HSBC Bank Canada

Second Quarter 2019 Interim Report

HSBC

HSBC Bank Canada second quarter 2019 performance

Quarter ended 30 June 2019

Total operating income		Profit before income tax expense		Profit attributable to the common shareholder	
$545m	▼4.4%	$168m	▼32.0%	$112m	▼34.5%
(2018: $570m)		(2018: $247m)		(2018: $171m)	

Half-year ended 30 June 2019

Total operating income		Profit before income tax expense		Profit attributable to the common shareholder	
$1,090m	▼1.9%	$397m	▼20.3%	$270m	▼21.5%
(2018: $1,111m)		(2018: $498m)		(2018: $344m)	

At 30 June 2019

Total assets		Common equity tier 1 ratio[1]	
$115.2bn	▲11.4%	11.1%	▼20 bps
At 31 Dec 2018: $103.4bn)		At 31 Dec 2018: 11.3%)	

For the quarter and half-year ended 30 June 2019 compared with the same periods in the prior year.

HSBC Bank Canada reported operating income for the quarter of $545m and for the half-year of $1.1bn which decreased by $25m or 4.4% and $21m or 1.9%, respectively. The decrease primarily related to the creation of the ServCo group[2] to manage shared services which led to lower reported other operating income of $17m for the quarter and $30m for the half-year, along with a related reduction in operating expenses.

Two of our three business lines continued to grow revenues in the quarter. Operating income in Retail Banking and Wealth Management increased by $9m or 4.9% for the quarter and $18m or 5% for the half-year. In Commercial Banking, operating income increased by $6m or 2.5% for the quarter and $24m or 5.2% for the half-year. These results were primarily driven by higher net interest income as a result of growth in average lending balances and total relationship balances[3]. This was partly offset by balance sheet management activities which saw a decrease in net interest income, and marginally lower operating income in Global Banking and Markets caused by unfavourable Markets trading and sales activities, and lower underwriting fees. For the half-year, lower gains on disposal of financial investments also contributed to the decrease.

The change in expected credit losses for the quarter and half-year 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 slowdown in the economic outlook, 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 sector.

As we continue our investments in people, efficiency and technology to grow our business, operating expenses increased by $3m or 0.9% for the quarter and by $13m or 2% for the half-year. This increase is partly offset by a reduction in expenses from the creation of the ServCo group[2].
Profit before income tax expense was down $79m or 32% for the quarter and by $101m or 20% for the half-year. The decrease was mainly driven by the expected credit loss, continued investments to grow our businesses, partly offset by continued growth in operating income from our Retail Banking and Wealth Management and Commercial Banking businesses.

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

"We finished the second quarter with strong growth in both Commercial Banking, where lending, receivables finance balances and trade corridor revenue increased; and in Retail Banking and Wealth Management, where total relationship balances[3] grew. Global Banking and Markets performed as expected with revenues down slightly reflecting market conditions. Profit before tax decreased reflecting our continued investments in the business, increase in expected credit losses contrasted with recoveries last year, and lower revenues in Global Banking and Markets.

"We are mindful of the changing global economic environment and remain uniquely positioned to help our customers navigate the uncertainty."

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. *A creation of the ServCo group took place on 1 January 2019, as described in the 'Implementation of the ServCo group' section of the MD&A and note 15 of the condensed interim consolidated financial statements for the quarter and half-year ended 30 June 2019.*
3. *Total relationship balances includes lending, deposits and wealth balances in the Retail Banking and Wealth Management business.*

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')		Global Banking and Markets ('GB&M')		Retail Banking and Wealth Management ('RBWM')	
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.		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.		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 June 2019					
Total operating income					
$245m	▲2.5%	$79m	▼14.1%	$193m	▲4.9%
(2018: $239m)		(2018: $92m)		(2018: $184m)	
Profit before income tax expense					
$116m	▼22.7%	$31m	▼36.7%	$11m	▼42.1%
(2018: $150m)		(2018: $49m)		(2018: $19m)	
Half-year ended 30 June 2019					
Total operating income					
$489m	▲5.2%	$159m	▼3.0%	$377m	▲5.0%
(2018: $465m)		(2018: $164m)		(2018: $359m)	
Profit before income tax expense					
$273m	▼11.1%	$70m	▼18.6%	$18m	▼18.2%
(2018: $307m)		(2018: $86m)		(2018: $22m)	
At 30 June 2019					
Customer assets[2]					
$29.1bn	▲7.0%	$5.5bn	▼3.7%	$28.3bn	▲0.7%
(At 31 Dec 2018: $27.2bn)		(At 31 Dec 2018: $5.7bn)		(At 31 Dec 2018: $28.1bn)	

1. *We manage and report our operations around three global businesses and the results presented are for these businesses. The consolidated HSBC Bank Canada results presented on the previous page also include the Corporate Centre (see page 11 of the MD&A for more information). The equivalent results for the Corporate Centre were: Total operating income $28m for the second quarter and $65m for the half-year (2018: $55m for the second quarter and $123m for the half-year), profit before income tax expense $10m for the second quarter and $36m for the half-year (2018: $29m for the second quarter and $83m for the half-year) 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 half-year ended 30 June 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 half-year ended 30 June 2019 ('consolidated financial statements') and our *Annual Report and Accounts 2018*. This MD&A is dated 1 August 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 half-year ended 30 June 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$2,751bn at 30 June 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 net operating income of $17m for the quarter and $30m for the half-year, and a related reduction in total operating expenses of $15m for the quarter and $28m for the half-year. 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

($millions, except where otherwise stated)	Footnotes	Quarter ended		Half-year ended	
		30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
Financial performance for the period					
Total operating income		**545**	570	**1,090**	1,111
Profit before income tax expense		**168**	247	**397**	498
Profit attributable to the common shareholder		**112**	171	**270**	344
Change in expected credit losses and other credit impairment charges - (charge)/release		**(40)**	11	**(28)**	39
Operating expenses		**(337)**	(334)	**(665)**	(652)
Basic and diluted earnings per common share ($)		**0.22**	0.34	**0.54**	0.69
Financial measures (%)	1				
Return on average common shareholder's equity		**9.1**	14.7	**11.2**	14.7
Return on average risk-weighted assets	2	**1.6**	2.4	**1.9**	2.3
Cost efficiency ratio		**61.8**	58.6	**61.0**	58.7
Operating leverage/jaws		**(5.3)**	9.9	**(3.9)**	7.3
Net interest margin	3	**1.39**	1.55	**1.44**	1.54
Change in expected credit losses to average gross loans and advances and acceptances	4	**0.26**	n/a	**0.09**	n/a
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	4	**0.10**	0.07	**0.06**	n/a
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances		**29.0**	39.9	**29.0**	39.9
Net write-offs as a percentage of average loans and advances and acceptances		**0.08**	0.17	**0.09**	0.16

	Footnote	At	
		30 Jun 2019	31 Dec 2018
Financial position at period end			
Total assets		**115,197**	103,406
Loans and advances to customers		**56,888**	57,123
Customer accounts		**60,509**	59,812
Ratio of customer advances to customer accounts (%)		**94.0**	95.5
Common shareholder's equity		**4,946**	4,733
Capital, leverage and liquidity non-IFRS financial measures	2		
Common equity tier 1 capital ratio (%)		**11.1**	11.3
Tier 1 ratio (%)		**13.1**	13.4
Total capital ratio (%)		**15.6**	16.0
Leverage ratio (%)		**4.3**	4.6
Risk-weighted assets ($m)		**42,143**	40,142
Liquidity coverage ratio (%)		**131**	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		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Net interest income	**319**	319	**642**	625
Net fee income	**174**	179	**330**	334
Net income from financial instruments held for trading	**33**	39	**81**	75
Other items of income	**19**	33	**37**	77
Total operating income	**545**	570	**1,090**	1,111
Change in expected credit losses and other credit impairment charges - (charge)/release	**(40)**	11	**(28)**	39
Net operating income	**505**	581	**1,062**	1,150
Total operating expenses	**(337)**	(334)	**(665)**	(652)
Profit before income tax expense	**168**	247	**397**	498
Income tax expense	**(47)**	(67)	**(109)**	(135)
Profit for the period	**121**	180	**288**	363

Performance by income and expense item

For the quarter and half-year ended 30 June 2019 compared with the same periods in the prior year.

Net interest income

Net interest income was flat for the quarter and increased by $17m or 2.7% for the half-year. For the quarter, net interest income remained flat as volume increases in lending products in Commercial Banking and Retail Banking and Wealth Management were offset by lower margins in the current quarter. For the half-year, net interest income increased due to higher volume growth in lending products which was partly offset by lower margins for the half-year.

Summary of interest income by types of assets

		Quarter ended						Half-year ended					
		30 Jun 2019			30 Jun 2018			**30 Jun 2019**			30 Jun 2018		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield	**Average balance**	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnotes	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks		**916**	**1**	**0.54**	799	2	0.53	**884**	**3**	**0.66**	823	3	0.55
Loans and advances to customers	1	**56,128**	**525**	**3.75**	51,792	435	3.37	**55,721**	**1,036**	**3.75**	50,922	859	3.40
Reverse repurchase agreements - non-trading		**8,633**	**46**	**2.13**	6,162	26	1.69	**7,584**	**82**	**2.16**	6,169	50	1.63
Financial investments		**25,487**	**127**	**2.00**	23,286	112	1.92	**25,077**	**255**	**2.05**	23,382	203	1.75
Other interest-earning assets		**733**	**4**	**2.07**	340	1	1.52	**686**	**7**	**2.15**	319	1	0.61
Total interest-earning assets (A)	1	**91,897**	**703**	**3.07**	82,379	576	2.80	**89,952**	**1,383**	**3.10**	81,615	1,116	2.76
Trading assets and financial assets designated at fair value	2	**6,773**	**29**	**1.77**	5,248	28	2.16	**5,785**	**54**	**1.90**	5,230	52	1.97
Non-interest-earning assets	1	**11,958**	**—**	**—**	10,811	—	—	**11,964**	**—**	**—**	11,219	—	—
Total		**110,628**	**732**	**2.66**	98,438	604	2.46	**107,701**	**1,437**	**2.69**	98,064	1,168	2.40

