

2018
HSBC Bank Canada
Regulatory Capital &
Risk Management

Pillar 3 Supplementary Disclosures
As at December 31, 2018



Index & Notes to Users

Index	Page	Index	Page
Regulatory Capital	2-3	Risk Assessment - IRB Retail Credit Portfolio	10
Risk-Weighted Assets	4	Risk Assessment - AIRB Non-Retail Credit Portfolio	11
Credit Exposure by Counterparty Type	5	Exposures Covered by Credit Risk Mitigation	12
Credit Exposure by Geography	6	AIRB Credit Risk Exposures - Credit Commitments	13
Residual Contract Maturity Breakdown	7	Securitization Disclosure	14-17
Credit Risk Portfolio Exposure at Default	8	Market Risk	18-21
Standardized Exposures by Risk Weight Category	9	Leverage ratio	22
		Glossary	23

Notes to Users

Regulatory Capital and Risk Management Pillar 3 Disclosures

The Office of the Superintendent of Financial Institutions ("OSFI") supervises HSBC Bank Canada (the "Bank") on a consolidated basis. OSFI has approved the Bank's application to apply the Advanced Internal Ratings Based ("AIRB") approach to credit risk on our portfolio and the Standardized Approach for measuring Operational Risk. Please refer to the Annual Report and Accounts 2018 for further information on the Bank's risk and capital management framework. Further information regarding HSBC Group Risk Management Processes can be found in HSBC Holdings plc Capital and Risk Management Pillar 3 Disclosures available on HSBC Group's investor relations web site.

The Pillar 3 Supplemental Disclosures are additional summary descriptions and quantitative financial information which supplement those already made in the Annual Report and Accounts 2018 for the disclosure requirements under OSFI's Pillar 3 Disclosure Requirements Advisory issued September 29, 2006 consistent with the "International Convergence of Capital Measurement and Capital Standards" ("Basel II") issued by the Basel Committee on Banking Supervision (BCBS) in June 2006 and the "Composition of capital disclosure requirements" ("Basel III") issued by the BCBS in June 2012 under OSFI's advisory letter requirements issued in July 2013 and revised April 2014.

Pillar 3 complements the minimum capital requirements and the supervisory review process. Its aim is to encourage market discipline by developing a set of disclosure requirements which will allow market participants to assess certain specified information on the scope of application of Basel II/III ("the Basel rules"), capital, particular risk exposures, risk assessment processes, and hence the capital adequacy of the institution.

The supervisory objectives of BCBS are to promote safety and soundness in the financial system and maintain an appropriate level of capital in the system, enhance competitive equality, constitute a more comprehensive approach to addressing risks, and focus on internationally active banks. The Basel rules are structured around three "pillars": pillar 1, minimum capital requirements, pillar 2, supervisory review and pillar 3, market discipline.

On June 26, 2012, the BCBS issued the Basel III rules on the information banks must publicly disclose when detailing the composition of their capital, which set out a framework to ensure that the components of banks capital bases are publicly disclosed in standardised formats across and within jurisdictions for banks subject to Basel III.

Basel III builds on Basel II. It also increases the level of risk-weighted assets for significant investments and deferred tax amounts due to temporary timing differences under defined thresholds, exposures to large or unregulated financial institutions meeting specific criteria, exposures to centralized counterparties and exposures that give rise to wrong way risk. In addition Basel III places a greater emphasis on common equity by introducing a new category of capital, Common Equity Tier 1 (CET1), which consists primarily of common shareholders equity net of regulatory adjustments. These regulatory adjustments include goodwill, intangible assets, deferred tax assets, pension assets and investments in financial institutions over certain thresholds. Overall, the Basel III rules increase the level of regulatory deductions relative to Basel II.

Effective November 1, 2012, Canadian banks are subject to the revised capital adequacy requirements of Basel III as published by the BCBS. OSFI announced its decision to implementation of the Credit Valuation Adjustment (CVA) on Bilateral OTC derivatives starting Q1 2014.

