.63	**7,981**	**131**	**2.20**	6,682	82	1.63
Financial investments		**26,120**	**123**	**1.88**	23,747	113	1.88	**25,428**	**378**	**1.99**	23,505	316	1.80
Other interest-earning assets		**939**	**6**	**2.28**	286	2	3.02	**771**	**13**	**2.21**	308	3	1.36
Total interest-earning assets (A)		**94,021**	**712**	**3.00**	85,923	631	2.92	**91,322**	**2,095**	**3.07**	83,063	1,747	2.81
Trading assets and financial assets designated at fair value	2	**7,154**	**31**	**1.68**	4,671	24	2.07	**6,247**	**85**	**1.82**	5,042	76	2.00
Non-interest-earning assets		**13,085**	**—**	**—**	11,675	—	—	**12,342**	**—**	**—**	11,411	—	—
Total		**114,260**	**743**	**2.58**	102,269	655	2.54	**109,911**	**2,180**	**2.65**	99,516	1,823	2.45

1. *Certain prior period amounts have been reclassified to conform to the current period presentation.*
2. *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						Nine months ended					
		30 Sep 2019			30 Sep 2018[1]			**30 Sep 2019**			30 Sep 2018		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost	**Average balance**	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
	Footnotes	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Deposits by banks	3	**1,003**	**1**	**0.24**	1,087	1	0.30	**950**	**2**	**0.25**	928	2	0.24
Customer accounts	4	**55,466**	**226**	**1.62**	51,553	163	1.25	**54,306**	**639**	**1.57**	51,059	436	1.14
Repurchase agreements - non-trading		**10,408**	**55**	**2.09**	8,109	35	1.70	**9,613**	**149**	**2.07**	7,311	88	1.61
Debt securities in issue and subordinated debt		**15,397**	**102**	**2.63**	13,925	89	2.54	**15,056**	**305**	**2.71**	12,607	234	2.48
Other interest-bearing liabilities		**2,353**	**15**	**2.56**	1,771	11	2.57	**2,208**	**45**	**2.71**	1,764	30	2.31
Total interest bearing liabilities (B)		**84,627**	**399**	**1.87**	76,445	299	1.55	**82,133**	**1,140**	**1.86**	73,669	790	1.43
Trading liabilities	2	**4,646**	**20**	**1.64**	3,013	16	2.13	**3,648**	**48**	**1.74**	2,876	46	2.15
Non-interest bearing current accounts		**5,626**	**—**	**—**	5,996	—	—	**5,800**	**—**	**—**	6,099	—	—
Total equity and other non-interest bearing liabilities		**19,361**	**—**	**—**	16,815	—	—	**18,330**	**—**	**—**	16,872	—	—
Total		**114,260**	**419**	**1.45**	102,269	315	1.22	**109,911**	**1,188**	**1.45**	99,516	836	1.12
Net interest income (A-B)			**313**			332			**955**			957	

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

Net fee income

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Account services	**14**	14	**47**	48
Broking income	**2**	2	**6**	7
Cards	**17**	16	**48**	45
Credit facilities	**80**	73	**227**	214
Funds under management	**49**	49	**143**	144
Imports/exports	**3**	3	**9**	8
Insurance agency commission	**1**	1	**4**	4
Other	**14**	13	**37**	38
Remittances	**9**	8	**26**	25
Underwriting	**8**	16	**28**	40
Fee income	**197**	195	**575**	573
Less: fee expense	**(29)**	(20)	**(77)**	(64)
Net fee income	**168**	175	**498**	509

Net fee income decreased by $7m or 4% for the quarter and by $11m or 2.2% for the year-to-date. The decrease for the quarter and the year-to-date was driven mainly by lower underwriting fees and higher fee expense from higher costs associated with clearing, promotional campaigns and the online broker business. This was partly offset by an increase in credit facility fees as a result of higher volumes of bankers' acceptances, and higher fee revenue from credit cards.

Net income from financial instruments held for trading

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Trading activities	**24**	24	**71**	74
Credit valuation, debit valuation and funding fair value adjustments	**2**	4	**7**	5
Net interest from trading activities	**11**	8	**37**	30
Hedge ineffectiveness	**(1)**	(1)	**2**	1
Net income from financial instruments held for trading	**36**	35	**117**	110

Net income from financial instruments held for trading increased by $1m or 2.9% for the quarter and by $7m or 6.4% for the year-to-date. The increase for the quarter was mainly driven by higher net interest from trading activities due to product mix and balance sheet management activities. This was partly offset by lower credit and debit valuations. The increase for the year-to-date was mainly driven by higher net interest from trading activities due to product mix, and favourable credit and debit valuations from tightening credit spreads. This was partly offset by lower fixed income trading activities.

Other items of income

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Gains less losses from financial investments	**10**	18	**28**	45
Dividend income	**–**	1	**–**	1
Other operating income	**7**	27	**26**	77
Other items of income	**17**	46	**54**	123

Other items of income decreased by $29m or 63% for the quarter and by $69m or 56% for the year-to-date. The decrease in both the quarter and the year-to-date was driven by lower other operating income as a result of the implementation of the ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 15. This led to a reduction in other operating income with a related decrease in operating expenses. Lower gains on the disposal of financial investments from the re-balancing of the bank's liquid asset portfolio also contributed to the decrease.

Change in expected credit losses

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Change in expected credit loss - performing loans (stage 1 and 2) - charge/(release)	**1**	(1)	**4**	(4)
Change in expected credit loss - non-performing loans (stage 3) - charge/(release)	**16**	(6)	**41**	(42)
Change in expected credit loss - charge/(release)	**17**	(7)	**45**	(46)

The change in expected credit losses for the quarter resulted in a charge of $17m compared to a reversal of $7m in the same period in the prior year. The charge for the quarter was primarily related to impairment charges from non-performing loans in agriculture and energy, and the impact of unfavourable economic outlook on performing loans. The reversal in the third quarter of 2018 was due to provision releases from improving credit conditions for specific energy services customers.

For the year-to-date, the change in expected credit losses was a charge of $45m compared with a reversal of $46m for the same period in the prior year. The charge in 2019 was driven by the factors discussed above, change in the economic forecast reflecting a slowdown in GDP growth compared to the prior year, and charges from non-performing loans in construction related business and agribusiness in the second quarter. This was partly offset by a release of provisions in the first quarter as a result of improvements in the outlook of certain customers in the energy service sector. The reversal in 2018 was driven by the economic forecasts at the time, which indicated credit quality improvements in non-performing portfolio, most notably in the energy service, manufacturing and real estate sectors, which led to recoveries and transfers to the performing portfolio.

Total operating expenses

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Employee compensation and benefits	**169**	179	**514**	539
General and administrative expenses	**117**	131	**389**	401
Depreciation	**18**	8	**53**	24
Amortization and impairment of intangible assets	**7**	6	**20**	12
Total operating expenses	**311**	324	**976**	976

Total operating expenses decreased by $13m or 4% for the quarter and remained flat for the year-to-date.

We continue to make strategic investments in our people, efficiency and technology to grow our businesses and make it more convenient for our customers to bank with us. The impact of these investments were offset by a decrease in employee compensation and benefits and an increase in general and administrative expenses as a result of the implementation of the 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 in the third quarter of 2019 was 27.7% which is close to the statutory tax rate of 26.8%. The effective tax rate for the third quarter of 2018 was 27.1%.

Movement in financial position

Summary consolidated balance sheet

	At	
	30 Sep 2019	31 Dec 2018
	$m	$m
Assets		
Cash and balances at central bank	**69**	78
Trading assets	**6,030**	3,875
Derivatives	**3,573**	4,469
Loans and advances	**59,125**	58,344
Reverse repurchase agreements – non-trading	**7,615**	5,860
Financial investments	**25,702**	24,054
Customers' liability under acceptances	**6,118**	3,932
Other assets	**3,397**	2,794
Total assets	**111,629**	103,406
Liabilities and equity		
Liabilities		
Deposits by banks	**1,074**	1,148
Customer accounts	**61,397**	59,812
Repurchase agreements – non-trading	**9,041**	8,224
Trading liabilities	**3,332**	2,164
Derivatives	**4,012**	4,565
Debt securities in issue	**15,247**	13,863
Acceptances	**6,130**	3,937
Other liabilities	**5,297**	4,110
Total liabilities	**105,530**	97,823
Total shareholder's equity	**6,099**	5,583
Total liabilities and equity	**111,629**	103,406

Assets

Total assets at 30 September 2019 were $111.6bn, an increase of $8.2bn or 8% from 31 December 2018. Customers' liability under acceptances increased by $2.2bn as a result of higher volumes of acceptances. Trading assets increased by $2.2bn, mainly due to the volume of trading in debt securities. Higher reverse repurchase volumes and balance sheet management activities led to an increase in non-trading reverse repurchase agreements of $1.8bn. Financial investments increased by $1.6bn as a result of increased liquidity. Loans and advances increased by $0.8bn as result of higher volumes in residential mortgages.

In addition, increase in right-of-use lease assets as a result of the implementation of IFRS 16, as described in note 1(h), together with increases in settlement balances from timing of customer facilitation trades contributed to the increase in other assets of $0.6bn.

Liabilities

Total liabilities at 30 September 2019 were $105.5bn, an increase of $7.7bn or 7.9% from 31 December 2018. Acceptances increased by $2.2bn which corresponds to the movement within assets. Customer accounts increased by $1.6bn as result of deposit growth in Retail Banking and Wealth Management, partly offset by a decline in Commercial Banking and Global Banking and Markets due to expected seasonal reductions in deposits. Debt securities in issue increased by $1.4bn as a result of a covered bond issuance in the third quarter. Trading liabilities increased by $1.2bn mainly due to volume of debt securities trading. Increases in settlement balances from timing of customers facilitation trades contributed to the increase in other liabilities of $1.2bn. In addition, higher repurchase volumes led to an increase in non-trading repurchase agreements of $0.8bn.

Equity

Total equity at 30 September 2019 was $6.1bn, an increase of $0.5bn or 9.2% from 31 December 2018. The increase represents profits after tax of $0.4bn generated in the period, gains of $0.1bn recorded on account of financial assets at fair value through other comprehensive income and cash flow hedges and $0.3bn from the issuance of preferred shares. The increase was offset by dividends of $0.3bn declared in the period.

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 the domestic markets to corporates operating globally.

Review of financial performance[1]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Net interest income	**154**	150	**456**	434
Non-interest income	**96**	92	**283**	273
Total operating income	**250**	242	**739**	707
Change in expected credit losses and other credit impairment charges - (charge)/release	**(8)**	3	**(20)**	50
Net operating income	**242**	245	**719**	757
Total operating expenses	**(101)**	(104)	**(305)**	(309)
Profit before income tax expense	**141**	141	**414**	448

Overview

Total operating income increased by $8m or 3.3% for the quarter and $32m or 4.5% for the year-to-date.