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						Half-year ended					
		30 Jun 2019			30 Jun 2018			**30 Jun 2019**			30 Jun 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	2	**982**	**1**	**0.26**	850	—	0.05	**924**	**1**	**0.25**	847	1	0.26
Customer accounts	3	**54,293**	**214**	**1.58**	50,875	142	1.12	**53,717**	**413**	**1.55**	50,807	273	1.09
Repurchase agreements - non-trading		**10,452**	**53**	**2.02**	7,726	30	1.53	**9,209**	**94**	**2.05**	6,905	53	1.55
Debt securities in issue and subordinated debt		**14,991**	**101**	**2.72**	12,207	76	2.50	**14,880**	**203**	**2.76**	11,936	145	2.45
Other interest-bearing liabilities		**2,139**	**15**	**2.67**	1,713	9	2.26	**2,134**	**30**	**2.80**	1,761	19	2.20
Total interest bearing liabilities (B)		**82,857**	**384**	**1.86**	73,371	257	1.40	**80,864**	**741**	**1.85**	72,256	491	1.37
Trading liabilities	1	**4,063**	**17**	**1.74**	2,715	15	2.16	**3,141**	**28**	**1.82**	2,808	30	2.13
Non-interest bearing current accounts		**5,784**	**—**	**—**	6,081	—	—	**5,888**	**—**	**—**	6,152	—	—
Total equity and other non-interest bearing liabilities		**17,924**	**—**	**—**	16,271	—	—	**17,808**	**—**	**—**	16,848	—	—
Total		**110,628**	**401**	**1.45**	98,438	272	1.11	**107,701**	**769**	**1.44**	98,064	521	1.07
Net interest income (A-B)			**319**			319			**642**			625	

1. *Interest income and expense on trading assets and liabilities is reported in `Net income from financial instruments held for trading' in the consolidated income statement.*
2. *Includes interest-bearing bank deposits only.*
3. *Includes interest-bearing customer accounts only.*

Net fee income

	Quarter ended		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Account services	**18**	18	**33**	34
Broking income	**2**	4	**4**	5
Cards	**16**	16	**31**	29
Credit facilities	**76**	74	**147**	141
Funds under management	**49**	48	**94**	95
Imports/exports	**3**	3	**6**	5
Insurance agency commission	**2**	1	**3**	3
Other	**11**	12	**23**	25
Remittances	**9**	9	**17**	17
Underwriting	**13**	17	**20**	24
Fee income	**199**	202	**378**	378
Less: fee expense	**(25)**	(23)	**(48)**	(44)
Net fee income	**174**	179	**330**	334

Net fee income decreased by $5m or 2.8% for the quarter and by $4m or 1.2% for the half-year. The decrease for both the quarter and the half-year were driven mainly by lower underwriting fees and lower derivative sales credits in Global Banking and Markets, and higher fee expense from the online broker business. This was partly offset by an increase in credit facility fees as a result of higher volumes of bankers' acceptances.

Net income from financial instruments held for trading

	Quarter ended		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Trading activities	**19**	23	**47**	50
Credit valuation, debit valuation and funding fair value adjustments	**1**	—	**5**	1
Net interest from trading activities	**12**	13	**26**	22
Hedge ineffectiveness	**1**	3	**3**	2
Net income from financial instruments held for trading	**33**	39	**81**	75

Net income from financial instruments held for trading decreased by $6m or 15% for the quarter and increased by $6m or 8% for the half-year. The decrease for the quarter was mainly driven by lower Rates trading, balance sheet management activities and unfavourable hedge ineffectiveness. This was partly offset by higher foreign exchange activities. The increase for the half-year was mainly driven by higher net interest from trading activities due to product mix, favourable credit and debit valuations from tightening credit spreads and higher foreign exchange revenues. This was partly offset by lower fixed income trading and balance sheet management activities.

Other items of income

	Quarter ended		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Gains less losses from financial investments	**10**	5	**18**	27
Other operating income	**9**	28	**19**	50
Other items of income	**19**	33	**37**	77

Other items of income decreased by $14m or 42% for the quarter and by $40m or 52% for the half-year. The decrease in both the quarter and the half-year was mainly driven by lower other operating income as a result of the implementation of ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 15. This led to a reduction in other operating income with a related decrease in operating expenses.

For the quarter, this decrease was partly offset by an increase in gains on the disposal of financial investments from the re-balancing of the bank's liquid asset portfolio compared to the prior year.

For the half-year, 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		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Change in expected credit loss - performing loans (stage 1 and 2) - charge/(release)	**16**	(21)	**4**	(3)
Change in expected credit loss - non-performing loans (stage 3) - charge/(release)	**24**	10	**24**	(36)
Change in expected credit loss - charge/(release)	**40**	(11)	**28**	(39)

The change in expected credit losses for the quarter resulted in a charge of $40m compared to a reversal of $11m in the same period in the prior year. The charge for the quarter was primarily due to a change in the economic forecast reflecting a slowdown in GDP growth and an increase in impairment charges from non-performing loans in construction related business and agribusiness. The reversal in the second quarter of 2018 was primarily due to provision releases from improving credit conditions for specific energy services customers and improvements in the prior year's forward looking economic factors.

For the half-year, the change in expected credit losses was a charge of $28m compared with a reversal of $39m for the same period in the prior year. The charge in 2019 was driven by the factors discussed above, 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 improvements in several sectors, most notably energy services, and allowance reversals relating to certain construction, contracting services and real estate companies.

Total operating expenses

	Quarter ended		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Employee compensation and benefits	**171**	178	**345**	360
General and administrative expenses	**141**	144	**272**	270
Depreciation	**17**	8	**35**	16
Amortization and impairment of intangible assets	**8**	4	**13**	6
Total operating expenses	**337**	334	**665**	652

Total operating expenses increased by $3m or 0.9% for the quarter and by $13m or 2% for the half-year. We continue to make strategic investments to grow our businesses and make it more convenient for our customers to bank with us. These investments were partly offset by a decrease in employee compensation and benefits and an increase in general and administrative expenses as a result of the implementation of ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 15. In addition, general and administrative expenses decreased with an offsetting increase in depreciation relating to the amortization of the right-of-use assets as a result of the implementation of IFRS 16, as described in note 1(h).

Income tax expense

The effective tax rate in the second quarter of 2019 was 27.3% which is close to the statutory tax rate of 26.8%. The effective tax rate for the second quarter of 2018 was 27.1%.

Movement in financial position

Summary consolidated balance sheet

	At	
	30 Jun 2019	31 Dec 2018
	$m	$m
Assets		
Cash and balances at central bank	**76**	78
Trading assets	**7,596**	3,875
Derivatives	**3,922**	4,469
Loans and advances	**57,605**	58,344
Reverse repurchase agreements – non-trading	**10,367**	5,860
Financial investments	**25,074**	24,054
Customers' liability under acceptances	**6,069**	3,932
Other assets	**4,488**	2,794
Total assets	**115,197**	103,406
Liabilities and equity		
Liabilities		
Deposits by banks	**1,455**	1,148
Customer accounts	**60,509**	59,812
Repurchase agreements – non-trading	**10,414**	8,224
Trading liabilities	**4,936**	2,164
Derivatives	**4,227**	4,565
Debt securities in issue	**14,985**	13,863
Acceptances	**6,078**	3,937
Other liabilities	**6,797**	4,110
Total liabilities	**109,401**	97,823
Total shareholder's equity	**5,796**	5,583
Total liabilities and equity	**115,197**	103,406

Assets

Total assets at 30 June 2019 were $115.2bn, an increase of $11.8bn or 11% from 31 December 2018. Balance sheet management activities led to an increase in non-trading reverse repurchase agreements of $4.5bn. Trading assets increased by $3.7bn, mainly due to the volume of trading in debt securities. Customers' liability under acceptances increased by $2.1bn as a result of higher volumes of acceptances. Increases in settlement balances from timing of customer facilitation trades, together with an increase in right-of-use lease assets as a result of the implementation of IFRS 16, as described in note 1(h), contributed to the increase in other assets of $1.7bn.

These increases above were partly offset by a decrease in loans and advances of $0.7bn as result of lower volumes in unfunded bankers acceptances in our Commercial Banking business and lower trade finance portfolio balances in Global Banking & Markets.

Liabilities

Total liabilities at 30 June 2019 were $109.4bn, an increase of $11.6bn or 11.8% from 31 December 2018. Trading liabilities increased by $2.8bn 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 $2.7bn. Higher repurchase volumes and balance sheet management activities led to an increase in non-trading repurchase agreements of $2.2bn. In addition, acceptances increased by $2.1bn which corresponds to the movement within assets.

Equity

Total equity at 30 June 2019 was $5.8bn, an increase of $0.2bn or 3.8% from 31 December 2018. The increase represents profits after tax of $0.3bn generated in the period and gains of $0.1bn recorded on account of financial assets at fair value through other comprehensive income and cash flow hedges. This was offset by dividends of $0.2bn 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		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Net interest income	**151**	145	**302**	284
Non-interest income	**94**	94	**187**	181
Total operating income	**245**	239	**489**	465
Change in expected credit losses and other credit impairment charges - (charge)/release	**(26)**	13	**(12)**	47
Net operating income	**219**	252	**477**	512
Total operating expenses	**(103)**	(102)	**(204)**	(205)
Profit before income tax expense	**116**	150	**273**	307

Overview

Total operating income increased by $6m or 2.5% for the quarter and $24m or 5.2% for the half-year.

CMB continued its strong momentum in growing average lending balances during the quarter. Growth in average lending balances of 7% in the first half 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. Balances of Receivable Finance, a recent addition to our trade product suite, grew more than 92% for the half-year. Trade corridor revenue saw double-digit growth in the first half of 2019 despite market uncertainties.

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 decreased by $34m or 23% for the quarter and $34m or 11% for the half-year. This was primarily a result of a variance of $39m and $59m, respectively, in expected credit losses compared to the prior year, partly offset by higher operating income.

Financial performance by income and expense item

Net interest income for the quarter and half-year increased by $6m or 4.1% and $18m or 6.3%, respectively. The growth reflects higher average loans and advances from our continued focus on new and existing customers.

Non-interest income for the quarter remained unchanged and for the half-year increased by $6m or 3.3%. This was driven primarily by higher volumes of bankers' acceptances.

Change in expected credit losses resulted in a charge of $26m for the quarter, and charge of $12m for the half-year. The charge for both the quarter and half-year 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. For the second quarter and the first half of 2018, change in expected credit losses was a release of of $13m and $47m, respectively, as a result of reversals relating to non-performing loans, mostly from accounts in the energy service sector.

Total operating expenses for the quarter increased by $1m or 1%, and for the half-year decreased by $1m or 0.5%. During the year, the business has continued to make strategic investments to support business growth offset by the implementation of 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 half-year ended 30 June 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		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Net interest income	**26**	26	**50**	49
Non-interest income	**53**	66	**109**	115
Total operating income	**79**	92	**159**	164
Change in expected credit losses and other credit impairment charges - (charge)/release	**(8)**	(4)	**(9)**	(1)
Net operating income	**71**	88	**150**	163
Total operating expenses	**(40)**	(39)	**(80)**	(77)
Profit before income tax expense	**31**	49	**70**	86

Overview

GBM's total operating income decreased by $13m or 14% for the quarter and $5m or 3% for the half-year, driven by decreased Markets trading and sales activities and lower underwriting fees.