Effective with public disclosures beginning in Q1, 2013, Banks are subject to disclosure requirements under OSFI's Guidelines on Residential Mortgage Underwriting Practices and Procedures (B-20).

Effective with public disclosures beginning in Q1, 2014 and Q3 2014, non-Domestic Systemically Important Banks (non-DSIBs as determined by OSFI) are required to disclose a modified version of the Capital Disclosure as described in the OSFI Advisory "Public Capital Disclosure Requirements related to Basel III Pillar 3" dated July 2013 and revised April 2013.

Effective with public disclosures beginning in Q1, 2016, OSFI has authorized HSBC Bank Canada's Market Risk model. As a result, credit risk exposures exclude the trading book portfolio.

This report is unaudited and all amounts are in rounded millions of Canadian dollars, unless otherwise indicated.

On 12 January 2018, OSFI announced its decision to update the existing capital floor for institutions using advanced approaches for credit risk and operational risk. The capital floor of 90%, based on the Basel I capital accord was replaced by a more risk-sensitive capital floor based on the Basel II framework. It was implemented effective Q2 2018 with the floor factor transitioned in over three quarters. The floor factor was set at 70% in Q2 2018, increasing to 72.5% in Q3 2018 and 75% in Q4 2018.

Basel III Regulatory Capital

(\$ millions except as noted)

		All-in ¹							
Common Equity Tier 1 capital: instruments and reserves		4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017
1	Directly issued qualifying common share capital (and equivalent for non-joint stock companies) plus related stock surplus	1,225	1,225	1,225	1,225	1,225	1,225	1,225	1,225
2	Retained earnings	3,619	3,529	3,401	3,696	3,696	3,650	3,533	3,445
3	Accumulated other comprehensive income (and other reserves)	(111)	(179)	(120)	(108)	(61)	(65)	5	61
4	Directly issued capital subject to phase out from CET1 (only applicable to non-joint stock companies)	na	na	na	na	na	na	na	na
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in group CET1)	na	na	na	na	na	na	na	na
6	Common Equity Tier 1 capital before regulatory adjustments	4,733	4,576	4,506	4,814	4,860	4,810	4,763	4,731
Common Equity Tier 1 capital: regulatory adjustments									
28	Total regulatory adjustments to Common Equity Tier 1	(202)	(167)	(179)	(128)	(121)	(100)	(134)	(179)
29	Common Equity Tier 1 capital (CET1)	4,531	4,409	4,327	4,686	4,739	4,710	4,629	4,552
Additional Tier 1 capital: instruments									
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	850	850	850	850	850	500	500	500
31	of which: classified as equity under applicable accounting standards	850	850	850	850	850	500	500	500
32	of which: classified as liabilities under applicable accounting standards	na	na	na	na	na	na	na	na
33	Directly issued capital instruments subject to phase out from Additional Tier 1	-	-	-	-	-	350	350	350
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in group AT1)	-	-	-	-	-	-	-	-
35	of which: instruments issued by subsidiaries subject to phase out	-	-	-	-	-	-	-	-
36	Additional Tier 1 capital before regulatory adjustments	850	850	850	850	850	850	850	850
Additional Tier 1 capital: regulatory adjustments									
43	Total regulatory adjustments to Additional Tier 1 capital	na	na	na	na	na	na	na	na
44	Additional Tier 1 capital (AT1)	850	850	850	850	850	850	850	850
45	Tier 1 capital (T1 = CET1 + AT1)	5,381	5,259	5,177	5,536	5,589	5,560	5,479	5,402
Tier 2 capital: instruments and allowances									
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	1,000	1,000	1,000	1,000	1,000	1,000	1,000	na
47	Directly issued capital instruments subject to phase out from Tier 2	39	39	39	39	39	39	39	380
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in group Tier 2)	na	na	na	na	na	na	na	na
49	of which: instruments issued by subsidiaries subject to phase out	na	na	na	na	na	na	na	na
50	Impairment allowances	5	4	4	4	3	2	3	2
51	Tier 2 capital before regulatory adjustments	1,044	1,043	1,043	1,043	1,042	1,042	1,042	382
Tier 2 capital: regulatory adjustments									
57	Total regulatory adjustments to Tier 2 capital	na	na	na	na	na	na	na	na
58	Tier 2 capital (T2)	1,044	1,043	1,043	1,043	1,042	1,042	1,042	382
59	Total capital (TC = T1 + T2)	6,425	6,302	6,220	6,579	6,632	6,602	6,521	5,784
60	Total risk-weighted assets	na	na	na	na	na	na	na	na
60a	Common Equity Tier 1 (CET1) Capital RWA ²	40,142	39,584	39,802	46,241	45,035	43,624	44,281	42,921
60b	Tier 1 Capital RWA 2	40,142	39,601	39,822	46,241	45,035	43,624	44,281	42,921
60c	Total Capital RWA 2	40,142	39,618	39,841	46,241	45,035	43,624	44,281	42,921