CMB continued its strong momentum in growing lending and deposit balances during the quarter. Growth in lending balances of 1% and growth in deposits of 2.5% in the third quarter of 2019 was achieved by continuing our focus on increasing market share, deepening relationships with our existing customers, and leveraging our global network and product offerings. The business grew both the Leasing and Trade propositions in 2019 despite the market uncertainties. CMB continued to benefit from HSBC's global network with Trade corridor revenue seeing double-digit growth year-to-date.

We continue to make progress in simplifying, streamlining and re–engineering our banking processes as evidenced by our improved customer satisfaction scores. We continue to prioritize our focus on assisting our customers with their financial needs to help them thrive.

Profit before income tax remained flat for the quarter and decreased $34m or 7.6% for the year-to-date. This was primarily a result of a variance of $11m and $70m, respectively, in expected credit losses compared to the prior year following reversals in 2018 relating to non-performing loans, mostly from accounts in the energy sector, offset by higher total operating income.

Financial performance by income and expense item

Net interest income for the quarter and year-to-date increased by $4m or 2.7% and $22m or 5.1%, respectively. This growth reflects higher loans and advances from our continued focus on new and existing customers.

Non-interest income for the quarter increased by $4m or 4.3% and for the year-to-date increased by $10m or 3.7%. This was driven primarily by higher volumes of bankers' acceptances.

Change in expected credit losses resulted in a charge of $8m for the quarter and a charge of $20m for the year-to-date. For the third quarter and the first nine months of 2018, the change in expected credit losses was a release of of $3m and $50m, respectively, as a result of reversals relating to non-performing loans, mostly from accounts in the energy service sector. The 2019 charge for both the quarter and year-to-date were driven mainly by an increase in impairment charges from non-performing loans and, to a lesser degree, increased charges for performing loans reflecting the unfavourable economic outlook.

Total operating expenses for the quarter reduced by $3m or 2.9%, and for the year-to-date decreased by $4m or 1.3%. During the year, the business has continued to make strategic investments to support business growth offset by the implementation of the ServCo group, as described in the 'Implementation of the ServCo group' section of the MD&A and note 15.

1. *For the quarter ended and nine months ended 30 September 2019 compared with the same periods 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		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Net interest income	**27**	30	**77**	79
Non-interest income	**48**	63	**157**	178
Total operating income	**75**	93	**234**	257
Change in expected credit losses and other credit impairment charges - (charge)/release	**(2)**	—	**(11)**	(1)
Net operating income	**73**	93	**223**	256
Total operating expenses	**(42)**	(39)	**(122)**	(116)
Profit before income tax expense	**31**	54	**101**	140

Overview

GBM's total operating income decreased by $18m or 19% for the quarter and $23m or 8.9% for the year-to-date, driven by lower underwriting fees and decreased 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. Our Multinational business continued to grow as we improved product penetration with existing customers.

Profit before income tax decreased by $23m or 43% for the quarter and $39m or 28% for the year-to-date, due to lower operating income and a higher change in expected credit losses for the period.

Financial performance by income and expense item

Net interest income for the quarter and year-to-date decreased by $3m or 10% and $2m or 2.5%, respectively. This was mainly due to the increased funding costs of the Markets trading activities, partly offset by the impact of the Bank of Canada interest rate increases and increased lending volumes in Global Trade and Receivables Finance.

Non-interest income for the quarter and year-to-date decreased by $15m or 24% and $21m or 12%, respectively, primarily due to lower underwriting fees and unfavourable Markets sales and trading activities. This was partly offset by favourable year-to-date movement in credit and funding valuation reserves due to the tightening of credit spreads.

Change in expected credit losses resulted in a charge of $2m for the quarter and a charge of $11m for the year-to-date. The charge for the quarter was mainly due to specific exposures in the energy industry. The impact of unfavourable economic outlook on performing loans has also contributed to the year-to-date charge.

Total operating expenses for the quarter and year-to-date increased by $3m or 7.7% and $6m or 5.2%, respectively, mainly due to streamlining initiatives.

1. *For the quarter ended and nine months ended 30 September 2019 compared with the same periods 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 flavour with a large suite of global investment products and other specialized services available.

Review of financial performance[1]

Summary income statement

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Net interest income	**128**	129	**385**	363
Non-interest income	**62**	64	**182**	189
Total operating income	**190**	193	**567**	552
Change in expected credit losses and other credit impairment charges - (charge)/release	**(7)**	4	**(14)**	(3)
Net operating income	**183**	197	**553**	549
Total operating expenses	**(168)**	(158)	**(520)**	(488)
Profit before income tax expense	**15**	39	**33**	61

Overview

Total operating income decreased by $3m or 1.6% for the quarter due to lower non-interest income. For the year-to-date, total operating income increased $15m or 2.7% due to higher net interest income and strong growth in total relationship balances[2], partly offset by lower non-interest income. The continued run-off of our consumer finance portfolio resulted in a $1m and $3m decrease in revenues for the quarter and year-to-date, respectively.

Investments in our branches and digital technologies, along with competitive products, helped us grow our customer base and total relationship balances[2]. As a result of our initiatives, we welcomed more than 47,000 new customers to RBWM in the first nine months of 2019.

Profit before income tax expense decreased by $24m or 62% for the quarter and $28m or 46% for the year-to-date. This was mostly due to higher operating expenses from the investments noted above and higher charges related to the expected credit losses. These decreases were partly offset by higher revenues due to higher spreads and strong growth in total relationship balances[2].

Financial performance by income and expense item

Net interest income for the quarter was marginally lower as higher revenues from volume growth in both lending and deposits were offset by lower spreads on deposits and run-off of the consumer finance portfolio noted above. Net interest income for the year-to-date increased by $22m or 6.1%, primarily due to higher spreads on deposits and strong growth in both lending and deposit balances.

Non-interest income for the quarter and year-to-date decreased by $2m or 3.1% and $7m or 3.7%, respectively, due to lower fee income from the online broker business and account services.

Change in expected credit losses resulted in a charge of $7m for the quarter compared to a reversal of $4m in the same period in the prior year. For the year-to-date, change in expected losses had a charge of $14m, an increase of $11m compared to the prior year. The charges for both the quarter and year-to-date are a reflection of the unfavourable economic outlook.

Total operating expenses for the quarter and year-to-date increased by $10m or 6.3% and $32m or 6.6%, respectively. This was primarily due to strategic investments to grow our business and higher cost associated with offering an enhanced service model to our growing client base.

1. *For the quarter ended and nine months ended 30 September 2019 compared with the same periods in the prior year.*
2. *Total relationship balances includes 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		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Net interest income	**4**	23	**37**	81
Non-interest income	**15**	37	**47**	102
Net operating income	**19**	60	**84**	183
Total operating expenses	**–**	(23)	**(29)**	(63)
Profit before income tax expense	**19**	37	**55**	120

Overview

Net operating income for the quarter and year-to-date decreased by $41m or 68% and $99m or 54%, respectively. The decrease for both the quarter and year-to-date was primarily due to lower non-interest income as a result of the implementation of the ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 15. Also contributing to the decrease were lower net interest income from balance sheet management activities, the negative impact from lower yields and an increase in interest expense as a result of the implementation of IFRS 16, as described in note 1(h). Lower gains on the disposal of financial investments compared to the prior year also contributed to the decrease.

Operating expenses for the quarter and year-to-date decreased by $23m or 100% and $34m or 54%, respectively, primarily due to the implementation of the ServCo group, partly offset by investments in our support functions.

The impact of these movements decreased profit before income tax expense by $18m or 49% for the quarter and $65m or 54% for the year-to-date.

1. *For the quarter ended and nine months ended 30 September 2019 compared with the same periods in the prior year.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2019			2018				2017
	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**313**	319	323	335	332	319	306	318
Net fee income	**168**	174	156	164	175	179	155	159
Net income from financial instruments held for trading (2017: Net trading income)	**36**	33	48	26	35	39	36	31
Other items of income	**17**	19	18	40	46	33	44	32
Total operating income	**534**	545	545	565	588	570	541	540
Change in expected credit losses and other credit impairment charges - (charge)/ release	**(17)**	(40)	12	(19)	7	11	28	n/a
Loan impairment (charges)/recoveries and other credit risk provisions	**n/a**	n/a	n/a	n/a	n/a	n/a	n/a	(1)
Net operating income	**517**	505	557	546	595	581	569	539
Total operating expenses	**(311)**	(337)	(328)	(324)	(324)	(334)	(318)	(333)
Profit before income tax expense	**206**	168	229	222	271	247	251	206
Income tax expense	**(56)**	(47)	(62)	(65)	(73)	(67)	(68)	(54)
Profit for the period	**150**	121	167	157	198	180	183	152
Profit attributable to:								
– common shareholder	**141**	112	158	148	189	171	173	142
– preferred shareholder	**9**	9	9	9	9	9	10	10
Basic and diluted earnings per common share ($)	**0.28**	0.22	0.32	0.29	0.38	0.34	0.35	0.28

Comments on trends over the past eight quarters

From the first quarter of 2019, net interest income declined as a result of higher costs of liabilities to fund the growth in average interest earning assets, and lower balance sheet management activities. Net interest income trended upwards from the first quarter of 2018 to the last quarter of 2018 as a result of increased interest rates together with growth in loans and advances and customer accounts.

Net fee income decreased from the second quarter of 2019 mainly due to lower underwriting fees. The increase from the first quarter to the second quarter of 2019 was mainly due to an increase in underwriting fees, credit facilities fees and higher income from funds under management. Net fee income decreased from the second quarter of 2018 to the first quarter of 2019. In the first quarter of 2019, the decrease was mainly due to credit facilities fees, lower income from funds under management and online broker business. In the prior two quarters, lower underwriting fees together with higher clearing fee expenses contributed to the decrease. This follows one quarter of strong growth from the first quarter of 2018 to the second quarter of 2018, primarily as a result of higher credit facility fees as bankers' acceptance volumes grew and higher underwriting fees. Fee income declined from the fourth quarter of 2017 to the first quarter of 2018 due to lower underwriting fees.

Net income from financial instruments held for trading is, by its nature, subject to fluctuations from quarter to quarter. In the current quarter, net income from financial instruments held for trading increased mainly due to higher fixed income trading activities. In the prior quarter, the decrease was mainly due to lower Rates trading activities. The first quarter in 2019 increased as a result of tightening of credit spreads. 2018 also saw an increase as a result of 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 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 2019, 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, there was a reduction in income from Group entities and a related decrease in operating expenses. In 2018, other items of income increased as a result of higher gains on the disposal of financial investments. 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.