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 $18m or 37% for the quarter and $16m or 19% for the half-year, 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 remained unchanged and for the half-year increased by $1m or 2%. This was mainly due to the impact of the Bank of Canada interest rate increases and increased average lending volumes in Global Trade and Receivables Finance, partly offset by the increased funding costs of the Markets trading activities.

Non-interest income for the quarter and half-year decreased by $13m or 20% and $6m or 5.2%, respectively, primarily due to unfavourable Markets sales and trading activities and lower underwriting fees. This was partly offset by favourable movement in credit and funding valuation reserves due to the tightening of credit spreads.

Change in expected credit losses resulted in a charge of $8m for the quarter, and charge of $9m for the half-year. The charge for both the quarter and half-year was mainly due to a specific exposure in the energy industry and an increase to charges for performing loans reflecting the unfavourable economic outlook.

Total operating expenses for the quarter and half-year increased by $1m or 2.6% and $3m or 3.9%, respectively, due to streamlining initiatives.

1. *For the quarter ended and half-year ended 30 June 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		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Net interest income	**131**	120	**257**	234
Non-interest income	**62**	64	**120**	125
Total operating income	**193**	184	**377**	359
Change in expected credit losses and other credit impairment charges - (charge)/release	**(6)**	2	**(7)**	(7)
Net operating income	**187**	186	**370**	352
Total operating expenses	**(176)**	(167)	**(352)**	(330)
Profit before income tax expense	**11**	19	**18**	22

Overview

Total operating income increased by $9m or 4.9% for the quarter and $18m or 5% for the half-year. This was mainly due to higher net interest income and strong growth in total relationship balances[2]. This was partly offset by the continued run-off of our consumer finance portfolio, resulting in a $1m and $2m decrease in revenues for the quarter and half-year, respectively.

Investments in our distribution channels and digital technologies, along with competitive products and qualification criteria for Jade, Premier and Advance propositions, helped us grow our customer base and total relationship balances[2]. For example, we opened new branches in key urban centres and launched HSBC +Rewards MasterCard. As a result of our initiatives, we welcomed more than 27,000 new customers to RBWM for the first half of 2019.

Profit before income tax expense decreased by $8m or 42% for the quarter and $4m or 18% for the half-year. This was mostly due to higher operating expenses from the investments noted above. We also continued to invest in the roll-out of retail business banking and Jade, an exclusive service for high-net-worth customers. In addition, the current quarter had a charge related to expected credit losses, compared to a release in the prior year. These 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 and half-year increased by $11m or 9.2% and $23m or 9.8%, respectively, primarily due to higher spreads on deposits and strong growth in both lending and deposit balances.

Non-interest income for the quarter and half-year decreased by $2m or 3.1% and $5m or 4%, respectively, due to higher fee expense from the online broker business and lower account services fee income.

Change in expected credit losses resulted in a charge of $6m for the quarter reflecting the unfavourable economic outlook. Change in expected credit losses were $7m for the half-year, flat compared to the prior year.

Total operating expenses for the quarter and half-year increased by $9m or 5.4% and $22m or 6.7%, 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 half-year ended 30 June 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		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Net interest income	**11**	28	**33**	58
Non-interest income	**17**	27	**32**	65
Net operating income	**28**	55	**65**	123
Total operating expenses	**(18)**	(26)	**(29)**	(40)
Profit before income tax expense	**10**	29	**36**	83

Overview

Net operating income for the quarter and half-year decreased by $27m or 49% and $58m or 47%, respectively. The decrease for the quarter was primarily due to lower non-interest income 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. 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). This was partly offset by higher gains on the disposal of financial investments from the re-balancing of the bank's liquid asset portfolio compared to the prior year.

The decrease in net operating income for the half-year was due to the same decreasing factors described above, as well as lower gains on the disposal of financial investments from the re-balancing of the bank's liquid asset portfolio compared to the prior year.

Operating expenses for the quarter and half-year decreased by $8m or 31% and $11m or 28%, respectively, primarily due to the implementation of ServCo group, partly offset by investments in our support functions.

The impact of these movements decreased profit before income tax by $19m or 66% for the quarter and $47m or 57% for the half-year.

1. *For the quarter ended and half-year ended 30 June 2019 compared with the same periods in the prior year.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2019		2018				2017	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**319**	323	335	332	319	306	318	292
Net fee income	**174**	156	164	175	179	155	159	169
Net income from financial instruments held for trading (2017: Net trading income)	**33**	48	26	35	39	36	31	41
Other items of income	**19**	18	40	46	33	44	32	26
Total operating income	**545**	545	565	588	570	541	540	528
Change in expected credit losses and other credit impairment charges - (charge)/release	**(40)**	12	(19)	7	11	28	n/a	n/a
Loan impairment (charges)/recoveries and other credit risk provisions	**n/a**	n/a	n/a	n/a	n/a	n/a	(1)	14
Net operating income	**505**	557	546	595	581	569	539	542
Total operating expenses	**(337)**	(328)	(324)	(324)	(334)	(318)	(333)	(327)
Operating profit	**168**	229	222	271	247	251	206	215
Share of profit/(loss) in associates	**—**	—	—	—	—	—	—	3
Profit before income tax expense	**168**	229	222	271	247	251	206	218
Income tax expense	**(47)**	(62)	(65)	(73)	(67)	(68)	(54)	(56)
Profit for the period	**121**	167	157	198	180	183	152	162
Profit attributable to:								
– common shareholder	**112**	158	148	189	171	173	142	153
– preferred shareholder	**9**	9	9	9	9	10	10	9
Basic and diluted earnings per common share ($)	**0.22**	0.32	0.29	0.38	0.34	0.35	0.28	0.31

Comments on trends over the past eight quarters

Beginning in the first quarter of 2019, net interest income declined as a result of balance sheet management activities and the negative impact from lower yields. Net interest income trended upwards from the third quarter of 2017 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 increased from the first quarter of 2019 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 third 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 decreased mainly due to lower Rates trading activities. The prior quarter in 2019 increased as a result of tightening of credit spreads. 2018 also saw an increase primarily 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 the current quarter, other items of income increased as a result of higher gains on the disposal of financial investments and in the first quarter of 2019 we saw a decline in these gains. In 2018, 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 a change in the economic forecast reflecting a slowdown in GDP growth. The reversal in the first quarter of 2019 was primarily due the release of provisions as a result of improvements in the outlook of certain customers in the energy service sector. Effective 1 January 2018, the bank adopted IFRS 9. Strong credit performance together with active risk management led to a net release on the change in expected credit losses for most periods since the beginning of 2017, although this reduced in 2018 from the high release levels experienced in the prior year. 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 the first half of 2019, these investments were partly offset by a decrease in employee compensation and benefits and general and administrative expenses as a result of the implementation of ServCo group, as described in 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

Following a soft patch for economic growth in the fourth quarter of 2018 and the first quarter of 2019, the economy is poised to rebound in the second quarter. In our view, GDP growth will increase to 1.7% in the second quarter, up from an average of less than 0.5% over the prior two quarters. In fact, while GDP expanded by just 0.4% in the first quarter, there were some encouraging signs, including a rebound in consumer spending following two quarters of slower growth. As well, business investment made a 1.1 percentage point contribution to GDP growth, the largest since the first quarter of 2017.

Among the signs of improved economic performance are a record one month increase in employment (106,500) in April 2019; the unemployment rate has declined to a record low of 5.4%; and the employment to population rate for those considered to be of prime working age (25 to 54 years of age) has increased to a record high of 83.5%.

We think the second quarter will prove to be the peak for quarterly GDP growth in 2019. Looking ahead, we expect growth to average 1.4% in the second half of the year. A key factor in this outlook are the headwinds from the increasingly more challenging global economic backdrop, in particular the trade dispute between the US and China, tensions in the Middle East, and the ongoing lack of clarity regarding Brexit.

We anticipate that these global developments will eventually trump the improving domestic economic performance. The increase in economic uncertainty is most likely to be reflected in renewed weakness in business confidence and investment, and will linger as downside risks to the economic outlook in the coming months.

Consumers and Debt

Despite the rebound in consumer spending in the first quarter and the strong job market, we anticipate consumption will provide only a modest lift to the economy in coming quarters. In part this is because of the increase in interest rates over the past two years. Interest rate increases are having two effects: first, spending on big-ticket items, that tend to be debt financed, have been slowing. This includes housing and auto sales, though existing home sales in some regions, do seem to be stabilizing. Second, household disposable income is being squeezed by rising debt service costs. Between rising debt levels and higher interest rates, the household debt service ratio recently hit a record high of 14.9% of disposable income.

Meanwhile, household spending has exceeded disposable income since late 2015. As a result, the household savings rate has fallen from over 5% of disposable income to just over 1% at the end of 2018. We look for the household sector to become more prudent with some combination of a slower rate of growth of consumption spending, and increased saving.

Investment

While we anticipate moderate business investment, there have recently been positive developments with regard to business conditions. These include policy initiatives from November's federal budget to incentivize investment. Additionally, the tariffs the US imposed on imports of steel and aluminum tariffs from Canada have been removed. Canada's retaliatory tariffs on imports of US steel and aluminum products, and some consumer items were also removed. These tariffs had been a source of business uncertainty, and had become a source of upward pressure on some grocery and household items.

Overall, we expect the Canadian economy to grow by 1.1% in 2019, and by 1.6% in 2020, as global tensions ease and global growth begins to improve.

NAFTA/CUSMA

The removal of these US tariffs helped set the stage for Canada to introduce legislation to implement the Canada-US-Mexico agreement ('CUSMA') in late May. The legislation (bill C-100) to implement CUSMA was tabled in Parliament in late May, though little progress has been made. C-100 had passed only two of the seven required steps for approval prior to Parliament's adjournment in late June.

The Federal election is to be held no later than 21 October 2019, and the campaign must run for a period between 36 and 50 days. Hence, to be held on 21 October 2019, the election would have to be called between September 1 to 15. Any legislation that has not received Royal Assent prior to the election call will expire. To pass, those bills would need to be reintroduced after the election. Thus, if C-100 is not passed before the election call, CUSMA's approval might not happen until 2020.

Policy

We look for the Bank of Canada ('BoC') to leave its policy rate unchanged at 1.75% in the coming months. In our view there are competing forces that justify the BoC remaining cautious. Positives include the strong job market, the signs of a rebound in economic activity in the late first quarter and early second quarter, and the fact that the inflation rate has increased to 2.4% year over year, with the core rate of inflation around 2%.