(1) "All-in" regulatory capital assumes that all Basel III regulatory adjustments are applied effective January 1, 2013 and that the capital value of instruments which no longer qualify as regulatory capital under Basel III rules will be phased out at a rate of 10% per year from January 1, 2013 and continuing to January 1, 2022.

(2) Since Q1 2018, CVA risk-weighted assets were calculated using the scalars of 0.80, 0.83 and 0.86 to compute CET1 capital ratio, Tier 1 capital ratio and Total capital ratio respectively. Including Regulatory Floor Adjustment.

Basel III Regulatory Capital (Continued)

(\$ millions except as noted)

Capital ratios		All-in Basis ¹							
		4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	11.3%	11.1%	10.9%	10.1%	10.5%	10.8%	10.5%	10.6%
62	Tier 1 (as percentage of risk-weighted assets)	13.4%	13.3%	13.0%	12.0%	12.4%	12.7%	12.4%	12.6%
63	Total capital (as percentage of risk-weighted assets)	16.0%	15.9%	15.6%	14.2%	14.7%	15.1%	14.7%	13.5%
OSFI all-in target									
69	Common Equity Tier 1 capital all-in target ratio	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%	7.0%
70	Tier 1 capital all-in target ratio	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%	8.5%
71	Total capital all-in target ratio	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%	10.5%
Current cap on CET1 instruments subject to phase out arrangements (only applicable between 1 Jan 2013 and 1 Jan 2022)									
80	Current cap on CET1 instruments subject to phase out arrangements	40%	40%	40%	40%	50%	50%	50%	50%
81	(excess over cap after redemptions and maturities)	na	na	na	na	na	na	na	na
82	Current cap on AT1 instruments subject to phase out arrangements	40%	40%	40%	40%	50%	50%	50%	50%
83	Amounts excluded from AT1 due to cap (excess over cap after redemptions and maturities)	-	-	-	-	-	-	-	-
84	Current cap on T2 instruments subject to phase out arrangements	40%	40%	40%	40%	50%	50%	50%	50%
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	-	-	-	-	-	60

Capital		Transitional Basis ²							
		4Q 2018	3Q 2018	2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017
29	Common Equity Tier 1 capital (CET1)	na	na	na	na	4,776	4,743	4,655	4,600
45	Tier 1 capital (T1 = CET1 + AT1)	na	na	na	na	5,612	5,581	5,494	5,428
59	Total capital (TC = T1 + T2)	na	na	na	na	6,648	6,619	6,534	5,806
60	Total risk-weighted assets	na	na	na	na	45,204	43,774	44,415	43,181
Capital ratios									
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	na	na	na	na	10.6%	10.8%	10.5%	10.7%
62	Tier 1 (as percentage of risk-weighted assets)	na	na	na	na	12.4%	12.7%	12.4%	12.6%
63	Total capital (as percentage of risk-weighted assets)	na	na	na	na	14.7%	15.1%	14.7%	13.5%
	Leverage Ratio	4.6%	4.5%	4.4%	4.8%	4.9%	5.1%	4.9%	4.8%

(1) "All-in" regulatory capital assumes that all Basel III regulatory adjustments are applied effective January 1, 2013 and that the capital value of instruments which no longer qualify as regulatory capital under Basel III rules will be phased out at a rate of 10% per year from January 1, 2013 and continuing to January 1, 2022.