The change in expected credit loss charge for the current quarter was primarily due to impairment charges from non-performing loans to agriculture and energy, and the impact of unfavourable economic outlook on performing loans. The charge for the second quarter was mainly due to a change in the economic forecast reflecting a slowdown in GDP growth. The reversal in the first quarter of 2019 was driven by 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. 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. During 2017, we saw recoveries from improvements in several sectors, primarily the energy services sector.

From 2018 onwards, our focus has been on growing our business in support of our strategic plan, which resulted in increased operating expenses. In 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 the 'Implementation of the ServCo group' section of the MD&A and note 15. In 2018, investments 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 included investments in risk and compliance activities and certain restructuring and streamlining initiatives.

Economic review and outlook

The Canadian economy grew by 3.7% in the second quarter of 2019. This was a much stronger than expected result, as the economy rebounded following a soft patch in growth between the fourth quarter of 2018 and the first quarter of 2019, when GDP growth averaged 0.4%. With the economy expanding by 2.1% in the first half of the year, we now expect the economy to expand by 1.4% in 2019, up from our earlier forecast of 1.1%.

The upside surprise to GDP growth was linked to exports, which rose by 13.5% in the second quarter. That was the largest export increase since mid-2014 led by energy, aircraft, motor vehicles, chemicals, and farm products. Along with the positive momentum in exports, manufacturing activity has been on the upswing since the start of the year. Hence, after nearly stalling during an economic soft patch in the late 2018 and early 2019, factory sector output now up by 1.8% year-on-year through July.

The strength of the labour market is an additional positive economic development. Through August, employment is up over 300,000 year-to-date, the largest increase over a similar period since 2002. In addition, over 75% of that employment increase was in full-time positions. Meanwhile, the unemployment rate at 5.7%, remains near historic lows. The tightest labour market in the country is Quebec, where the unemployment rate is at a record low 4.7%. Wage growth has also increased, rising by 3.8% year-on-year through August. With consumer price inflation at around 2%, real wage growth is helping to provide some support to household spending. Lastly, following the introduction of several measures to tighten mortgage lending in 2018, and with market interest rates having declined in 2019, there are signs that the housing market is starting to stabilize.

Global trade tensions

The performance of the Canadian economy in the first half of 2019 stands in contrast to signs of greater weakness in the global economy. For example, global trade and factory sector activity have slowed in recent months, as global trade tensions increased. For example, from the Institute for Supply Management report, US new export orders fell to a 10-year low in September. Highlighting the stiffer global headwinds, HSBC has recently lowered its GDP growth forecasts for China. We now look for the Chinese economy to grow by 6.2% in 2019 and by 5.8% in 2020, compared to previous forecasts of 6.5% and 6.3%, respectively.

The weakness in the global economy compared to the resilience of the Canadian economy were noted by Deputy Governor Lawrence Schembri at the Bank of Canada ('BoC') when he presented the Economic Progress Report on 5 September.

Resilience to be tested

The BoC also acknowledged that escalating global trade tensions are taking a toll on the domestic economy. For example, even though the economy expanded by more than anticipated in the second quarter, domestic demand declined for the third time in the past four quarters.

One source of weakness in domestic demand in the second quarter was a 16.2% drop in business investment. As a result, business investment declined to 10.2% of GDP, its lowest ratio since the second quarter of 2003. Though the drop was likely exaggerated by temporary factors, the uncertainty of global trade tensions is expected to be a restraint on business investment growth in coming quarters. Similarly, we do not think that Canada's export performance can continue to outperform global trends.

Also in the second quarter, consumer spending posted its smallest quarterly increase since mid-2012. This was noted by the Deputy Governor Schembri who said that "consumption was surprisingly soft in the quarter, particularly given the increase in labour income." Thus, the strong job market, and rising real wages, have provided little to boost consumer spending. In our view, the lacklustre performance of consumption might be a reflection of a debt overhang. In the quarter, household debt hit 174.1% of disposable income, a record high. As well, the household debt service ratio hit a historic high of 14.9% of disposable income. Overall, we see the resilience of the Canadian economy to be tested by ongoing elevated global economic uncertainty.

Looking ahead

In our view, amid slower business investment and exports, and constrained consumption spending, the Canadian economy is poised to slow down in the second half of 2019. We expect GDP growth of 1.2% in the third quarter and 1.3% in the fourth quarter. Further, we expect the moderate pace of economic growth to spill over into 2020.

We look for the rate of inflation to dip from current readings of around 2%, which is the BoC's inflation target. The decline in the inflation rate would reflect the fading impact of temporary factors and that the amount of excess capacity will increase amid sluggish GDP growth in the second half of the year.

Global trade tensions, most notably between the US and China, are expected to remain elevated into 2020. Similarly, there has yet to be a resolution to tensions between the UK and the European Union. Hence, Brexit looks to remain a source of global economic uncertainty in the coming months.

Taking all developments into consideration, we anticipate that the Canadian economy will grow by 1.4% in 2020 and 1.5% in 2021. Additionally, we assume that the risks are primarily to the downside.

Policy

Amid a slowdown in domestic GDP growth, and lingering global economic uncertainty, we anticipate that the BoC will cut its policy rate by a total of 50 basis points to 1.25% in coming months. The main reason to lower the policy rate would be to reset the stance of monetary policy to help offset the greater downside risks to the outlook for Canadian GDP growth and inflation. We do not see these rates cuts as part of an extended easing campaign. Instead, we believe that they are discrete reductions in the policy rate to offset the potential effects of increased global economic headwinds. We expect the Bank's policy rate to remain at 1.25% for the rest of 2020.

That said, fiscal policy is considered the more appropriate response to offset an increase in global trade tensions. At the Federal level, even with deficits projected for the next five fiscal years, the deficit is projected to remain below 1% of GDP and the Federal debt-to-GDP ratio is projected to decline from 31% in fiscal year 2017-18 to below 29% in 2023-24. As a result, we see sufficient room for fiscal stimulus from the Federal government if needed.

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 announced in the third quarter of 2019 with the potential to impact our results or operations:

Anti-money laundering requirements

Significant amendments to Canada's Proceeds of Crime regulations were introduced in June 2019 that expand types of transactional information that must be tracked and reported by HSBC to its regulator, Financial Transactions and Reports Analysis ('FINTRAC'). These new requirements will be applied in two stages over 2020 and 2021.

Seniors code of conduct

In conjunction with other Canadian banks, HSBC committed to the Canadian Bankers Association "Code of Conduct for the Delivery of Banking Services to Seniors". The Code establishes principles for banks to follow when dealing with individuals over the age of 60 who are transacting for non-business purposes. This Code requires banks to establish seniors' specific policies and procedures, staff training, effective communication and reporting. Compliance with the Code will be overseen by the federal consumer regulator, the Financial Consumer Agency of Canada.

Federal accessibility act

New legislation became effective on 11 July 2019 which aims to remove barriers that prevent the participation of persons with disabilities in areas such as employment and procurement of services. The Accessibility Canada Act ('ACA') requires federally regulated entities, including banks, to prepare and publish accessibility plans and progress reports in consultation with persons with disabilities. Further expected regulations under the ACA will impose more detailed accessibility obligations on HSBC in the future.

New rights for federal employees

Effective 1 September 2019, employees of federally regulated workplaces, including banks, will have the right to request flexible work arrangements, refuse overtime in certain circumstances and take leaves specifically for family responsibilities.

Capital risk

In July 2019, OSFI announced it will be revising its capital requirements for Operational Risk to require use of Basel III standardized approach for calculation of operational risk capital. For further details, refer to the 'capital' 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 and nine months ended 30 September 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 and nine months ended 30 September 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 nine months ended 30 September 2019, 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 the 'Implementation of the ServCo group' section of the MD&A and note 15.

On 27 September 2019, the bank issued Class 1 preferred shares Series K that are non-voting non-cumulative and redeemable to HSBC Overseas Holdings (UK) Limited. Further details can be found in the 'Outstanding shares and dividends' 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 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*.

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 30 September 2019 comprised of $244m in respect of assets held at amortized cost, $29m in respect of loan commitments and financial guarantees, $1m in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI'), and $2m in respect of performance guarantee contracts.

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

		At			
		30 Sep 2019		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		**58,236**	**(208)**	57,321	(198)
– personal		**29,305**	**(61)**	28,364	(53)
– corporate and commercial		**28,931**	**(147)**	28,957	(145)
Loans and advances to banks at amortized cost		**1,097**	**–**	1,221	–
Other financial assets measured at amortized cost		**16,598**	**(36)**	12,266	(34)
– cash and balances at central banks		**69**	**–**	78	–
– items in the course of collection from other banks		**12**	**–**	8	–
– reverse repurchase agreements non - trading		**7,615**	**–**	5,860	–
– customers' liability under acceptances		**6,130**	**(12)**	3,937	(5)
– other assets, prepayments and accrued income	1	**2,772**	**(24)**	2,383	(29)
Total gross carrying amount on-balance sheet		**75,931**	**(244)**	70,808	(232)
Loans and other credit related commitments		**43,262**	**(27)**	43,378	(32)
– personal		**7,284**	**–**	7,186	(2)
– corporate and commercial		**35,978**	**(27)**	36,192	(30)
Financial guarantees	2	**2,036**	**(2)**	2,182	(1)
– personal		**7**	**–**	7	–
– corporate and commercial		**2,029**	**(2)**	2,175	(1)
Total nominal amount off-balance sheet	3	**45,298**	**(29)**	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	**25,693**	**(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 include both financial and non-financial assets.*
2. *Excludes performance guarantee contracts.*
3. *Represents the maximum amount at risk should the contracts be fully drawn upon and 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	**53,323**	**4,590**	**323**	**58,236**	**(34)**	**(79)**	**(95)**	**(208)**	**0.1**	**1.7**	**29.4**	**0.4**
– personal	**28,558**	**660**	**87**	**29,305**	**(13)**	**(33)**	**(15)**	**(61)**	**–**	**5.0**	**17.2**	**0.2**
– corporate and commercial	**24,765**	**3,930**	**236**	**28,931**	**(21)**	**(46)**	**(80)**	**(147)**	**0.1**	**1.2**	**33.9**	**0.5**
Loans and advances to banks at amortized cost	**1,097**	**–**	**–**	**1,097**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets measured at amortized cost	**15,787**	**776**	**35**	**16,598**	**(4)**	**(7)**	**(25)**	**(36)**	**–**	**0.9**	**71.4**	**0.2**
Loan and other credit-related commitments	**38,887**	**4,323**	**52**	**43,262**	**(5)**	**(17)**	**(5)**	**(27)**	**–**	**0.4**	**9.6**	**0.1**
– personal	**7,087**	**186**	**11**	**7,284**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– corporate and commercial	**31,800**	**4,137**	**41**	**35,978**	**(5)**	**(17)**	**(5)**	**(27)**	**–**	**0.4**	**12.2**	**0.1**
Financial guarantees[2]	**1,870**	**164**	**2**	**2,036**	**(1)**	**(1)**	**–**	**(2)**	**0.1**	**0.6**	**–**	**0.1**
– personal	**6**	**1**	**–**	**7**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– corporate and commercial	**1,864**	**163**	**2**	**2,029**	**(1)**	**(1)**	**–**	**(2)**	**0.1**	**0.6**	**–**	**0.1**
At 30 Sep 2019	**110,964**	**9,853**	**412**	**121,229**	**(44)**	**(104)**	**(125)**	**(273)**	**–**	**1.1**	**30.3**	**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