However, the worsening global economic outlook and the possible impact on business confidence, investment and exports are sufficient for the BoC to maintain the policy rate below the neutral range of 2.25% to 3.25%.

Global developments have already led many central banks to shift to a more dovish policy stance or to lower their policy rates. For example, we now expect the US Federal Reserve to lower its policy rate by 50 basis points before the end of 2019. We expect the European Central Bank to cut its policy rate by 10 basis points in the second half of 2019. In Australia, the Reserve Bank of Australia recently cut its policy rate by 25 basis points to 1.25%.

Not all central banks have, however, shifted toward easing biases. Norway's central bank has bucked the trend, recently raising its policy rate by 25 basis points to 1.25%, and signaling another rate hike is under consideration.

Nonetheless, we expect the next BoC policy change will be a rate cut, though not until late 2020. While we assess the risks as tilted toward an earlier rate cut, particularly if global trade tensions intensify, we see few reasons for the BoC to move soon. Instead, given that monetary policy in Canada is still stimulative, the economy has, thus far, weathered the increase in global trade tensions and the strength of the labour market, the BoC has the flexibility to sit on the sidelines and assess the evolution of risks to the global economy and the outlook for inflation.

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 second quarter of 2019 with the potential to impact our results or operations:

Interest Rate Risk Management

OSFI published revisions to Guideline B-12, Interest Rate Risk Management, incorporating Basel Committee standards for expected methods to be used by banks to measure, manage and monitor Interest Rate Risk on the Banking Book. The bank will need to implement the new standards by 1 January 2021.

Extension of CDIC coverage

In April 2019, the government confirmed that Canada Deposit Insurance Corporation coverage will apply to deposits held in foreign currencies beginning 30 April 2020.

Transborder Dataflow

The Federal Privacy Commissioner began consultations on its long standing transborder dataflow policy as it confirmed that organizations that send data across borders for processing may require enhanced consent from data subjects going forward. The Commissioner also called for amendments to Canadian privacy law to potentially mandate the use of Commissioner approved standard clauses in all contracts between parties involved in the flow of data from Canada to another country.

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.

Liquidity Risk

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

Accounting matters

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

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

Off-balance sheet arrangements

As part of our banking operations, we enter into a number of off-balance sheet financial transactions that have a financial impact, but may not be recognized in our financial statements. These types of arrangements are contingent and may not necessarily, but in certain circumstances could, involve us incurring a liability in excess of amounts recorded in our consolidated balance sheet. These arrangements include guarantees and letters of credit and are described in the 'Off-balance sheet arrangements' section of our *Annual report and Accounts 2018*.

Financial instruments

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

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

The use of financial instruments has the potential of exposing the bank to, or mitigating against, market, credit and/or liquidity risks. A detailed description of how the bank manages these risks can be found in the Risk section of our *Annual Report and Accounts 2018*.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') have signed certifications relating to the appropriateness of the financial disclosures in interim filings with the Canadian Securities Administrators, including this MD&A and the accompanying consolidated financial statements for the quarter and half-year ended 30 June 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 half-year ended 30 June 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 half-year, 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.

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

Risk

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

Credit risk profile

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

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

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 29 of the *Annual Report and Accounts 2018*.

Credit risk in the first half of 2019

Gross loans and advances to customers of $57.1bn have decreased by $0.2bn from $57.3bn at 31 December 2018.

The change in expected credit losses and other credit impairment charges during the first half of 2019 was a charge of $28m.

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 June 2019 comprised of $233m in respect of assets held at amortized cost, $29m in respect of loan commitments and financial guarantees, and $1m in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI').

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

	Footnotes	At 30 Jun 2019 Gross carrying/ nominal amount	30 Jun 2019 Allowance for ECL	31 Dec 2018 Gross carrying/ nominal amount	31 Dec 2018 Allowance for ECL
		$m	$m	$m	$m
Loans and advances to customers at amortized cost		**57,086**	**(198)**	57,321	(198)
– personal		**28,544**	**(55)**	28,364	(53)
– corporate and commercial		**28,542**	**(143)**	28,957	(145)
Loans and advances to banks at amortized cost		**717**	**—**	1,221	—
Other financial assets measured at amortized cost		**20,121**	**(35)**	12,266	(34)
– cash and balances at central banks		**76**	**—**	78	—
– items in the course of collection from other banks		**18**	**—**	8	—
– reverse repurchase agreements non - trading		**10,367**	**—**	5,860	—
– customers' liability under acceptances		**6,079**	**(10)**	3,937	(5)
– other assets, prepayments and accrued income	1	**3,581**	**(25)**	2,383	(29)
Total gross carrying amount on-balance sheet		**77,924**	**(233)**	70,808	(232)
Loans and other credit related commitments		**43,554**	**(28)**	43,378	(32)
– personal		**7,287**	**(2)**	7,186	(2)
– corporate and commercial		**36,267**	**(26)**	36,192	(30)
Financial guarantees	2	**2,428**	**(1)**	2,182	(1)
– personal		**7**	**—**	7	—
– corporate and commercial		**2,421**	**(1)**	2,175	(1)
Total nominal amount off-balance sheet	3	**45,982**	**(29)**	45,560	(33)

	Footnotes	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	**25,064**	**(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	52,328	4,465	293	57,086	(30)	(83)	(85)	(198)	0.1	1.9	29.0	0.3
– personal	27,780	694	70	28,544	(9)	(31)	(15)	(55)	—	4.5	21.4	0.2
– corporate and commercial	24,548	3,771	223	28,542	(21)	(52)	(70)	(143)	0.1	1.4	31.4	0.5
Loans and advances to banks at amortized cost	717	—	—	717	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	19,230	866	25	20,121	(3)	(7)	(25)	(35)	—	0.8	100.0	0.2
Loan and other credit-related commitments	38,879	4,625	50	43,554	(6)	(18)	(4)	(28)	—	0.4	8.0	0.1
– personal	7,098	180	9	7,287	(1)	(1)	—	(2)	—	0.6	—	—
– corporate and commercial	31,781	4,445	41	36,267	(5)	(17)	(4)	(26)	—	0.4	9.8	0.1
Financial guarantees[2]	2,243	184	1	2,428	—	(1)	—	(1)	—	0.5	—	—
– personal	6	1	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	2,237	183	1	2,421	—	(1)	—	(1)	—	0.5	—	—
At 30 Jun 2019	**113,397**	**10,140**	**369**	**123,906**	**(39)**	**(109)**	**(114)**	**(262)**	**—**	**1.1**	**30.9**	**0.2**

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

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%
Loans and advances to customers at amortized cost	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 Jun 2019				30 Jun 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	**34**	**89**	**76**	**199**	38	109	118	265
Transfers of financial instruments:	**9**	**(12)**	**3**	**—**	9	(7)	(2)	—
– transfers from stage 1 to stage 2	**(2)**	**2**	**—**	**—**	(7)	7	—	—
– transfers from stage 2 to stage 1	**11**	**(11)**	**—**	**—**	15	(15)	—	—
– transfers to stage 3	**—**	**(3)**	**3**	**—**	—	(2)	2	—
– transfers from stage 3	**—**	**—**	**—**	**—**	1	3	(4)	—
Net remeasurement of ECL arising from transfer of stage	**(7)**	**4**	**—**	**(3)**	(10)	2	(1)	(9)
New financial assets originated or purchased	**3**	**—**	**—**	**3**	15	—	—	15
Changes to risk parameters (model inputs)	**(2)**	**22**	**30**	**50**	(17)	(1)	34	16
Asset derecognized (including final repayments)	**(1)**	**(1)**	**(7)**	**(9)**	(3)	(11)	(11)	(25)
Assets written off	**—**	**—**	**(12)**	**(12)**	—	—	(24)	(24)
Foreign exchange	**—**	**—**	**—**	**—**	—	1	—	1
Other	**—**	**—**	**(1)**	**(1)**	—	—	2	2
Balance at the end of the period	**36**	**102**	**89**	**227**	32	93	116	241
ECL charge/(release) for the period	**(7)**	**25**	**23**	**41**	(15)	(10)	22	(3)
Recoveries	**—**	**—**	**(1)**	**(1)**	—	—	(2)	(2)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(7)**	**25**	**22**	**40**	(15)	(10)	20	(5)

1. *Excludes performance guarantee contracts.*

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

	Half-year ended							
	30 Jun 2019				30 Jun 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:	**16**	**(20)**	**4**	**—**	14	—	(14)	—
– transfers from stage 1 to stage 2	**(4)**	**4**	**—**	**—**	(8)	8	—	—
– transfers from stage 2 to stage 1	**19**	**(19)**	**—**	**—**	21	(21)	—	—
– transfers to stage 3	**—**	**(6)**	**6**	**—**	(1)	(3)	4	—
– transfers from stage 3	**1**	**1**	**(2)**	**—**	2	16	(18)	—
Net remeasurement of ECL arising from transfer of stage	**(14)**	**9**	**—**	**(5)**	(15)	8	—	(7)
New financial assets originated or purchased	**4**	**—**	**—**	**4**	20	—	—	20
Changes to risk parameters (model inputs)	**(12)**	**17**	**37**	**42**	(15)	5	2	(8)
Asset derecognized (including final repayments)	**(1)**	**(3)**	**(10)**	**(14)**	(10)	(13)	(11)	(34)
Assets written off	**—**	**—**	**(28)**	**(28)**	—	—	(46)	(46)
Foreign exchange	**—**	**—**	**—**	**—**	—	2	—	2
Other	**—**	**—**	**(3)**	**(3)**	—	—	—	—
Balance at the end of the period	**36**	**102**	**89**	**227**	32	93	116	241
ECL charge/(release) for the period	**(23)**	**23**	**27**	**27**	(20)	—	(9)	(29)
Recoveries	**—**	**—**	**(4)**	**(4)**	—	—	(4)	(4)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(23)**	**23**	**23**	**23**	(20)	—	(13)	(33)

1. *Excludes performance guarantee contracts.*

	Half-year ended			
	30 Jun 2019		30 Jun 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	**227**	**23**	241	(33)
Other financial assets measured at amortized cost	**35**	**5**	39	(8)
Performance guarantee contracts	**2**	**—**	4	2
Debt instruments measured at FVOCI	**1**	**—**	—	—
Total allowance for ECL/Total income statement ECL charge/(release) for the period	**265**	**28**	284	(39)