(2) Transitional regulatory capital assumes that all Basel III regulatory capital adjustments are phased in from January 1, 2014 to January 1, 2018 and that the capital value of instruments which no longer qualify as regulatory capital under Basel III rules will be phased out at a rate of 10% per year from January 1, 2013 and continuing to January 1, 2022.

Credit Exposure by Counterparty Type

(\$ millions except as noted)

	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
December 31, 2018						September 30, 2018						
Corporate	33,447	13,492	5,606	1,696	2,963	57,203	32,250	12,960	6,681	898	2,906	55,694
Sovereign	21,096	589	3,885	421	57	26,047	21,371	581	2,522	128	57	24,659
Bank	5,158	10	4,205	632	978	10,983	4,388	6	4,264	678	977	10,313
Total Corporate, Sovereign and Bank (1)	59,700	14,091	13,695	2,749	3,998	94,233	58,009	13,547	13,467	1,704	3,940	90,667
Residential Mortgages	24,174					24,174	24,085					24,085
HELOC's	1,714	1,087				2,800	1,714	1,074				2,789
Other Retail (excluding QRR and SME)	1,462	189			1	1,653	1,526	193			1	1,720
Qualifying Revolving Retail	206	195				401	204	195				399
Retail SME	139	191			12	343	137	189			14	340
Total Retail	27,696	1,663			13	29,372	27,666	1,651			15	29,332
Total Gross Credit Exposure	87,396	15,753	13,695	2,749	4,012	123,605	85,675	15,198	13,467	1,704	3,955	119,999
June 30, 2018						March 31, 2018						
Corporate	31,768	13,078	5,222	1,100	3,143	54,312	29,669	13,030	2,188	969	2,863	48,719
Sovereign	19,910	584	829	184	58	21,565	20,700	582	2,543	228	57	24,111
Bank	4,228	5	3,350	603	1,006	9,191	4,241	4	6,596	768	944	12,553
Total Corporate, Sovereign and Bank	55,906	13,667	9,401	1,887	4,207	85,068	54,610	13,616	11,328	1,966	3,864	85,383
Residential Mortgages	23,443					23,443	22,967					22,967
HELOC's	1,700	1,052				2,752	1,686	1,040				2,726
Other Retail (excluding QRR and SME)	1,565	188			1	1,753	1,609	181			1	1,791
Qualifying Revolving Retail	206	196				402	206	200				406
Retail SME	146	186			14	345	149	185			13	348
Total Retail	27,059	1,622			15	28,696	26,617	1,606			14	28,238
Total Gross Credit Exposure	82,965	15,289	9,401	1,887	4,222	113,764	81,227	15,222	11,328	1,966	3,878	113,621
December 31, 2017						September 30, 2017						
Corporate	28,797	12,358	3,246	841	2,949	48,192	28,231	11,776	3,537	969	2,816	47,329
Sovereign	20,109	576	1,570	129	32	22,415	19,366	635	867	129	2	20,999
Bank	4,311	29	5,342	1,049	1,025	11,756	3,594	37	6,258	902	988	11,780
Total Corporate, Sovereign and Bank	53,218	12,963	10,158	2,019	4,005	82,363	51,192	12,447	10,663	2,000	3,806	80,107
Residential Mortgages	22,674	2				22,675	21,890	2				21,892
HELOC's	1,722	1,041				2,763	1,747	1,033				2,781
Other Retail (excluding QRR and SME)	1,630	175			1	1,806	1,674	182			1	1,857
Qualifying Revolving Retail	214	203				417	225	211				435
Retail SME	168	278			13	460	170	263			14	447
Total Retail	26,408	1,699			14	28,121	25,707	1,690			15	27,412
Total Gross Credit Exposure	79,626	14,662	10,158	2,019	4,020	110,485	76,898	14,137	10,663	2,000	3,821	107,519
June 30, 2017						March 31, 2017						
Corporate	28,626	11,989	3,010	1,069	3,087	47,780	27,674	12,050	3,993	1,148	3,137	48,002
Sovereign	18,588	644	1,242	149	2	20,624	20,068	638	374	173	1	21,255
Bank	3,721	28	5,957	921	918	11,544	3,937	6,783	666	666	922	12,309
Total Corporate, Sovereign and Bank	50,934	12,661	10,208	2,139	4,006	79,948	51,679	12,688	11,150	1,987	4,061	81,566
Residential Mortgages	20,817	4				20,821	19,938	3				19,940
HELOC's	1,769	1,026				2,795	1,780	1,027				2,807
Other Retail (excluding QRR and SME)	1,736	177			1	1,915	1,810	179			2	1,990
Qualifying Revolving Retail	224	207				431	227	210				438
Retail SME	178	270			14	462	178	209			15	402
Total Retail	24,725	1,684			16	26,425	23,933	1,628			17	25,577
Total Gross Credit Exposure	75,659	14,345	10,208	2,139	4,022	106,373	75,612	14,317	11,150	1,987	4,077	107,143