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

	Quarter ended							
	30 Sep 2019				30 Sep 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	**36**	**102**	**89**	**227**	32	93	116	241
Transfers of financial instruments:	**12**	**(14)**	**2**	**—**	2	(2)	—	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	(4)	4	—	—
– transfers from stage 2 to stage 1	**13**	**(13)**	**—**	**—**	7	(7)	—	—
– transfers to stage 3	**—**	**(3)**	**3**	**—**	(1)	(1)	2	—
– transfers from stage 3	**—**	**1**	**(1)**	**—**	—	2	(2)	—
Net remeasurement of ECL arising from transfer of stage	**(9)**	**3**	**—**	**(6)**	(5)	4	—	(1)
New financial assets originated or purchased	**2**	**—**	**—**	**2**	9	—	—	9
Changes to risk parameters (model inputs)	**—**	**7**	**21**	**28**	3	(4)	(3)	(4)
Asset derecognized (including final repayments)	**(1)**	**(1)**	**(3)**	**(5)**	(3)	(7)	—	(10)
Assets written off	**—**	**—**	**(10)**	**(10)**	—	—	(15)	(15)
Foreign exchange	**—**	**—**	**—**	**—**	—	(1)	—	(1)
Other	**—**	**—**	**1**	**1**	—	—	—	—
Balance at the end of the period	**40**	**97**	**100**	**237**	38	83	98	219
ECL charge/(release) for the period	**(8)**	**9**	**18**	**19**	4	(7)	(3)	(6)
Recoveries	**—**	**—**	**(4)**	**(4)**	—	—	(4)	(4)
Other	**—**	**—**	**—**	**—**	—	—	(1)	(1)
Total ECL charge/(release) for the period	**(8)**	**9**	**14**	**15**	4	(7)	(8)	(11)

1. *Excludes performance guarantee contracts.*

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

	Nine months ended							
	30 Sep 2019				30 Sep 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:	**28**	**(34)**	**6**	**—**	16	(2)	(14)	—
– transfers from stage 1 to stage 2	**(5)**	**5**	**—**	**—**	(12)	12	—	—
– transfers from stage 2 to stage 1	**32**	**(32)**	**—**	**—**	28	(28)	—	—
– transfers to stage 3	**—**	**(9)**	**9**	**—**	(2)	(4)	6	—
– transfers from stage 3	**1**	**2**	**(3)**	**—**	2	18	(20)	—
Net remeasurement of ECL arising from transfer of stage	**(23)**	**12**	**—**	**(11)**	(20)	12	—	(8)
New financial assets originated or purchased	**6**	**—**	**—**	**6**	29	—	—	29
Changes to risk parameters (model inputs)	**(12)**	**24**	**58**	**70**	(12)	1	(1)	(12)
Asset derecognized (including final repayments)	**(2)**	**(4)**	**(13)**	**(19)**	(13)	(20)	(11)	(44)
Assets written off	**—**	**—**	**(38)**	**(38)**	—	—	(61)	(61)
Foreign exchange	**—**	**—**	**—**	**—**	—	1	—	1
Other	**—**	**—**	**(2)**	**(2)**	—	—	—	—
Balance at the end of the period	**40**	**97**	**100**	**237**	38	83	98	219
ECL charge/(release) for the period	**(31)**	**32**	**45**	**46**	(16)	(7)	(12)	(35)
Recoveries	**—**	**—**	**(8)**	**(8)**	—	—	(8)	(8)
Other	**—**	**—**	**—**	**—**	—	—	(1)	(1)
Total ECL charge/(release) for the period	**(31)**	**32**	**37**	**38**	(16)	(7)	(21)	(44)

1. *Excludes performance guarantee contracts.*

	Nine months ended			
	30 Sep 2019		30 Sep 2018	
	Allowance for ECL/Other credit loss provisions	**ECL charge/ (release)**	Allowance for ECL/ Other credit loss provisions	ECL charge/ (release)
	$m	**$m**	$m	$m
As above	**237**	**38**	219	(44)
Other financial assets measured at amortized cost	**36**	**7**	42	(4)
Performance guarantee contracts	**2**	**—**	5	2
Debt instruments measured at FVOCI	**1**	**—**	—	—
Total allowance for ECL/Total income statement ECL charge/(release) for the period	**276**	**45**	266	(46)

Credit quality of financial instruments

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

Quality classification definitions

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

The five credit quality classifications, as defined above, each encompasses a range of granular internal credit rating grades assigned to wholesale and 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]	**25,312**	**–**	**–**	**–**	**–**	**25,312**	**(1)**	**25,311**
– stage 1	**25,312**	**–**	**–**	**–**	**–**	**25,312**	**(1)**	**25,311**
– stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers at amortized cost	**29,101**	**16,567**	**10,938**	**1,307**	**323**	**58,236**	**(208)**	**58,028**
– stage 1	**29,035**	**15,828**	**8,258**	**202**	**–**	**53,323**	**(34)**	**53,289**
– stage 2	**66**	**739**	**2,680**	**1,105**	**–**	**4,590**	**(79)**	**4,511**
– stage 3	**–**	**–**	**–**	**–**	**323**	**323**	**(95)**	**228**
Loans and advances to banks at amortized cost	**1,097**	**–**	**–**	**–**	**–**	**1,097**	**–**	**1,097**
– stage 1	**1,097**	**–**	**–**	**–**	**–**	**1,097**	**–**	**1,097**
– stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets at amortized cost	**9,925**	**4,268**	**2,228**	**142**	**35**	**16,598**	**(36)**	**16,562**
– stage 1	**9,925**	**4,050**	**1,780**	**32**	**–**	**15,787**	**(4)**	**15,783**
– stage 2	**–**	**218**	**448**	**110**	**–**	**776**	**(7)**	**769**
– stage 3	**–**	**–**	**–**	**–**	**35**	**35**	**(25)**	**10**
Total gross carrying amount on-balance sheet	**65,435**	**20,835**	**13,166**	**1,449**	**358**	**101,243**	**(245)**	**100,998**
Percentage of total credit quality	**64.6%**	**20.6%**	**13.0%**	**1.4%**	**0.4%**	**100.0%**		
Loan and other credit-related commitments	**16,197**	**17,044**	**9,089**	**880**	**52**	**43,262**	**(27)**	**43,235**
– stage 1	**16,172**	**16,304**	**6,272**	**139**	**–**	**38,887**	**(5)**	**38,882**
– stage 2	**25**	**740**	**2,817**	**741**	**–**	**4,323**	**(17)**	**4,306**
– stage 3	**–**	**–**	**–**	**–**	**52**	**52**	**(5)**	**47**
Financial guarantees[2]	**1,114**	**568**	**232**	**120**	**2**	**2,036**	**(2)**	**2,034**
– stage 1	**1,114**	**566**	**188**	**2**	**–**	**1,870**	**(1)**	**1,869**
– stage 2	**–**	**2**	**44**	**118**	**–**	**164**	**(1)**	**163**
– stage 3	**–**	**–**	**–**	**–**	**2**	**2**	**–**	**2**
Total nominal amount off-balance sheet	**17,311**	**17,612**	**9,321**	**1,000**	**54**	**45,298**	**(29)**	**45,269**
At 30 Sep 2019	**82,746**	**38,447**	**22,487**	**2,449**	**412**	**146,541**	**(274)**	**146,267**

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

		At			
		30 Sep 2019		31 Dec 2018	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnote	**$m**	**$m**	$m	$m
Corporate and commercial					
– agriculture, forestry and fishing		**735**	**(13)**	408	(1)
– mining and quarrying	1	**1,727**	**(33)**	1,839	(30)
– manufacture		**4,912**	**(23)**	4,620	(23)
– electricity, gas, steam and air-conditioning supply		**289**	**(1)**	562	(1)
– water supply, sewerage, waste management and remediation		**100**	**—**	101	—
– construction		**904**	**(11)**	858	(21)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**5,011**	**(25)**	5,567	(35)
– transportation and storage		**2,464**	**(12)**	2,375	(11)
– accommodation and food		**920**	**(1)**	895	(1)
– publishing, audiovisual and broadcasting		**1,206**	**(5)**	783	(5)
– real estate		**6,639**	**(7)**	7,292	(7)
– professional, scientific and technical activities		**1,190**	**(7)**	1,060	(7)
– administrative and support services		**1,012**	**(7)**	595	(1)
– education		**163**	**—**	149	—
– health and care		**208**	**—**	190	(1)
– arts, entertainment and recreation		**262**	**—**	273	—
– other services		**171**	**(1)**	311	—
– government		**21**	**—**	30	—
– non-bank financial institutions		**997**	**(1)**	1,049	(1)
Total		**28,931**	**(147)**	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							
	30 Sep 2019				30 Sep 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	**26**	**70**	**74**	**170**	21	67	99	187
Transfers of financial instruments:	**4**	**(5)**	**1**	**—**	(1)	2	(1)	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	(4)	4	—	—
– transfers from stage 2 to stage 1	**5**	**(5)**	**—**	**—**	3	(3)	—	—
– transfers to stage 3	**—**	**(1)**	**1**	**—**	—	—	—	—
– transfers from stage 3	**—**	**—**	**—**	**—**	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	**(2)**	**1**	**—**	**(1)**	(2)	2	—	—
New financial assets originated or purchased	**1**	**—**	**—**	**1**	9	—	—	9
Changes to risk parameters (model inputs)	**(2)**	**(2)**	**16**	**12**	3	(2)	(7)	(6)
Asset derecognized (including final repayments)	**—**	**—**	**(1)**	**(1)**	(2)	(6)	—	(8)
Assets written off	**—**	**—**	**(6)**	**(6)**	—	—	(11)	(11)
Foreign exchange	**—**	**—**	**—**	**—**	—	(1)	—	(1)
Other	**—**	**—**	**1**	**1**	—	—	—	—
Balance at the end of the period	**27**	**64**	**85**	**176**	28	62	80	170
ECL charge/(release) for the period	**(3)**	**(1)**	**15**	**11**	8	(6)	(7)	(5)
Recoveries	**—**	**—**	**(3)**	**(3)**	—	—	(1)	(1)
Other	**—**	**—**	**—**	**—**	—	—	(1)	(1)
Total ECL charge/(release) for the period	**(3)**	**(1)**	**12**	**8**	8	(6)	(9)	(7)