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]	**24,671**	**–**	**–**	**–**	**–**	**24,671**	**(1)**	**24,670**
– stage 1	**24,671**	**–**	**–**	**–**	**–**	**24,671**	**(1)**	**24,670**
– stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Loans and advances to customers at amortized cost	**26,557**	**17,804**	**11,123**	**1,309**	**293**	**57,086**	**(198)**	**56,888**
– stage 1	**26,541**	**17,125**	**8,481**	**181**	**–**	**52,328**	**(30)**	**52,298**
– stage 2	**16**	**679**	**2,642**	**1,128**	**–**	**4,465**	**(83)**	**4,382**
– stage 3	**–**	**–**	**–**	**–**	**293**	**293**	**(85)**	**208**
Loans and advances to banks at amortized cost	**717**	**–**	**–**	**–**	**–**	**717**	**–**	**717**
– stage 1	**717**	**–**	**–**	**–**	**–**	**717**	**–**	**717**
– stage 2	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– stage 3	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
Other financial assets at amortized cost	**13,546**	**4,389**	**2,043**	**118**	**25**	**20,121**	**(35)**	**20,086**
– stage 1	**13,546**	**4,147**	**1,503**	**34**	**–**	**19,230**	**(3)**	**19,227**
– stage 2	**–**	**242**	**540**	**84**	**–**	**866**	**(7)**	**859**
– stage 3	**–**	**–**	**–**	**–**	**25**	**25**	**(25)**	**–**
Total gross carrying amount on-balance sheet	**65,491**	**22,193**	**13,166**	**1,427**	**318**	**102,595**	**(234)**	**102,361**
Percentage of total credit quality	**63.8%**	**21.6%**	**12.8%**	**1.4%**	**0.3%**	**100.0%**		
Loan and other credit-related commitments	**14,532**	**19,072**	**9,114**	**786**	**50**	**43,554**	**(28)**	**43,526**
– stage 1	**14,513**	**18,017**	**6,226**	**123**	**–**	**38,879**	**(6)**	**38,873**
– stage 2	**19**	**1,055**	**2,888**	**663**	**–**	**4,625**	**(18)**	**4,607**
– stage 3	**–**	**–**	**–**	**–**	**50**	**50**	**(4)**	**46**
Financial guarantees[2]	**1,498**	**582**	**235**	**112**	**1**	**2,428**	**(1)**	**2,427**
– stage 1	**1,498**	**580**	**164**	**1**	**–**	**2,243**	**–**	**2,243**
– stage 2	**–**	**2**	**71**	**111**	**–**	**184**	**(1)**	**183**
– stage 3	**–**	**–**	**–**	**–**	**1**	**1**	**–**	**1**
Total nominal amount off-balance sheet	**16,030**	**19,654**	**9,349**	**898**	**51**	**45,982**	**(29)**	**45,953**
At 30 Jun 2019	**81,521**	**41,847**	**22,515**	**2,325**	**369**	**148,577**	**(263)**	**148,314**

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

	Footnote	At 30 Jun 2019 Gross carrying amount $m	30 Jun 2019 Allowance for ECL $m	31 Dec 2018 Gross carrying amount $m	31 Dec 2018 Allowance for ECL $m
Corporate and commercial					
– agriculture, forestry and fishing		**453**	**(5)**	408	(1)
– mining and quarrying	1	**1,748**	**(28)**	1,839	(30)
– manufacture		**5,113**	**(26)**	4,620	(23)
– electricity, gas, steam and air-conditioning supply		**324**	**—**	562	(1)
– water supply, sewerage, waste management and remediation		**103**	**—**	101	—
– construction		**783**	**(13)**	858	(21)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**5,392**	**(33)**	5,567	(35)
– transportation and storage		**2,360**	**(11)**	2,375	(11)
– accommodation and food		**842**	**(1)**	895	(1)
– publishing, audiovisual and broadcasting		**1,169**	**(5)**	783	(5)
– real estate		**6,409**	**(7)**	7,292	(7)
– professional, scientific and technical activities		**1,169**	**(6)**	1,060	(7)
– administrative and support services		**610**	**(3)**	595	(1)
– education		**129**	**—**	149	—
– health and care		**204**	**(1)**	190	(1)
– arts, entertainment and recreation		**373**	**—**	273	—
– other services		**298**	**(1)**	311	—
– government		**28**	**—**	30	—
– non-bank financial institutions		**1,035**	**(3)**	1,049	(1)
Total		**28,542**	**(143)**	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 Jun 2019 Non-credit impaired Stage 1 $m	30 Jun 2019 Non-credit impaired Stage 2 $m	30 Jun 2019 Credit-impaired Stage 3 $m	30 Jun 2019 Total $m	30 Jun 2018 Non-credit impaired Stage 1 $m	30 Jun 2018 Non-credit impaired Stage 2 $m	30 Jun 2018 Credit-impaired Stage 3 $m	30 Jun 2018 Total $m
Balance at the beginning of the period	**24**	**61**	**61**	**146**	25	81	99	205
Transfers of financial instruments:	**3**	**(5)**	**2**	**—**	4	(3)	(1)	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	(6)	6	—	—
– transfers from stage 2 to stage 1	**4**	**(4)**	**—**	**—**	10	(10)	—	—
– transfers to stage 3	**—**	**(2)**	**2**	**—**	—	(1)	1	—
– transfers from stage 3	**—**	**—**	**—**	**—**	—	2	(2)	—
Net remeasurement of ECL arising from transfer of stage	**(2)**	**2**	**—**	**—**	(7)	2	(1)	(6)
New financial assets originated or purchased	**2**	**—**	**—**	**2**	14	—	—	14
Changes to risk parameters (model inputs)	**(1)**	**12**	**25**	**36**	(12)	(4)	29	13
Asset derecognized (including final repayments)	**—**	**—**	**(4)**	**(4)**	(3)	(10)	(11)	(24)
Assets written off	**—**	**—**	**(8)**	**(8)**	—	—	(18)	(18)
Foreign exchange	**—**	**—**	**—**	**—**	—	1	—	1
Other	**—**	**—**	**(2)**	**(2)**	—	—	2	2
Balance at the end of the period	**26**	**70**	**74**	**170**	21	67	99	187
ECL charge/(release) for the period	**(1)**	**14**	**21**	**34**	(8)	(12)	17	(3)
Recoveries	**—**	**—**	**—**	**—**	—	—	—	—
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(1)**	**14**	**21**	**34**	(8)	(12)	17	(3)

1. *Excludes performance guarantee contracts.*

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

	Half-year ended							
	30 Jun 2019				30 Jun 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:	**3**	**(7)**	**4**	**—**	4	8	(12)	—
– transfers from stage 1 to stage 2	**(3)**	**3**	**—**	**—**	(7)	7	—	—
– transfers from stage 2 to stage 1	**6**	**(6)**	**—**	**—**	12	(12)	—	—
– transfers to stage 3	**—**	**(4)**	**4**	**—**	(1)	(1)	2	—
– transfers from stage 3	**—**	**—**	**—**	**—**	—	14	(14)	—
Net remeasurement of ECL arising from transfer of stage	**(4)**	**6**	**—**	**2**	(8)	4	—	(4)
New financial assets originated or purchased	**3**	**—**	**—**	**3**	18	—	—	18
Changes to risk parameters (model inputs)	**(5)**	**(2)**	**24**	**17**	(13)	(4)	(6)	(23)
Asset derecognized (including final repayments)	**—**	**(1)**	**(4)**	**(5)**	(9)	(12)	(11)	(32)
Assets written off	**—**	**—**	**(20)**	**(20)**	—	—	(37)	(37)
Foreign exchange	**—**	**—**	**—**	**—**	—	2	—	2
Other	**—**	**—**	**(3)**	**(3)**	—	—	—	—
Balance at the end of the period	**26**	**70**	**74**	**170**	21	67	99	187
ECL charge/(release) for the period	**(6)**	**3**	**20**	**17**	(12)	(12)	(17)	(41)
Recoveries	**—**	**—**	**—**	**—**	—	—	—	—
Other	**—**	**—**	**—**	**—**	—	—	1	1
Total ECL charge/(release) for the period	**(6)**	**3**	**20**	**17**	(12)	(12)	(16)	(40)

1. *Excludes performance guarantee contracts.*

The wholesale allowance for ECL during the second quarter increased by $24m or 16%, driven by an increase in stage 3 impairment charges from construction related business and agribusiness. The increase in allowance for ECL for stage 1 and stage 2 exposures is primarily as a result of a less favourable economic outlook with the largest impact to exposures in the mining and quarrying industries.

The overall wholesale allowance for ECL is reduced during the first half of 2019 by $6m, primarily a decrease of $3m and $4m in stage 1 and stage 2, respectively, with an offsetting increase of $1m in stage 3.

The total ECL coverage for loans and advances to customers for corporate and commercial segment at 30 June 2019 was 0.5% which remains unchanged as compared to 31 December 2018. For the first half of the year, the ECL coverage remained stable for stage 1. Stage 2 and stage 3 both reduced to 1.4% and 31%, respectively.

Total days past due but not impaired loans and advances

	At	
	30 Jun 2019	31 Dec 2018
	$m	$m
Up to 29 days	**825**	521
30-59 days	**157**	15
60-89 days	**15**	50
Total	**997**	586

Personal lending

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

	At			
	30 Jun 2019		31 Dec 2018[1]	
	Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	$m	**$m**	$m	$m
Residential mortgages	**24,770**	**(18)**	24,625	(17)
Home equity lines of credit	**1,673**	**(3)**	1,710	(4)
Personal revolving loan facilities	**588**	**(15)**	629	(11)
Other personal loan facilities	**700**	**(4)**	818	(5)
Other small to medium enterprises loan facilities	**397**	**(1)**	155	—
Run-off consumer loan portfolio	**64**	**(7)**	75	(8)
Retail card	**352**	**(7)**	352	(8)
Total	**28,544**	**(55)**	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 Jun 2019				30 Jun 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**	**28**	**15**	**53**	13	28	19	60
Transfers of financial instruments:	**6**	**(7)**	**1**	**—**	5	(4)	(1)	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**7**	**(7)**	**—**	**—**	5	(5)	—	—
– transfers to stage 3	**—**	**(1)**	**1**	**—**	—	(1)	1	—
– transfers from stage 3	**—**	**—**	**—**	**—**	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	**(5)**	**2**	**—**	**(3)**	(3)	—	—	(3)
New financial assets originated or purchased	**1**	**—**	**—**	**1**	1	—	—	1
Changes to risk parameters (model inputs)	**(1)**	**10**	**5**	**14**	(5)	3	5	3
Asset derecognized (including final repayments)	**(1)**	**(1)**	**(3)**	**(5)**	—	(1)	—	(1)
Assets written off	**—**	**—**	**(4)**	**(4)**	—	—	(6)	(6)
Foreign exchange	**—**	**—**	**—**	**—**	—	—	—	—
Others	**—**	**—**	**1**	**1**	—	—	—	—
Balance at the end of the period	**10**	**32**	**15**	**57**	11	26	17	54
ECL charge/(release) for the period	**(6)**	**11**	**2**	**7**	(7)	2	5	—
Recoveries	**—**	**—**	**(1)**	**(1)**	—	—	(2)	(2)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(6)**	**11**	**1**	**6**	(7)	2	3	(2)