(1) Effective Q1 2016, OSFI has authorised HSBC Bank Canada's Market Risk model. As a result, credit risk exposures exclude the trading portfolio.

Credit Exposure by Geography

(\$ millions except as noted)

	December 31, 2018						September 30, 2018					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
British Columbia	26,145	3,696		236	735	30,812	26,162	3,876	200	43	659	30,939
Western Canada, excluding British Columbia	9,478	3,635	514	836	514	14,977	9,362	3,390	362	446	534	14,094
Ontario	43,529	5,482	11,666	1,468	2,101	64,246	42,192	5,221	12,128	1,050	2,087	62,679
Quebec & Atlantic provinces	8,244	2,940	1,516	209	662	13,570	7,958	2,711	777	165	675	12,287
Total Gross Credit Exposure (1)	87,396	15,753	13,695	2,749	4,012	123,605	85,675	15,198	13,467	1,704	3,955	119,999

	June 30, 2018						March 31, 2018					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
British Columbia	25,568	3,617	1,354	626	640	31,806	24,499	3,535	400	72	596	29,102
Western Canada, excluding British Columbia	8,971	3,743		522	580	13,817	8,515	3,782	546	566	513	13,922
Ontario	40,333	5,139	6,791	542	2,341	55,146	39,066	5,132	7,611	1,156	2,116	55,080
Quebec & Atlantic provinces	8,093	2,789	1,255	197	661	12,995	9,147	2,773	2,771	172	653	15,517
Total Gross Credit Exposure	82,965	15,289	9,401	1,887	4,222	113,764	81,227	15,222	11,328	1,966	3,878	113,621

	December 31, 2017						September 30, 2017					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
British Columbia	24,301	3,581	1,305	58	510	29,756	23,053	3,522	655	65	469	27,763
Western Canada, excluding British Columbia	8,203	3,925		431	572	13,131	8,281	3,582		408	607	12,879
Ontario	39,989	4,675	6,792	1,352	2,232	55,040	38,745	4,463	8,664	1,304	2,062	55,238
Quebec & Atlantic provinces	7,133	2,481	2,061	178	706	12,558	6,820	2,570	1,343	223	683	11,639
Total Gross Credit Exposure	79,626	14,662	10,158	2,019	4,020	110,485	76,898	14,137	10,663	2,000	3,821	107,519