1. *Excludes performance guarantee contracts.*

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

	Nine months ended							
	30 Sep 2019				30 Sep 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:	**7**	**(12)**	**5**	**—**	3	10	(13)	—
– transfers from stage 1 to stage 2	**(4)**	**4**	**—**	**—**	(11)	11	—	—
– transfers from stage 2 to stage 1	**11**	**(11)**	**—**	**—**	15	(15)	—	—
– transfers to stage 3	**—**	**(5)**	**5**	**—**	(1)	(1)	2	—
– transfers from stage 3	**—**	**—**	**—**	**—**	—	15	(15)	—
Net remeasurement of ECL arising from transfer of stage	**(6)**	**7**	**—**	**1**	(10)	6	—	(4)
New financial assets originated or purchased	**4**	**—**	**—**	**4**	27	—	—	27
Changes to risk parameters (model inputs)	**(7)**	**(4)**	**40**	**29**	(10)	(6)	(13)	(29)
Asset derecognized (including final repayments)	**—**	**(1)**	**(5)**	**(6)**	(11)	(18)	(11)	(40)
Assets written off	**—**	**—**	**(26)**	**(26)**	—	—	(48)	(48)
Foreign exchange	**—**	**—**	**—**	**—**	—	1	—	1
Other	**—**	**—**	**(2)**	**(2)**	—	—	—	—
Balance at the end of the period	**27**	**64**	**85**	**176**	28	62	80	170
ECL charge/(release) for the period	**(9)**	**2**	**35**	**28**	(4)	(18)	(24)	(46)
Recoveries	**—**	**—**	**(3)**	**(3)**	—	—	(1)	(1)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(9)**	**2**	**32**	**25**	(4)	(18)	(25)	(47)

1. *Excludes performance guarantee contracts.*

The wholesale allowance for ECL during the third quarter increased by $6m or 3.5%, driven by an increase in stage 3 impairment charges related to agriculture and energy businesses.

The overall wholesale allowance for ECL remains unchanged for the nine months period, whereas the stage 1 and stage 2 allowance for ECL is reduced by $2m and $10m, respectively, with a compensating increase of $12m in stage 3.

The total ECL coverage for loans and advances to customers for corporate and commercial segment at 30 September 2019 was 0.5% which remains unchanged as compared to 31 December 2018. For the nine months period, the ECL coverage remained stable for stage 1. Stage 2 and stage 3 both reduced to 1.2% and 34%, respectively.

Total days past due but not impaired loans and advances

	At	
	30 Sep 2019	31 Dec 2018
	$m	$m
Up to 29 days	**194**	521
30-59 days	**66**	15
60-89 days	**59**	50
Total	**319**	586

Personal lending

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

	At			
	30 Sep 2019		31 Dec 2018[1]	
	Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	$m	**$m**	$m	$m
Residential mortgages	**25,541**	**(24)**	24,625	(17)
Home equity lines of credit	**1,680**	**(4)**	1,710	(4)
Personal revolving loan facilities	**596**	**(14)**	629	(11)
Other personal loan facilities	**666**	**(4)**	818	(5)
Other small to medium enterprises loan facilities	**427**	**(1)**	155	—
Run-off consumer loan portfolio	**60**	**(7)**	75	(8)
Retail card	**335**	**(7)**	352	(8)
Total	**29,305**	**(61)**	28,364	(53)

1. *Certain prior period amounts have been reclassified to conform to the current period presentation.*

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

	Quarter ended							
	30 Sep 2019				30 Sep 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	**10**	**32**	**15**	**57**	11	26	17	54
Transfers of financial instruments:	**8**	**(9)**	**1**	**—**	3	(4)	1	—
– transfers from stage 1 to stage 2	**—**	**—**	**—**	**—**	—	—	—	—
– transfers from stage 2 to stage 1	**8**	**(8)**	**—**	**—**	4	(4)	—	—
– transfers to stage 3	**—**	**(2)**	**2**	**—**	(1)	(1)	2	—
– transfers from stage 3	**—**	**1**	**(1)**	**—**	—	1	(1)	—
Net remeasurement of ECL arising from transfer of stage	**(7)**	**2**	**—**	**(5)**	(3)	2	—	(1)
New financial assets originated or purchased	**1**	**—**	**—**	**1**	—	—	—	—
Changes to risk parameters (model inputs)	**2**	**9**	**5**	**16**	—	(2)	4	2
Asset derecognized (including final repayments)	**(1)**	**(1)**	**(2)**	**(4)**	(1)	(1)	—	(2)
Assets written off	**—**	**—**	**(4)**	**(4)**	—	—	(4)	(4)
Foreign exchange	**—**	**—**	**—**	**—**	—	—	—	—
Others	**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period	**13**	**33**	**15**	**61**	10	21	18	49
ECL charge/(release) for the period	**(5)**	**10**	**3**	**8**	(4)	(1)	4	(1)
Recoveries	**—**	**—**	**(1)**	**(1)**	—	—	(3)	(3)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(5)**	**10**	**2**	**7**	(4)	(1)	1	(4)

1. *Excludes performance guarantee contracts.*

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

	Nine months ended							
	30 Sep 2019				30 Sep 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:	**21**	**(22)**	**1**	**—**	13	(12)	(1)	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**21**	**(21)**	**—**	**—**	13	(13)	—	—
– transfers to stage 3	**—**	**(4)**	**4**	**—**	(1)	(3)	4	—
– transfers from stage 3	**1**	**2**	**(3)**	**—**	2	3	(5)	—
Net remeasurement of ECL arising from transfer of stage	**(17)**	**5**	**—**	**(12)**	(10)	6	—	(4)
New financial assets originated or purchased	**2**	**—**	**—**	**2**	2	—	—	2
Changes to risk parameters (model inputs)	**(5)**	**28**	**18**	**41**	(2)	7	12	17
Asset derecognized (including final repayments)	**(2)**	**(3)**	**(8)**	**(13)**	(2)	(2)	—	(4)
Assets written off	**—**	**—**	**(12)**	**(12)**	—	—	(13)	(13)
Foreign exchange	**—**	**—**	**—**	**—**	—	—	—	—
Others	**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period	**13**	**33**	**15**	**61**	10	21	18	49
ECL charge/(release) for the period	**(22)**	**30**	**10**	**18**	(12)	11	12	11
Recoveries	**—**	**—**	**(5)**	**(5)**	—	—	(7)	(7)
Others	**—**	**—**	**—**	**—**	—	—	(1)	(1)
Total ECL charge/(release) for the period	**(22)**	**30**	**5**	**13**	(12)	11	4	3

1. *Excludes performance guarantee contracts.*

The distribution of exposures by stage in the retail portfolio remained stable during 2019. The total retail allowance for ECL increased by $6m for the nine months period and increased by $4m for the quarter, primarily due to an unfavourable economic outlook, mainly impacting residential mortgages.

The Bank recorded an impairment charge of $18m for the nine months ended on the retail loan portfolio, offset by $5m of recoveries.

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]

	Residential mortgages					HELOC[2]	
	Insured[3]		Uninsured[3]		Total	Uninsured	
	$m	%	$m	%	$m	$m	%
British Columbia	**1,024**	**7%**	**12,953**	**93%**	**13,977**	**836**	**100%**
Western Canada[4]	**382**	**25%**	**1,128**	**75%**	**1,510**	**191**	**100%**
Ontario	**1,038**	**11%**	**8,173**	**89%**	**9,211**	**597**	**100%**
Quebec and Atlantic provinces	**288**	**22%**	**1,009**	**78%**	**1,297**	**88**	**100%**
At 30 Sep 2019	**2,732**	**11%**	**23,263**	**89%**	**25,995**	**1,712**	**100%**

Insurance and geographic distribution[1] (continued)

	Residential mortgages					HELOC[2, 5]	
	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	206	100%
Ontario	925	11%	7,457	89%	8,382	603	100%
Quebec and Atlantic provinces	241	21%	934	79%	1,175	91	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.*
5. *Certain prior period amounts have been reclassified to conform to the current period presentation.*

Amortization period[1]

	Residential mortgages				
	Less than 20 years	20-24 years	25-29 years	30-34 years	35 years and greater
At 30 Sep 2019	**20.382%**	**46.170%**	**33.433%**	**0.011%**	**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	**56%**	**53%**
Western Canada[4]	**68%**	**65%**
Ontario	**62%**	**59%**
Quebec and Atlantic provinces	**66%**	**63%**
Total Canada for the three months ended 30 Sep 2019	**61%**	**57%**
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.

Credit-impaired loans

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

Credit-impaired loans and advances to banks and customers

		At			
		30 Sep 2019		31 Dec 2018	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial		**236**	**(80)**	173	(71)
– agriculture, forestry and fishing		**22**	**(10)**	—	—
– mining and quarrying	1	**50**	**(19)**	42	(13)
– manufacture		**23**	**(10)**	18	(10)
– construction		**13**	**(7)**	24	(17)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**54**	**(12)**	16	(15)
– transportation and storage		**6**	**(5)**	7	(2)
– accommodation and food		**1**	**—**	—	—
– publishing, audiovisual and broadcasting		**15**	**(4)**	16	(4)
– real estate		**7**	**(3)**	7	(2)
– professional, scientific and technical activities		**38**	**(5)**	39	(7)
– administrative and support services		**6**	**(4)**	—	—
– other services		**—**	**—**	1	—
– non-bank financial institutions		**1**	**(1)**	3	(1)
Households	2	**87**	**(15)**	70	(16)
Loans and advances to banks		**—**	**—**	—	—
Total		**323**	**(95)**	243	(87)

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

Renegotiated loans

The carrying amount of renegotiated loans was $135m at 30 September 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, and 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 $3.1bn from 31 December 2018, primarily due to an increase in short-term funding and increase in deposits offset by an increase in loans.

Liquid assets[1]

	At	
	30 Sep 2019	31 Dec 2018
	$m	$m
Level 1	**21,619**	18,362
Level 2a	**3,704**	4,009
Level 2b	**166**	61
Total	**25,489**	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 30 September 2019, the bank was compliant with both requirements. In April 2019, OSFI finalized revisions to the LCR, NCCF and other liquidity metrics under the LAR Guideline with an implementation date of 1 January 2020. The changes are not expected to have a material impact on our ability to maintain compliance with regulatory liquidity 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 is conducting 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 30 September 2019, the bank's average LCR of 140% 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 140% from 131% mainly due to a decrease in cash outflows on wholesale funding.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Sep 2019	30 Jun 2019
Total HQLA[2] ($m)	**24,312**	24,116
Total net cash outflows[2] ($m)	**17,326**	18,364
Liquidity coverage ratio (%)	**140**	131

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 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 $11.7m at the nine months ended 30 September 2019 increased by $3.3m from the prior year, largely due to higher credit spread risk in non-trading books. Over the same period, the average VaR of $12.8m increased by $2.0m. Total VaR is largely driven by non-trading VaR.