1. *Excludes performance guarantee contracts.*

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

	Half-year ended							
	30 Jun 2019				30 Jun 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:	**13**	**(13)**	**—**	**—**	10	(8)	(2)	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**13**	**(13)**	**—**	**—**	9	(9)	—	—
– transfers to stage 3	**—**	**(2)**	**2**	**—**	—	(2)	2	—
– transfers from stage 3	**1**	**1**	**(2)**	**—**	2	2	(4)	—
Net remeasurement of ECL arising from transfer of stage	**(10)**	**3**	**—**	**(7)**	(7)	4	—	(3)
New financial assets originated or purchased	**1**	**—**	**—**	**1**	2	—	—	2
Changes to risk parameters (model inputs)	**(7)**	**19**	**13**	**25**	(2)	9	8	15
Asset derecognized (including final repayments)	**(1)**	**(2)**	**(6)**	**(9)**	(1)	(1)	—	(2)
Assets written off	**—**	**—**	**(8)**	**(8)**	—	—	(9)	(9)
Foreign exchange	**—**	**—**	**—**	**—**	—	—	—	—
Others	**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period	**10**	**32**	**15**	**57**	11	26	17	54
ECL charge/(release) for the period	**(17)**	**20**	**7**	**10**	(8)	12	8	12
Recoveries	**—**	**—**	**(4)**	**(4)**	—	—	(4)	(4)
Others	**—**	**—**	**—**	**—**	—	—	(1)	(1)
Total ECL charge/(release) for the period	**(17)**	**20**	**3**	**6**	(8)	12	3	7

1. *Excludes performance guarantee contracts.*

The distribution of exposures by stage in the retail portfolio remained stable during the first half of 2019. The total retail allowance for ECL increased by $4m for the quarter and increased by $2m for the half-year, primarily due to an unfavourable economic outlook, mainly impacting residential mortgages and personal revolving loan facilities.

During the first half of 2019, the Bank recorded an impairment charge of $10m for the retail loan portfolio, offset by $4m 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	**1,036**	**7%**	**12,788**	**93%**	**13,824**	**842**	**100%**
Western Canada[4]	**376**	**26%**	**1,063**	**74%**	**1,439**	**190**	**100%**
Ontario	**1,027**	**12%**	**7,690**	**88%**	**8,717**	**595**	**100%**
Quebec and Atlantic provinces	**275**	**23%**	**939**	**77%**	**1,214**	**85**	**100%**
At 30 Jun 2019	**2,714**	**11%**	**22,480**	**89%**	**25,194**	**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 Jun 2019	**20.355%**	**43.612%**	**36.017%**	**0.012%**	**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	**55%**	**51%**
Western Canada[4]	**69%**	**62%**
Ontario	**61%**	**58%**
Quebec and Atlantic provinces	**68%**	**62%**
Total Canada for the three months ended 30 Jun 2019	**61%**	**56%**
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 Jun 2019		31 Dec 2018	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial		**223**	**(70)**	173	(71)
– mining and quarrying	1	**47**	**(12)**	42	(13)
– manufacture		**24**	**(13)**	18	(10)
– construction		**13**	**(10)**	24	(17)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**59**	**(17)**	16	(15)
– transportation and storage		**6**	**(5)**	7	(2)
– publishing, audiovisual and broadcasting		**16**	**(4)**	16	(4)
– real estate		**11**	**(2)**	7	(2)
– professional, scientific and technical activities		**38**	**(4)**	39	(7)
– administrative and support services		**6**	**(2)**	—	—
– other services		**1**	**—**	1	—
– non-bank financial institutions		**2**	**(1)**	3	(1)
Households	2	**70**	**(15)**	70	(16)
Loans and advances to banks		**—**	**—**	—	—
Total		**293**	**(85)**	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 $107m at 30 June 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 $3.7bn 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 Jun 2019	31 Dec 2018
	$m	$m
Level 1	**22,286**	18,362
Level 2a	**3,641**	4,009
Level 2b	**168**	61
Total	**26,095**	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 June 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 June 2019, the bank's average LCR of 131% 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 decreased to 131% from 138% mainly due to an increase in cash outflows on wholesale funding.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Jun 2019	31 Mar 2019
Total HQLA[2] ($m)	**24,116**	23,972
Total net cash outflows[2] ($m)	**18,364**	17,368
Liquidity coverage ratio (%)	**131**	138

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 $11.9m at the half-year ended 30 June 2019 increased by $1.4m from the prior year, largely due to higher interest rates and credit spread risk in non-trading books. Over the same period, the average VaR of $13.4m increased by $1.7m. Total VaR is largely driven by non-trading VaR.

The average trading VaR of $1.8m decreased by $0.2m due to lower credit spread risk from trading activities.

Total VaR

	Half-year ended	
	30 Jun 2019	30 Jun 2018
	$m	$m
At period end	**11.9**	10.5
Average	**13.4**	11.7
Minimum	**10.8**	7.6
Maximum	**15.7**	16.8

Non-trading VaR

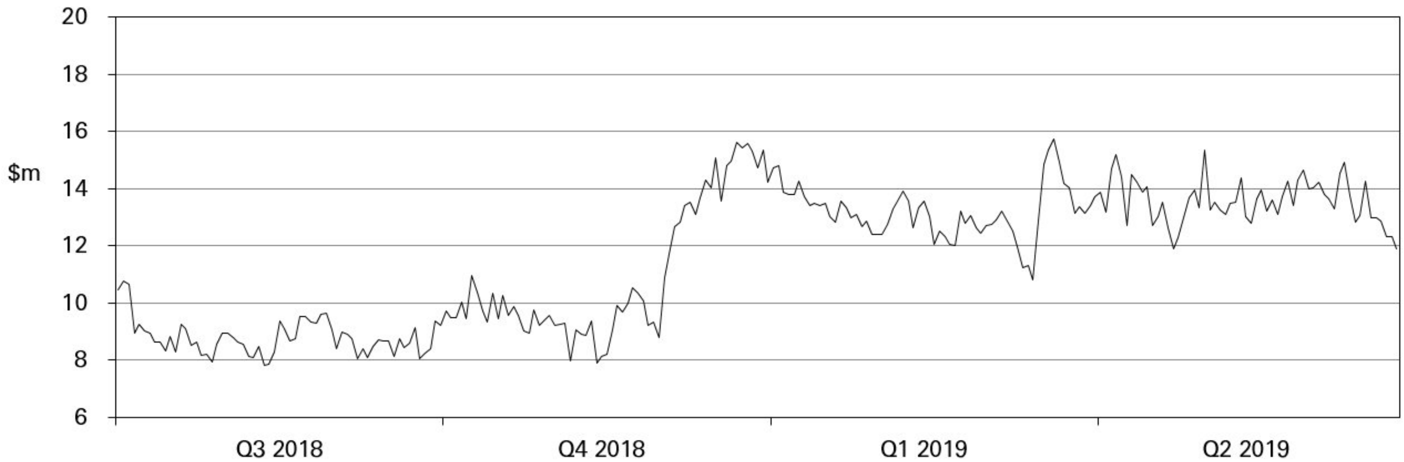
	Half-year ended	
	30 Jun 2019	30 Jun 2018
	$m	$m
At period end	**12.1**	10.1
Average	**13.4**	11.4
Minimum	**11.2**	6.7
Maximum	**15.5**	16.7

Trading VaR (by risk type)[1]

		Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification[2]	Total[4]
	Footnote	**$m**	**$m**	**$m**	**$m**	**$m**	**$m**
January - June 2019							
At period end		**–**	**1.6**	**–**	**1.5**	**(0.7)**	**2.4**
Average		**–**	**1.4**	**–**	**1.0**	**(0.6)**	**1.8**
Minimum	3	**–**	**1.1**	**–**	**0.3**	**–**	**1.3**
Maximum	3	**0.1**	**2.0**	**–**	**2.5**	**–**	**3.2**
January - June 2018							
At period end		–	1.7	–	0.4	(0.4)	1.7
Average		–	1.9	–	0.5	(0.4)	2.0
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 Jun 2019		30 Jun 2018	
	Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	$m	**$m**	$m	$m
100 basis point increase	**(170)**	**156**	(197)	119
100 basis point decrease	**101**	**(127)**	149	(104)

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 June 2019.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

	Footnotes	**30 Jun 2019 %**	31 Dec 2018 %
Actual regulatory capital ratios	1		
– common equity tier 1 capital ratio		**11.1**	11.3
– tier 1 capital ratio		**13.1**	13.4
– total capital ratio		**15.6**	16.0
– leverage ratio		**4.3**	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

	Footnotes	**30 Jun 2019 $m**	31 Dec 2018 $m
Gross common equity	1	**4,946**	4,733
Regulatory adjustments		**(277)**	(202)
Common equity tier 1 capital		**4,669**	4,531
Additional tier 1 eligible capital		**850**	850
Tier 1 capital		**5,519**	5,381
Tier 2 capital	2	**1,046**	1,044
Total capital		**6,565**	6,425
Risk-weighted assets ('RWA') used in the calculation	3, 4		
– common equity tier 1 capital RWA		**42,143**	40,142
– tier 1 capital RWA		**42,143**	40,142
– total capital RWA		**42,143**	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.*

Outstanding shares and dividends

		Half-year ended			Year-ended		
		30 Jun 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*	**0.44118**	**498,668**	**1,225**	1.62433	498,668	1,225
Class 1 preferred shares	*2*						
– Series G		**0.50000**	**20,000**	**500**	1.00000	20,000	500
– Series I		**0.57500**	**14,000**	**350**	1.23250	14,000	350

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

Dividends declared in the second quarter 2019

During the second quarter of 2019, the bank declared a first 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 second quarter of 2019 on all series of HSBC Bank Canada Class 1 preferred shares.

Dividends declared in the third quarter 2019

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

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

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

Consolidated Financial Statements

Consolidated income statement

		Quarter ended		Half-year ended	
		30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	Notes	**$m**	$m	**$m**	$m
Net interest income		**319**	319	**642**	625
– interest income		**703**	576	**1,383**	1,116
– interest expense		**(384)**	(257)	**(741)**	(491)
Net fee income	2	**174**	179	**330**	334
– fee income		**199**	202	**378**	378
– fee expense		**(25)**	(23)	**(48)**	(44)
Net income from financial instruments held for trading		**33**	39	**81**	75
Gains less losses from financial investments		**10**	5	**18**	27
Other operating income		**9**	28	**19**	50
Total operating income		**545**	570	**1,090**	1,111
Change in expected credit losses and other credit impairment charges - (charge)/release		**(40)**	11	**(28)**	39
Net operating income		**505**	581	**1,062**	1,150
Employee compensation and benefits	3	**(171)**	(178)	**(345)**	(360)
General and administrative expenses		**(141)**	(144)	**(272)**	(270)
Depreciation		**(17)**	(8)	**(35)**	(16)
Amortization and impairment of intangible assets		**(8)**	(4)	**(13)**	(6)
Total operating expenses		**(337)**	(334)	**(665)**	(652)
Profit before income tax expense		**168**	247	**397**	498
Income tax expense		**(47)**	(67)	**(109)**	(135)
Profit for the period		**121**	180	**288**	363
Attributable to:					
– the common shareholder		**112**	171	**270**	344
– the preferred shareholder		**9**	9	**18**	19
Profit for the period		**121**	180	**288**	363
Average number of common shares outstanding (000’s)		**498,668**	498,668	**498,668**	498,668
Basic and diluted earnings per common share ($)		**$ 0.22**	$ 0.34	**$ 0.54**	$ 0.69

The accompanying notes on pages 34 to 43 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		Half-year ended	
	30 Jun 2019	30 Jun 2018	**30 Jun 2019**	30 Jun 2018
	$m	$m	**$m**	$m
Profit for the period	**121**	180	**288**	363
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	**23**	(13)	**97**	(55)
– fair value gains/(losses)	**42**	(12)	**151**	(48)
– fair value gains transferred to the income statement on disposal	**(10)**	(5)	**(18)**	(27)
– income taxes	**(9)**	4	**(36)**	20
Cash flow hedges	**20**	—	**63**	(4)
– fair value gains/(losses)	**28**	58	**136**	(102)
– fair value (gains)/losses reclassified to the income statement	**(1)**	(58)	**(50)**	96
– income taxes	**(7)**	—	**(23)**	2
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**—**	8	**(11)**	22
– before income taxes	**—**	11	**(15)**	30
– income taxes	**—**	(3)	**4**	(8)
Equity instruments designated at fair value through other comprehensive income	**—**	1	**—**	—
– fair value gain	**—**	1	**—**	—
– income taxes	**—**	—	**—**	—
Other comprehensive income/(loss) for the period, net of tax	**43**	(4)	**149**	(37)
Total comprehensive income for the period	**164**	176	**437**	326
Attributable to:				
– the common shareholder	**155**	167	**419**	307
– the preferred shareholder	**9**	9	**18**	19
Total comprehensive income for the period	**164**	176	**437**	326

The accompanying notes on pages 34 to 43 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 Jun 2019	31 Dec 2018
	Notes	**$m**	$m
Assets			
Cash and balances at central banks		**76**	78
Items in the course of collection from other banks		**18**	8
Trading assets	*5*	**7,596**	3,875
Other financial assets mandatorily measured at fair value through profit or loss		**5**	4
Derivatives	*6*	**3,922**	4,469
Loans and advances to banks		**717**	1,221
Loans and advances to customers		**56,888**	57,123
Reverse repurchase agreements – non-trading		**10,367**	5,860
Financial investments	*7*	**25,074**	24,054
Other assets	*8*	**3,586**	2,200
Prepayments and accrued income		**271**	234
Customers' liability under acceptances		**6,069**	3,932
Current tax assets		**60**	51
Property, plant and equipment		**344**	101
Goodwill and intangible assets		**131**	121
Deferred tax assets		**73**	75
Total assets		**115,197**	103,406
Liabilities and equity			
Liabilities			
Deposits by banks		**1,455**	1,148
Customer accounts		**60,509**	59,812
Repurchase agreements – non-trading		**10,414**	8,224
Items in the course of transmission to other banks		**176**	252
Trading liabilities	*9*	**4,936**	2,164
Derivatives	*6*	**4,227**	4,565
Debt securities in issue	*10*	**14,985**	13,863
Other liabilities	*11*	**4,664**	1,891
Acceptances		**6,078**	3,937
Accruals and deferred income		**524**	574
Retirement benefit liabilities		**267**	270
Subordinated liabilities		**1,039**	1,039
Provisions		**41**	41
Current tax liabilities		**86**	43
Total liabilities		**109,401**	97,823
Equity			
Common shares		**1,225**	1,225
Preferred shares		**850**	850
Other reserves		**49**	(111)
Retained earnings		**3,672**	3,619
Total shareholder's equity		**5,796**	5,583
Total liabilities and equity		**115,197**	103,406

The accompanying notes on pages 34 to 43 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

		Half-year ended	
		30 Jun 2019	30 Jun 2018
	Note	**$m**	$m
Profit before income tax expense		**397**	498
Adjustments for:			
– non-cash items included in profit before tax	*13*	**90**	(8)
Changes in operating assets and liabilities			
– change in operating assets	*13*	**(8,176)**	(5,646)
– change in operating liabilities	*13*	**8,939**	5,237
– tax paid		**(137)**	(126)
Net cash from operating activities		**1,113**	(45)
Purchase of financial investments		**(6,121)**	(5,429)
Proceeds from the sale and maturity of financial investments		**5,234**	5,603
Purchase of intangibles and property, plant and equipment		**(47)**	(27)
Proceeds from sale of property, plant and equipment		**–**	1
Net cash from investing activities		**(934)**	148
Redemption of preferred shares		**–**	(350)
Dividends paid to shareholder		**(229)**	(685)
Lease principal payments		**(22)**	n/a
Net cash from financing activities		**(251)**	(1,035)
Net decrease in cash and cash equivalents		**(72)**	(932)
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*	**1,261**	948
Interest			
Interest paid		**(709)**	(465)
Interest received		**1,354**	1,057

The accompanying notes on pages 34 to 43 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		**—**	**288**	**—**	**—**	**—**	**288**
Other comprehensive income/(loss), net of tax		**—**	**(11)**	**97**	**63**	**160**	**149**
– debt instruments at fair value through other comprehensive income		**—**	**—**	**97**	**—**	**97**	**97**
– cash flow hedges		**—**	**—**	**—**	**63**	**63**	**63**
– remeasurement of defined benefit asset/liability		**—**	**(11)**	**—**	**—**	**—**	**(11)**
Total comprehensive income for the period		**—**	**277**	**97**	**63**	**160**	**437**
Deemed contribution	15	**—**	**13**	**—**	**—**	**—**	**13**
Dividends on common shares		**—**	**(220)**	**—**	**—**	**—**	**(220)**
Dividends on preferred shares		**—**	**(18)**	**—**	**—**	**—**	**(18)**
Shares issued under employee remuneration and share plan		**—**	**1**	**—**	**—**	**—**	**1**
At 30 Jun 2019		**2,075**	**3,672**	**4**	**45**	**49**	**5,796**

	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	—	363	n/a	—	—	—	363
Other comprehensive income/(loss), net of tax	—	22	n/a	(55)	(4)	(59)	(37)
– debt instruments at fair value through other comprehensive income	—	—	n/a	(55)	—	(55)	(55)
– cash flow hedges	—	—	n/a	—	(4)	(4)	(4)
– remeasurement of defined benefit asset/liability	—	22	n/a	—	—	—	22
Total comprehensive income for the year	—	385	n/a	(55)	(4)	(59)	326
Dividends on common shares	—	(670)	n/a	—	—	—	(670)
Dividends on preferred shares	—	(19)	n/a	—	—	—	(19)
Shares issued under employee remuneration and share plan	—	(2)	n/a	—	—	—	(2)
At 30 Jun 2018	2,075	3,401	n/a	(67)	(53)	(120)	5,356

1. Share capital is comprised of 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 34 to 43 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 financial liability on the balance sheet. In accordance with the IFRS 16 transition options, the bank has applied the standard using a modified retrospective approach where the cumulative effect of initially applying the standard, if any, is recognized as an adjustment to the opening balance of retained earnings and comparative balances are not restated. The adoption of IFRS 16 by the bank had no impact to retained earnings as the bank measured right-of-use assets at an amount equal to the lease liability recognized on transition which is a permitted transition options for IFRS 16. The impact on assets and liabilities is set out under note (h) below.

(c) Future accounting developments

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

(d) Presentation of information

The bank's consolidated financial statements are presented in Canadian dollars which is also its functional currency. The abbreviation '$m' represents millions of dollars. All tabular amounts are in millions of dollars except where otherwise noted.

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

The accompanying notes on pages 34 to 43, the sections on 'Off-balance sheet arrangements' on page 14, 'Related party transactions' on page 15, 'Capital' on page 27, 'Outstanding shares and dividends' on page 28 and the following disclosures in the 'Risk' section on pages 15 to 25, 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 June 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 June 2019.

(h) Leases

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

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

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

Transition 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 $254m and lease liabilities were $261m at 30 June 2019. Of the total depreciation charge recognized by the bank in the half-year ended 30 June 2019, $19m pertains to the right-of-use assets. The interest expense recognized on the lease liabilities was $5m.

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 Jun 2019				30 Jun 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	11	2	5	18	10	3	5	18
Broking income	–	–	2	2	–	2	2	4
Cards	5	–	11	16	5	–	11	16
Credit facilities	58	18	–	76	54	20	–	74
Funds under management	–	–	49	49	–	–	48	48
Imports/exports	3	–	–	3	3	–	–	3
Insurance agency commission	–	–	2	2	–	–	1	1
Other	7	3	1	11	5	4	3	12
Remittances	6	2	1	9	6	2	1	9
Underwriting	1	12	–	13	1	16	–	17
Fee income	91	37	71	199	84	47	71	202
Less: fee expense	(5)	(1)	(19)	(25)	(4)	(1)	(18)	(23)
Net fee income	86	36	52	174	80	46	53	179

	Half-year ended							
	30 Jun 2019				30 Jun 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	21	4	8	33	21	4	9	34
Broking income	–	–	4	4	–	–	5	5
Cards	10	–	21	31	9	–	20	29
Credit facilities	115	32	–	147	104	37	–	141
Funds under management	–	–	94	94	–	–	95	95
Imports/exports	6	–	–	6	5	–	–	5
Insurance agency commission	–	–	3	3	–	–	3	3
Other	13	7	3	23	11	10	4	25
Remittances	11	4	2	17	11	4	2	17
Underwriting	1	19	–	20	1	23	–	24
Fee income	177	66	135	378	162	78	138	378
Less: fee expense	(8)	(4)	(36)	(48)	(8)	(3)	(33)	(44)
Net fee income	169	62	99	330	154	75	105	334