The average trading VaR of $1.7m decreased by $0.1m due to lower interest rate risk from trading activities.

Total VaR

	Nine months ended	
	30 Sep 2019	30 Sep 2018
	$m	$m
At period end	**11.7**	8.4
Average	**12.8**	10.8
Minimum	**10.1**	7.6
Maximum	**15.7**	16.8

Non-trading VaR

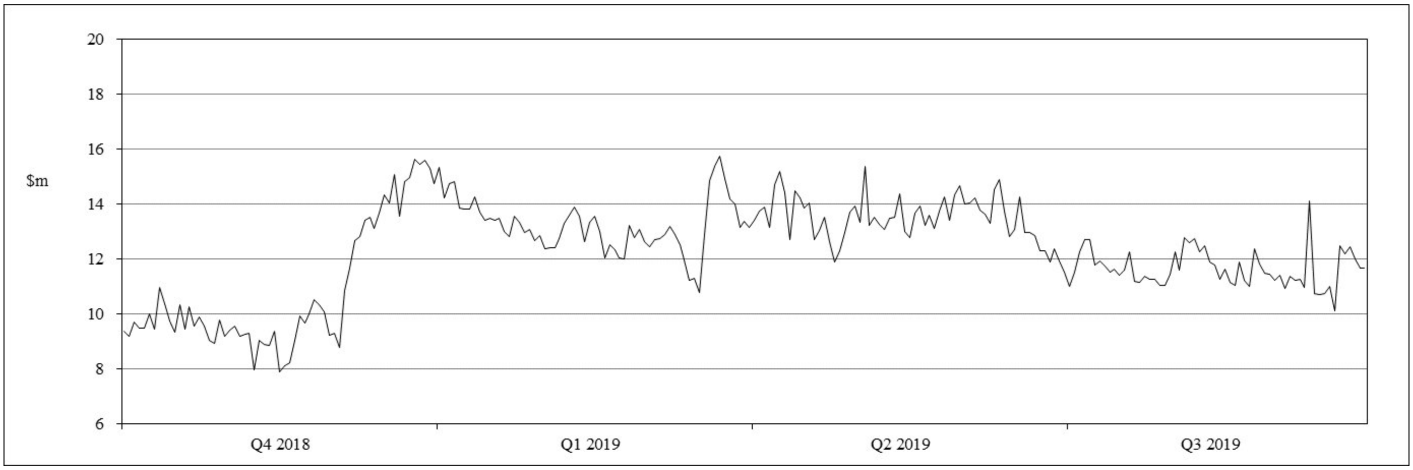
	Nine months ended	
	30 Sep 2019	30 Sep 2018
	$m	$m
At period end	**11.6**	8.4
Average	**12.9**	10.5
Minimum	**10.6**	6.7
Maximum	**15.5**	16.7

Trading VaR (by risk type)[1]

	Footnote	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification[2]	Total[4]
		$m	$m	$m	$m	$m	$m
January - September 2019							
At period end		**–**	**0.8**	**–**	**0.8**	**(0.3)**	**1.3**
Average		**–**	**1.3**	**–**	**0.9**	**(0.5)**	**1.7**
Minimum	3	**–**	**0.7**	**–**	**0.3**	**–**	**0.8**
Maximum	3	**0.1**	**2.0**	**–**	**2.5**	**–**	**3.2**
January - September 2018							
At period end		–	1.4	–	0.4	(0.3)	1.5
Average		–	1.7	–	0.4	(0.3)	1.8
Minimum	3	–	1.0	–	0.3	–	1.0
Maximum	3	–	3.1	–	0.8	–	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):

	30 Sep 2019		30 Sep 2018	
	Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	$m	**$m**	$m	$m
100 basis point increase	**(217)**	**128**	(253)	101
100 basis point decrease	**139**	**(128)**	218	(84)

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 30 September 2019.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

		30 Sep 2019	31 Dec 2018
	Footnotes	**%**	%
Actual regulatory capital ratios	*1*		
– common equity tier 1 capital ratio		**11.2**	11.3
– tier 1 capital ratio		**13.8**	13.4
– total capital ratio		**16.3**	16.0
– leverage ratio		**4.7**	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

		30 Sep 2019	31 Dec 2018
	Footnotes	**$m**	$m
Gross common equity	*1*	**4,999**	4,733
Regulatory adjustments		**(283)**	(202)
Common equity tier 1 capital		**4,716**	4,531
Additional tier 1 eligible capital		**1,100**	850
Tier 1 capital		**5,816**	5,381
Tier 2 capital	*2*	**1,045**	1,044
Total capital		**6,861**	6,425
Risk-weighted assets ('RWA') used in the calculation	*3, 4*		
– common equity tier 1 capital RWA		**42,116**	40,142
– tier 1 capital RWA		**42,116**	40,142
– total capital RWA		**42,116**	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. *Effective January 2014, OSFI allowed Canadian banks to phase in the Basel III Credit Valuation Adjustment (CVA) risk capital charge over a five-year period ending December 2018. As of January 2019, the CVA scalars were fully phased-in for each tier of capital, resulting in all tiers of capital having the same risk weighted assets value. In 2018, the CVA scalars for Common equity tier 1, Tier 1, and Total capital RWA were 80%, 83% and 86%.*
4. *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.*

Basel III reforms and implementation in Canada

In July 2019, OSFI announced revised Basel III Standardized Approach for Operational Risk Capital will be effective from the first quarter of 2021. The new approach will require the use of internal loss data as part of the calculation. OSFI also published a discussion paper on 'Advancing Proportionality: Tailoring Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions', which mostly has application to the smaller banks. We will need to assess the impact based on the final requirements.

Outstanding shares and dividends

		Nine months ended			Year-ended		
		30 Sep 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	**0.60160**	**498,668**	**1,225**	1.62433	498,668	1,225
Class 1 preferred shares	2						
– Series G		**0.75000**	**20,000**	**500**	1.00000	20,000	500
– Series I		**0.86250**	**14,000**	**350**	1.23250	14,000	350
– Series K	3	**—**	**10,000**	**250**	—	—	—

1. *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
2. *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*
3. *Preferred shares - Class 1, Series K were issued on 27 September 2019; no dividends were declared during the third quarter 2019.*

Dividends declared in the third quarter 2019

During the third quarter of 2019, the bank declared a second interim dividend of $80m on HSBC Bank Canada common shares in respect of the financial year ended 31 December 2019 and regular quarterly dividends of $9m for the third quarter of 2019 on all series of HSBC Bank Canada Class 1 preferred shares.

Dividends declared in the fourth quarter 2019

On 25 October 2019, the bank declared regular quarterly dividends for the fourth quarter of 2019 on HSBC Bank Canada Class 1 preferred shares Series G and I. An initial dividend of $4m has been declared on HSBC Bank Canada Class 1 preferred shares Series K. The dividends will be paid in accordance with their terms in the usual manner on 31 December 2019 or the first business day thereafter to shareholder of record on 15 December 2019.

On 25 October 2019, the bank also declared a third interim dividend of $130m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2019, which will be paid on or before 31 December 2019 to the shareholder of record on 25 October 2019.

As the dividends on preferred shares for the fourth quarter of 2019 and the third interim dividend on common shares for 2019 were declared after 30 September 2019, the amounts have not been included in the balance sheet as a liability.

Consolidated Financial Statements

Consolidated income statement

		Quarter ended		Nine months ended	
		30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	Notes	**$m**	$m	**$m**	$m
Net interest income		**313**	332	**955**	957
– interest income		**712**	631	**2,095**	1,747
– interest expense		**(399)**	(299)	**(1,140)**	(790)
Net fee income	2	**168**	175	**498**	509
– fee income		**197**	195	**575**	573
– fee expense		**(29)**	(20)	**(77)**	(64)
Net income from financial instruments held for trading		**36**	35	**117**	110
Gains less losses from financial investments		**10**	18	**28**	45
Dividend income		**—**	1	**—**	1
Other operating income		**7**	27	**26**	77
Total operating income		**534**	588	**1,624**	1,699
Change in expected credit losses and other credit impairment charges - (charge)/release		**(17)**	7	**(45)**	46
Net operating income		**517**	595	**1,579**	1,745
Employee compensation and benefits	3	**(169)**	(179)	**(514)**	(539)
General and administrative expenses		**(117)**	(131)	**(389)**	(401)
Depreciation		**(18)**	(8)	**(53)**	(24)
Amortization and impairment of intangible assets		**(7)**	(6)	**(20)**	(12)
Total operating expenses		**(311)**	(324)	**(976)**	(976)
Profit before income tax expense		**206**	271	**603**	769
Income tax expense		**(56)**	(73)	**(165)**	(208)
Profit for the period		**150**	198	**438**	561
Attributable to:					
– the common shareholder		**141**	189	**411**	533
– the preferred shareholder		**9**	9	**27**	28
Profit for the period		**150**	198	**438**	561
Average number of common shares outstanding (000's)		**498,668**	498,668	**498,668**	498,668
Basic and diluted earnings per common share ($)		**$ 0.28**	$ 0.38	**$ 0.82**	$ 1.07

The accompanying notes on pages 35 to 44 and certain sections within the Management's Discussion and Analysis, as detailed in note 1(d), form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Profit for the period	**150**	198	**438**	561
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	**2**	(39)	**99**	(94)
– fair value gains/(losses)	**12**	(35)	**163**	(83)
– fair value gains transferred to the income statement on disposal	**(10)**	(18)	**(28)**	(45)
– income taxes	**—**	14	**(36)**	34
Cash flow hedges	**(9)**	(19)	**54**	(23)
– fair value gains/(losses)	**(10)**	69	**126**	(33)
– fair value (gains)/losses reclassified to the income statement	**(2)**	(95)	**(52)**	1
– income taxes	**3**	7	**(20)**	9
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**(1)**	9	**(12)**	31
– before income taxes	**(3)**	12	**(18)**	42
– income taxes	**2**	(3)	**6**	(11)
Equity instruments designated at fair value through other comprehensive income	**(1)**	(1)	**(1)**	(1)
– fair value losses	**(1)**	(1)	**(1)**	(1)
– income taxes	**—**	—	**—**	—
Other comprehensive income/(loss) for the period, net of tax	**(9)**	(50)	**140**	(87)
Total comprehensive income for the period	**141**	148	**578**	474
Attributable to:				
– the common shareholder	**132**	139	**551**	446
– the preferred shareholder	**9**	9	**27**	28
Total comprehensive income for the period	**141**	148	**578**	474

The accompanying notes on pages 35 to 44 and certain sections within the Management's Discussion and Analysis, as detailed in note 1(d), form an integral part of these consolidated financial statements.

Consolidated balance sheet

		At	
		30 Sep 2019	31 Dec 2018
	Notes	**$m**	$m
Assets			
Cash and balances at central banks		**69**	78
Items in the course of collection from other banks		**12**	8
Trading assets	*5*	**6,030**	3,875
Other financial assets mandatorily measured at fair value through profit or loss		**5**	4
Derivatives	*6*	**3,573**	4,469
Loans and advances to banks		**1,097**	1,221
Loans and advances to customers		**58,028**	57,123
Reverse repurchase agreements – non-trading		**7,615**	5,860
Financial investments	*7*	**25,702**	24,054
Other assets	*8*	**2,456**	2,200
Prepayments and accrued income		**332**	234
Customers' liability under acceptances		**6,118**	3,932
Current tax assets		**33**	51
Property, plant and equipment		**339**	101
Goodwill and intangible assets		**145**	121
Deferred tax assets		**75**	75
Total assets		**111,629**	103,406
Liabilities and equity			
Liabilities			
Deposits by banks		**1,074**	1,148
Customer accounts		**61,397**	59,812
Repurchase agreements – non-trading		**9,041**	8,224
Items in the course of transmission to other banks		**300**	252
Trading liabilities	*9*	**3,332**	2,164
Derivatives	*6*	**4,012**	4,565
Debt securities in issue	*10*	**15,247**	13,863
Other liabilities	*11*	**2,993**	1,891
Acceptances		**6,130**	3,937
Accruals and deferred income		**561**	574
Retirement benefit liabilities		**269**	270
Subordinated liabilities		**1,039**	1,039
Provisions		**42**	41
Current tax liabilities		**92**	43
Deferred tax liabilities		**1**	–
Total liabilities		**105,530**	97,823
Equity			
Common shares		**1,225**	1,225
Preferred shares		**1,100**	850
Other reserves		**41**	(111)
Retained earnings		**3,733**	3,619
Total shareholder's equity		**6,099**	5,583
Total liabilities and equity		**111,629**	103,406

The accompanying notes on pages 35 to 44 and certain sections within the Management's Discussion and Analysis, as detailed in note 1(d), form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Note	Nine months ended 30 Sep 2019 $m	Nine months ended 30 Sep 2018 $m
Profit before income tax expense		**603**	769
Adjustments for:			
– non-cash items included in profit before tax	*13*	**139**	13
Changes in operating assets and liabilities			
– change in operating assets	*13*	**(5,528)**	(8,735)
– change in operating liabilities	*13*	**6,750**	10,261
– tax paid		**(165)**	(176)
Net cash from operating activities		**1,799**	2,132
Purchase of financial investments		**(9,529)**	(9,200)
Proceeds from the sale and maturity of financial investments		**8,015**	7,997
Purchase of intangibles and property, plant and equipment		**(83)**	(45)
Proceeds from sale of property, plant and equipment		**—**	1
Net cash from investing activities		**(1,597)**	(1,247)
Redemption of preferred shares		**—**	(350)
Dividends paid to shareholder		**(327)**	(759)
Issuance of preferred shares		**250**	—
Lease principal payments		**(32)**	n/a
Net cash from financing activities		**(109)**	(1,109)
Net increase/(decrease) in cash and cash equivalents		**93**	(224)
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*	**1,426**	1,656
Interest			
Interest paid		**(1,095)**	(769)
Interest received		**2,014**	1,618

The accompanying notes on pages 35 to 44 and certain sections within the Management's Discussion and Analysis, as detailed in note 1(d), form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

	Note	Share capital[1]	Retained earnings	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedging reserve	Other reserves: Total other reserves	Total equity
		$m	$m	$m	$m	$m	$m
At 1 Jan 2019		**2,075**	**3,619**	**(93)**	**(18)**	**(111)**	**5,583**
Profit for the period		—	438	—	—	—	438
Other comprehensive income/(loss), net of tax		—	(12)	98	54	152	140
– debt instruments at fair value through other comprehensive income		—	—	99	—	99	99
– equity instruments designated at fair value through other comprehensive income		—	—	(1)	—	(1)	(1)
– cash flow hedges		—	—	—	54	54	54
– remeasurement of defined benefit plans		—	(12)	—	—	—	(12)
Total comprehensive income for the period		**—**	**426**	**98**	**54**	**152**	**578**
Deemed contribution	15	—	13	—	—	—	13
Dividends on common shares		—	(300)	—	—	—	(300)
Dividends on preferred shares		—	(27)	—	—	—	(27)
Issuance of preferred shares		250	—	—	—	—	250
Shares issued under employee remuneration and share plan		—	2	—	—	—	2
At 30 Sep 2019		**2,325**	**3,733**	**5**	**36**	**41**	**6,099**

	Share capital[1]	Retained earnings	Other reserves: Available-for-sale fair value reserve[2]	Other reserves: Financial assets at FVOCI reserve[2]	Other reserves: Cash flow hedging reserve	Other reserves: 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	—	561	n/a	—	—	—	561
Other comprehensive income/(loss), net of tax	—	31	n/a	(95)	(23)	(118)	(87)
– debt instruments at fair value through other comprehensive income	—	—	n/a	(94)	—	(94)	(94)
– equity instruments designated at fair value through other comprehensive income	—	—	n/a	(1)	—	(1)	(1)
– cash flow hedges	—	—	n/a	—	(23)	(23)	(23)
– remeasurement of defined benefit plans	—	31	n/a	—	—	—	31
Total comprehensive income for the period	—	592	n/a	(95)	(23)	(118)	474
Dividends on common shares	—	(740)	n/a	—	—	—	(740)
Dividends on preferred shares	—	(28)	n/a	—	—	—	(28)
Shares issued under employee remuneration and share plan	—	(1)	n/a	—	—	—	(1)
At 30 Sep 2018	2,075	3,530	n/a	(107)	(72)	(179)	5,426

1. *Share capital is comprised of common shares $1,225m and preferred shares $1,100m (30 September 2018: common shares $1,225m and preferred shares $850m).*
2. *'Available-for-sale fair value reserve' was transferred to 'Financial assets at FVOCI reserve' on 1 January 2018 as a result of IFRS 9 initial application.*

The accompanying notes on pages 35 to 44 and certain sections within the Management's Discussion and Analysis, as detailed in note 1(d), form an integral part of these consolidated financial statements.

1 Basis of preparation and significant accounting policies

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

In September 2019 the IASB published 'Interest Rate Benchmark Reform' which amends IFRS 9, IAS 39 and IFRS 7 with an effective date of annual periods beginning on or after 1 January 2020 with early adoption permitted. The amendments were made in response to the replacement of existing interbank lending benchmark interest rates with alternative risk free lending rates in multiple jurisdictions. The amendments provide temporary relief from certain hedge accounting requirements for hedging relationships which refer to Interbank Offered Rates ('IBOR'). The bank is considering the potential impact of these amendments on the consolidated financial statements of the bank.

Additional 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.

Certain prior period amounts have been reclassified to conform with the current period presentation.

The accompanying notes on pages 35 to 44, the sections on 'Off-balance sheet arrangements' on page 15, 'Related party transactions' on page 15, 'Capital' on page 28, 'Outstanding shares and dividends' on page 29 and the following disclosures in the 'Risk' section on pages 16 to 28, form an integral part of these consolidated 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 days past due but not impaired loans and advances', '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', 'Credit-impaired loans and advances to banks and customers', 'Renegotiated loans', 'Value at Risk' and 'Sensitivity of structural interest rate risk in the non-trading portfolio'.

(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 30 September 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 30 September 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 lease liability measured using a methodology similar to 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 to IFRS 16

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 $252m and lease liabilities were $260m at 30 September 2019. Of the total depreciation charge recognized by the bank in nine months ended 30 September 2019, $29m pertains to the right-of-use assets. The interest expense recognized on the lease liabilities was $7m.

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							
	30 Sep 2019				30 Sep 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**	**1**	**3**	**14**	10	1	3	14
Broking income	**—**	**—**	**2**	**2**	—	—	2	2
Cards	**5**	**—**	**12**	**17**	4	—	12	16
Credit facilities	**62**	**18**	**—**	**80**	55	18	—	73
Funds under management	**—**	**—**	**49**	**49**	—	—	49	49
Imports/exports	**2**	**1**	**—**	**3**	3	—	—	3
Insurance agency commission	**—**	**—**	**1**	**1**	—	—	1	1
Other	**6**	**6**	**2**	**14**	4	7	2	13
Remittances	**6**	**2**	**1**	**9**	5	2	1	8
Underwriting	**1**	**7**	**—**	**8**	—	16	—	16
Fee income	**92**	**35**	**70**	**197**	81	44	70	195
Less: fee expense	**(5)**	**(5)**	**(19)**	**(29)**	(2)	(2)	(16)	(20)
Net fee income	**87**	**30**	**51**	**168**	79	42	54	175

	Nine months ended							
	30 Sep 2019				30 Sep 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	**31**	**5**	**11**	**47**	31	5	12	48
Broking income	**—**	**—**	**6**	**6**	—	—	7	7
Cards	**15**	**—**	**33**	**48**	13	—	32	45
Credit facilities	**177**	**50**	**—**	**227**	159	55	—	214
Funds under management	**—**	**—**	**143**	**143**	—	—	144	144
Imports/exports	**8**	**1**	**—**	**9**	8	—	—	8
Insurance agency commission	**—**	**—**	**4**	**4**	—	—	4	4
Other	**19**	**13**	**5**	**37**	15	17	6	38
Remittances	**17**	**6**	**3**	**26**	16	6	3	25
Underwriting	**2**	**26**	**—**	**28**	1	39	—	40
Fee income	**269**	**101**	**205**	**575**	243	122	208	573
Less: fee expense	**(13)**	**(9)**	**(55)**	**(77)**	(10)	(5)	(49)	(64)
Net fee income	**256**	**92**	**150**	**498**	233	117	159	509

3 Employee compensation and benefits

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

	Quarter ended		Nine months ended	
	30 Sep 2019	30 Sep 2018	**30 Sep 2019**	30 Sep 2018
	$m	$m	**$m**	$m
Defined benefit plans	**5**	8	**16**	23
– pension plans	**3**	5	**11**	14
– non-pension plans	**2**	3	**5**	9
Defined contribution pension plans	**10**	10	**29**	31
Total	**15**	18	**45**	54