3 Employee compensation and benefits

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

	Quarter ended		Half-year ended	
	30 Jun 2019	30 Jun 2018	30 Jun 2019	30 Jun 2018
	$m	$m	$m	$m
Defined benefit plans	5	7	11	15
– pension plans	3	4	8	9
– non-pension plans	2	3	3	6
Defined contribution pension plans	10	11	19	21
Total	15	18	30	36

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 Jun 2019					30 Jun 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	**151**	**26**	**131**	**11**	**319**	145	26	120	28	319
Net fee income	**86**	**36**	**52**	**—**	**174**	80	46	53	—	179
Net income from financial instruments held for trading	**8**	**16**	**7**	**2**	**33**	8	19	7	5	39
Other income	**—**	**1**	**3**	**15**	**19**	6	1	4	22	33
Total operating income	**245**	**79**	**193**	**28**	**545**	239	92	184	55	570
Change in expected credit losses and other credit impairment charges - (charge)/release	**(26)**	**(8)**	**(6)**	**—**	**(40)**	13	(4)	2	—	11
Net operating income	**219**	**71**	**187**	**28**	**505**	252	88	186	55	581
– external	**241**	**73**	**154**	**37**	**505**	259	88	180	54	581
– inter-segment	**(22)**	**(2)**	**33**	**(9)**	**—**	(7)	—	6	1	—
Total operating expenses	**(103)**	**(40)**	**(176)**	**(18)**	**(337)**	(102)	(39)	(167)	(26)	(334)
Profit before income tax expense	**116**	**31**	**11**	**10**	**168**	150	49	19	29	247

	Half-year ended									
	30 Jun 2019					30 Jun 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	**302**	**50**	**257**	**33**	**642**	284	49	234	58	625
Net fee income	**169**	**62**	**99**	**—**	**330**	154	75	105	—	334
Net income from financial instruments held for trading	**17**	**46**	**15**	**3**	**81**	17	39	14	5	75
Other income	**1**	**1**	**6**	**29**	**37**	10	1	6	60	77
Total operating income	**489**	**159**	**377**	**65**	**1,090**	465	164	359	123	1,111
Change in expected credit losses and other credit impairment charges - (charge)/release	**(12)**	**(9)**	**(7)**	**—**	**(28)**	47	(1)	(7)	—	39
Net operating income	**477**	**150**	**370**	**65**	**1,062**	512	163	352	123	1,150
– external	**515**	**151**	**322**	**74**	**1,062**	518	159	345	128	1,150
– inter-segment	**(38)**	**(1)**	**48**	**(9)**	**—**	(6)	4	7	(5)	—
Total operating expenses	**(204)**	**(80)**	**(352)**	**(29)**	**(665)**	(205)	(77)	(330)	(40)	(652)
Profit before income tax expense	**273**	**70**	**18**	**36**	**397**	307	86	22	83	498

Balance sheet information

	Commercial Banking $m	Global Banking and Markets $m	Retail Banking and Wealth Management $m	Corporate Centre $m	Total $m
At 30 Jun 2019					
Loans and advances to customers	**24,548**	**4,014**	**28,326**	**—**	**56,888**
Customers' liability under acceptances	**4,550**	**1,505**	**14**	**—**	**6,069**
Total external assets	**29,089**	**26,391**	**35,632**	**24,085**	**115,197**
Customer accounts	**19,726**	**5,014**	**33,116**	**2,653**	**60,509**
Acceptances	**4,570**	**1,508**	**—**	**—**	**6,078**
Total external liabilities	**25,855**	**24,903**	**34,805**	**23,838**	**109,401**
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

	Footnote	At 30 Jun 2019 $m	At 31 Dec 2018 $m
Debt securities			
– Canadian and Provincial Government bonds	1	**6,128**	3,034
– other debt securities		**776**	451
– treasury and other eligible bills		**692**	390
At the end of the period		**7,596**	3,875
Trading assets			
– not subject to repledge or resale by counterparties		**2,955**	1,764
– which may be repledged or resold by counterparties		**4,641**	2,111
At the end of the period		**7,596**	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 $m	Hedge accounting $m	Held for trading $m	Hedge accounting $m	Total $m	Held for trading $m	Hedge accounting $m	Total $m
Foreign exchange	**125,282**	**1,564**	**1,536**	**15**	**1,551**	**1,509**	**97**	**1,606**
Interest rate	**408,017**	**26,124**	**2,267**	**103**	**2,370**	**2,186**	**434**	**2,620**
Commodity	**34**	**—**	**1**	**—**	**1**	**1**	**—**	**1**
At 30 Jun 2019	**533,333**	**27,688**	**3,804**	**118**	**3,922**	**3,696**	**531**	**4,227**
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 Jun 2019			31 Dec 2018		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Interest rate	15,340	17	405	14,241	90	112
Total	**15,340**	**17**	**405**	14,241	90	112

Cash flow hedging instrument by hedged risk

	At					
	30 Jun 2019			31 Dec 2018		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Foreign currency	1,564	15	97	1,757	12	144
Interest rate	10,784	86	29	6,964	35	62
Total	**12,348**	**101**	**126**	8,721	47	206

7 Financial investments

Carrying amount of financial investments

		At	
		30 Jun 2019	31 Dec 2018
	Footnote	$m	$m
Debt securities		25,064	24,033
– Canadian and Provincial Government bonds	1	17,807	17,545
– international Government bonds	1	2,717	2,800
– other debt securities issued by banks and other financial institutions		3,260	3,399
– treasury and other eligible bills		1,280	289
Equity securities		10	21
At the end of the period		**25,074**	24,054
Financial investments		25,074	24,054
– not subject to repledge or resale by counterparties		22,055	20,409
– which may be repledged or resold by counterparties		3,019	3,645

1. *Includes government guaranteed bonds.*

8 Other assets

	At	
	30 Jun 2019	31 Dec 2018
	$m	$m
Accounts receivable and other	949	434
Investments in associates	—	2
Due from clients, dealers and clearing corporations	78	98
Settlement accounts	1,717	464
Cash collateral	828	1,195
Other	14	7
At the end of the period	**3,586**	2,200

9 Trading liabilities

	At	
	30 Jun 2019	31 Dec 2018
	$m	$m
Net short positions in securities	**4,936**	2,164
At the end of the period	**4,936**	2,164

10 Debt securities in issue

	At	
	30 Jun 2019	31 Dec 2018
	$m	$m
Bonds and medium term notes	**12,205**	12,196
Covered bonds	**978**	1,018
Money market instruments	**1,802**	649
At the end of the period	**14,985**	13,863

Term to maturity

	30 Jun 2019	31 Dec 2018
	$m	$m
Less than 1 year	**4,474**	2,749
1-5 years	**10,382**	10,795
5-10 years	**129**	319
At the end of the period	**14,985**	13,863

11 Other liabilities

		At	
		30 Jun 2019	31 Dec 2018
	Footnote	**$m**	$m
Mortgages sold with recourse		**1,577**	1,572
Lease liabilities		**261**	n/a
Accounts payable		**246**	60
Settlement accounts		**1,803**	33
Loans payable	*1*	**327**	—
Cash collateral		**399**	159
Other		**40**	50
Share based payment related liability		**11**	17
At the end of the period		**4,664**	1,891

1. *During the second quarter, the bank entered into two borrowing agreements with the HSBC Group which are related party transactions. Further details on the related party transactions can be found in note 30 of our Annual Report and Accounts 2018.*

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 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 Jun 2019				
Assets				
Trading assets	**7,489**	**107**	**—**	**7,596**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**5**	**—**	**5**
Derivatives	**—**	**3,917**	**5**	**3,922**
Financial investments	**24,588**	**486**	**—**	**25,074**
Liabilities				
Trading liabilities	**4,882**	**54**	**—**	**4,936**
Derivatives	**—**	**4,222**	**5**	**4,227**
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 Jun 2019			
Transfer from Level 1 to Level 2	**7**	**400**	**2**
Transfer from Level 2 to Level 1	**16**	**42**	**—**

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

Movement in Level 3 financial instruments

	Assets	Liabilities	
	Derivatives	Trading liabilities	Derivatives
	$m	$m	$m
At 1 Jan 2019	**5**	**—**	**5**
Total losses recognized in profit or loss	**(1)**	**—**	**(1)**
Purchases	**1**	**—**	**1**
At 30 Jun 2019	**5**	**—**	**5**
Unrealized losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	**(1)**	**—**	**(1)**
At 1 Jan 2018	1	1	1
Purchases	6	—	—
Settlements	(1)	(1)	(1)
New issuances	—	—	6
At 30 Jun 2018	6	—	6
Unrealized losses recognized in profit or loss relating to those assets and liabilities held at the end of the reporting period	—	—	—

Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of financial instruments not carried at fair value are explained on pages 96 and 97 of the *Annual Report and Accounts 2018*.

Fair values of financial instruments not carried at fair value

		At 30 Jun 2019		At 31 Dec 2018	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	*1*	**56,888**	**56,855**	57,123	56,891
Liabilities					
Customer accounts		**60,509**	**60,959**	59,812	60,119
Debt securities in issue		**14,985**	**15,163**	13,863	13,829
Subordinated liabilities		**1,039**	**1,036**	1,039	1,016

1. Loans and advances to customers specifically relating to Canada: carrying amount $52,868m and fair value $52,837m.

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

	Half-year ended	
	30 Jun 2019	30 Jun 2018
	$m	$m
Depreciation and amortization	**48**	22
Share-based payment expense	**6**	4
Change in expected credit losses	**28**	(39)
Charge for defined benefit pension plans	**8**	5
Total	**90**	(8)

Change in operating assets

Change in prepayment and accrued income	**(37)**	(13)
Change in net trading securities and net derivatives	**(692)**	(753)
Change in loans and advances to customers	**207**	(2,563)
Change in reverse repurchase agreements – non-trading	**(4,121)**	819
Change in other assets	**(3,533)**	(3,136)
Total	**(8,176)**	(5,646)

Change in operating liabilities

Change in accruals and deferred income	**(50)**	(36)
Change in deposits by banks	**307**	(468)
Change in customer accounts	**697**	57
Change in repurchase agreements – non-trading	**2,190**	1,811
Change in debt securities in issue	**1,122**	1,272
Change in other liabilities	**4,673**	2,601
Total	**8,939**	5,237

Cash and cash equivalents

	At	
	30 Jun 2019	30 Jun 2018
	$m	$m
Cash and balances at central bank	**76**	58
Items in the course of collection from other banks, net	**(158)**	(277)
Loans and advances to banks of one month or less	**717**	726
Reverse repurchase agreements with banks of one month or less	**613**	366
T-Bills and certificates of deposits – three months or less	**13**	75
Total	**1,261**	948

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 June 2019 interim condensed consolidated financial statements.

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

Shareholder information

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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

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1 (888) 390-3333

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

HSBC Private Wealth Services (Canada) Inc.
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