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									
	30 Sep 2019					30 Sep 2018				
	Commercial Banking	**Global Banking and Markets**	**Retail Banking and Wealth Management**	**Corporate Centre**	**Total**	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Corporate Centre	Total
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Net interest income	**154**	**27**	**128**	**4**	**313**	150	30	129	23	332
Net fee income	**87**	**30**	**51**	**—**	**168**	79	42	54	—	175
Net income from financial instruments held for trading	**8**	**18**	**8**	**2**	**36**	9	21	7	(2)	35
Other income	**1**	**—**	**3**	**13**	**17**	4	—	3	39	46
Total operating income	**250**	**75**	**190**	**19**	**534**	242	93	193	60	588
Change in expected credit losses and other credit impairment charges - (charge)/release	**(8)**	**(2)**	**(7)**	**—**	**(17)**	3	—	4	—	7
Net operating income	**242**	**73**	**183**	**19**	**517**	245	93	197	60	595
– external	**262**	**70**	**151**	**34**	**517**	258	88	190	59	595
– inter-segment	**(20)**	**3**	**32**	**(15)**	**—**	(13)	5	7	1	—
Total operating expenses	**(101)**	**(42)**	**(168)**	**—**	**(311)**	(104)	(39)	(158)	(23)	(324)
Profit before income tax expense	**141**	**31**	**15**	**19**	**206**	141	54	39	37	271

	Nine months ended									
	30 Sep 2019					30 Sep 2018				
	Commercial Banking	**Global Banking and Markets**	**Retail Banking and Wealth Management**	**Corporate Centre**	**Total**	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Corporate Centre	Total
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Net interest income	**456**	**77**	**385**	**37**	**955**	434	79	363	81	957
Net fee income	**256**	**92**	**150**	**—**	**498**	233	117	159	—	509
Net income from financial instruments held for trading	**25**	**64**	**23**	**5**	**117**	26	60	21	3	110
Other income	**2**	**1**	**9**	**42**	**54**	14	1	9	99	123
Total operating income	**739**	**234**	**567**	**84**	**1,624**	707	257	552	183	1,699
Change in expected credit losses and other credit impairment charges - (charge)/release	**(20)**	**(11)**	**(14)**	**—**	**(45)**	50	(1)	(3)	—	46
Net operating income	**719**	**223**	**553**	**84**	**1,579**	757	256	549	183	1,745
– external	**777**	**221**	**473**	**108**	**1,579**	776	247	535	187	1,745
– inter-segment	**(58)**	**2**	**80**	**(24)**	**—**	(19)	9	14	(4)	—
Total operating expenses	**(305)**	**(122)**	**(520)**	**(29)**	**(976)**	(309)	(116)	(488)	(63)	(976)
Profit before income tax expense	**414**	**101**	**33**	**55**	**603**	448	140	61	120	769

Balance sheet information

	Commercial Banking	Global Banking and Markets	Retail Banking and Wealth Management	Corporate Centre	Total
	$m	$m	$m	$m	$m
At 30 Sep 2019					
Loans and advances to customers	**24,976**	**3,953**	**29,099**	**—**	**58,028**
Customers' liability under acceptances	**4,411**	**1,695**	**12**	**—**	**6,118**
Total external assets	**29,603**	**20,987**	**36,468**	**24,571**	**111,629**
Customer accounts	**20,210**	**4,959**	**33,695**	**2,533**	**61,397**
Acceptances	**4,430**	**1,700**	**—**	**—**	**6,130**
Total external liabilities	**26,193**	**19,427**	**35,595**	**24,315**	**105,530**
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	
		30 Sep 2019	31 Dec 2018
	Footnote	**$m**	$m
Debt securities			
– Canadian and Provincial Government bonds	1	**4,880**	3,034
– other debt securities		**511**	451
– treasury and other eligible bills		**639**	390
At the end of the period		**6,030**	3,875
Trading assets			
– not subject to repledge or resale by counterparties		**1,911**	1,764
– which may be repledged or resold by counterparties		**4,119**	2,111
At the end of the period		**6,030**	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	**125,378**	**958**	**1,260**	**—**	**1,260**	**1,234**	**84**	**1,318**
Interest rate	**421,860**	**29,918**	**2,212**	**101**	**2,313**	**2,246**	**448**	**2,694**
Commodity	**19**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 30 Sep 2019	**547,257**	**30,876**	**3,472**	**101**	**3,573**	**3,480**	**532**	**4,012**
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					
	30 Sep 2019			31 Dec 2018		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Interest rate	**18,039**	**27**	**419**	14,241	90	112
Total	**18,039**	**27**	**419**	14,241	90	112

Cash flow hedging instrument by hedged risk

	At					
	30 Sep 2019			31 Dec 2018		
		Carrying amount			Carrying amount	
	Notional amount	**Assets**	**Liabilities**	Notional amount	Assets	Liabilities
	$m	**$m**	**$m**	$m	$m	$m
Foreign currency	**958**	**–**	**84**	1,757	12	144
Interest rate	**11,879**	**74**	**29**	6,964	35	62
Total	**12,837**	**74**	**113**	8,721	47	206

7 Financial investments

Carrying amount of financial investments

		At	
		30 Sep 2019	31 Dec 2018
	Footnote	**$m**	$m
Debt securities		**25,693**	24,033
– Canadian and Provincial Government bonds	1	**17,650**	17,545
– international Government bonds	1	**3,072**	2,800
– other debt securities issued by banks and other financial institutions		**3,586**	3,399
– treasury and other eligible bills		**1,385**	289
Equity securities		**9**	21
At the end of the period		**25,702**	24,054
Financial investments		**25,702**	24,054
– not subject to repledge or resale by counterparties		**21,875**	20,409
– which may be repledged or resold by counterparties		**3,827**	3,645

1. *Includes government guaranteed bonds.*

8 Other assets

	At	
	30 Sep 2019	31 Dec 2018
	$m	$m
Accounts receivable and other	**706**	434
Investments in associates	**5**	2
Due from clients, dealers and clearing corporations	**68**	98
Settlement accounts	**649**	464
Cash collateral	**1,013**	1,195
Other	**15**	7
At the end of the period	**2,456**	2,200

9 Trading liabilities

	At	
	30 Sep 2019	31 Dec 2018
	$m	$m
Net short positions in securities	**3,332**	2,164
At the end of the period	**3,332**	2,164

10 Debt securities in issue

	At	
	30 Sep 2019	31 Dec 2018
	$m	$m
Bonds and medium term notes	**11,096**	12,196
Covered bonds	**2,310**	1,018
Money market instruments	**1,841**	649
At the end of the period	**15,247**	13,863

Term to maturity

	30 Sep 2019	31 Dec 2018
	$m	$m
Less than 1 year	**4,621**	2,749
1-5 years	**10,502**	10,795
5-10 years	**124**	319
At the end of the period	**15,247**	13,863

11 Other liabilities

	At	
	30 Sep 2019	31 Dec 2018
	$m	$m
Mortgages sold with recourse	**1,641**	1,572
Lease liabilities	**260**	n/a
Accounts payable	**305**	60
Settlement accounts	**626**	33
Cash collateral	**128**	159
Other	**21**	50
Share based payment related liability	**12**	17
At the end of the period	**2,993**	1,891

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 September 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	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
	$m	$m	$m	$m
Recurring fair value measurements				
At 30 Sep 2019				
Assets				
Trading assets	**5,951**	**79**	**—**	**6,030**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**5**	**—**	**5**
Derivatives	**—**	**3,565**	**8**	**3,573**
Financial investments	**25,537**	**165**	**—**	**25,702**
Liabilities				
Trading liabilities	**3,320**	**12**	**—**	**3,332**
Derivatives	**—**	**4,004**	**8**	**4,012**
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	Financial investments	Trading liabilities
	$m	$m	$m
Quarter-ended 30 Sep 2019			
Transfer from Level 1 to Level 2	**—**	**9**	**—**
Transfer from Level 2 to Level 1	**8**	**305**	**3**

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 gains or losses recognized in profit or loss	**3**	**—**	**3**
Purchases	**2**	**—**	**2**
Settlements	**(2)**	**—**	**(2)**
At 30 Sep 2019	**8**	**—**	**8**
Unrealized gains or losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**3**	**—**	**3**
At 1 Jan 2018	1	1	1
Purchases	6	—	—
Settlements	(1)	(1)	(1)
New issuances	—	—	6
At 30 Sep 2018	6	—	6
Unrealized gains or 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			
		30 Sep 2019		31 Dec 2018	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	*1*	**58,028**	**58,041**	57,123	56,891
Liabilities					
Customer accounts		**61,397**	**61,880**	59,812	60,119
Debt securities in issue		**15,247**	**15,389**	13,863	13,829
Subordinated liabilities		**1,039**	**1,030**	1,039	1,016

1. *Loans and advances to customers specifically relating to Canada: carrying amount $54,090m and fair value $54,102m.*

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

	Nine months ended	
	30 Sep 2019	30 Sep 2018
	$m	$m
Depreciation and amortization	**73**	36
Share-based payment expense	**10**	9
Change in expected credit losses	**45**	(46)
Charge for defined benefit pension plans	**11**	14
Total	**139**	13

Change in operating assets

Change in prepayment and accrued income	**(98)**	(83)
Change in net trading securities and net derivatives	**(596)**	(923)
Change in loans and advances to customers	**(950)**	(3,763)
Change in reverse repurchase agreements – non-trading	**(1,459)**	(1,656)
Change in other assets	**(2,425)**	(2,310)
Total	**(5,528)**	(8,735)

Change in operating liabilities

Change in accruals and deferred income	**(13)**	(21)
Change in deposits by banks	**(74)**	(359)
Change in customer accounts	**1,585**	936
Change in repurchase agreements – non-trading	**817**	4,189
Change in debt securities in issue	**1,384**	2,525
Change in other liabilities	**3,051**	2,991
Total	**6,750**	10,261

Cash and cash equivalents

	At	
	30 Sep 2019	30 Sep 2018
	$m	$m
Cash and balances at central bank	**69**	69
Items in the course of collection from other banks, net	**(288)**	(190)
Loans and advances to banks of one month or less	**1,097**	1,348
Non-trading reverse repurchase agreements with banks of one month or less	**523**	370
T-Bills and certificates of deposits with original maturity of three months or less	**25**	59
Total	**1,426**	1,656

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 certain regulations.

The consideration received as part of the transaction was an investment of $4m, which was subsequently redeemed for cash on 27 June 2019.

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 30 September 2019 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 25 October 2019 and authorized for issue.

Shareholder information

PRINCIPAL ADDRESSES

Vancouver:
HSBC Bank Canada
885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Tel: 604-685-1000
Fax: 604-641-3098

Toronto:
HSBC Bank Canada
70 York Street
Toronto, Ontario
Canada M5J 1S9

Media Inquiries:
English:
416-868-3878
416-868-8282
French:
416-868-8282
416-673-6997

Website
www.hsbc.ca

Social Media
Twitter: @HSBC_CA
Facebook: @HSBCCanada
YouTube: HSBC Canada

INVESTOR RELATIONS CONTACT

Enquiries may be directed to Investor Relations by writing to:

HSBC Bank Canada
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.
1 (800) 760-1180

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

HSBC Bank Canada

885 West Georgia Street
Vancouver, British Columbia
Canada V6C 3E9
Telephone: 1 604 685 1000
www.hsbc.ca