	June 30, 2017						March 31, 2017					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
British Columbia	22,535	3,646	258	99	473	27,011	22,207	3,453	1,024	98	480	27,262
Western Canada, excluding British Columbia	8,388	3,753		534	810	13,485	8,655	3,869		634	819	13,977
Ontario	37,344	4,690	8,446	1,283	2,000	53,763	38,051	4,638	9,180	1,088	2,019	54,975
Quebec & Atlantic provinces	7,392	2,257	1,504	222	739	12,114	6,699	2,357	946	168	759	10,929
Total Gross Credit Exposure	75,659	14,345	10,208	2,139	4,022	106,373	75,612	14,317	11,150	1,987	4,077	107,143

(1) Effective Q1 2016, OSFI has authorised HSBC Bank Canada's Market Risk model. As a result, credit risk exposures exclude the trading portfolio.

Residual Contract Maturity Breakdown

(\$ millions except as noted)

	December 31, 2018						September 30, 2018					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
Within 1 year	24,872	7,754	13,695	1,530	3,063	50,914	22,808	7,701	13,467	791	3,157	47,924
1-5 years	51,745	6,331		885	871	59,832	53,185	5,918		597	730	60,431
Greater than 5 years	10,779	1,668		334	77	12,859	9,682	1,579		315	67	11,644
Total Gross Credit Exposure (1)	87,396	15,753	13,695	2,749	4,012	123,605	85,675	15,198	13,467	1,704	3,955	119,999

	June 30, 2018						March 31, 2018					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
Within 1 year	23,025	7,142	9,401	862	3,500	43,930	23,487	7,764	11,328	939	2,922	46,441
1-5 years	51,082	6,365		661	643	58,752	49,158	6,108		636	889	56,790
Greater than 5 years	8,858	1,782		363	78	11,081	8,582	1,351		391	67	10,390
Total Gross Credit Exposure	82,965	15,289	9,401	1,887	4,222	113,764	81,227	15,222	11,328	1,966	3,878	113,621

	December 31, 2017						September 30, 2017					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
Within 1 year	23,991	8,634	10,158	801	2,816	46,401	23,226	8,371	10,663	915	2,781	45,955
1-5 years	49,486	5,779		793	1,105	57,163	46,692	5,622		717	978	54,009
Greater than 5 years	6,149	248		425	99	6,921	6,980	144		368	62	7,554
Total Gross Credit Exposure	79,626	14,662	10,158	2,019	4,020	110,485	76,898	14,137	10,663	2,000	3,821	107,519

	June 30, 2017						March 31, 2017					
	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total	Loans (Drawn)	Commitments (Undrawn)	Repo Style Transactions	OTC	Other Off Balance Sheet Items	Total
Within 1 year	22,498	8,579	10,208	992	3,193	45,470	20,804	8,462	11,150	841	3,001	44,258
1-5 years	46,117	5,463		682	766	53,028	47,434	5,546		738	1,016	54,733
Greater than 5 years	7,044	304		465	63	7,875	7,374	309		408	61	8,152
Total Gross Credit Exposure	75,659	14,345	10,208	2,139	4,022	106,373	75,612	14,317	11,150	1,987	4,077	107,143

(1) Effective Q1 2016, OSFI has authorised HSBC Bank Canada's Market Risk model. As a result, credit risk exposures exclude the trading portfolio.

Credit Risk Portfolio Exposure at Default

(\$ millions except as noted)

	December 31, 2018				September 30, 2018				June 30, 2018				March 31, 2018			
	Standardized		AIRB		Standardized		AIRB		Standardized		AIRB		Standardized		AIRB	
	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn
Corporate	896		32,551	13,492	420		31,830	12,960	456		31,312	13,078	405		29,265	13,030
Sovereign			21,096	589			21,371	581			19,910	584			20,700	582
Bank			5,158	10			4,388	6			4,228	5			4,241	4
Total Corporate, Sovereign and Bank (1)	896		58,804	14,091	420		57,588	13,547	456		55,450	13,667	405		54,205	13,616
Residential Mortgages			24,174				24,085				23,443				22,967	
HELOC's			1,714	1,087			1,714	1,074			1,700	1,052			1,686	1,040
Other Retail (excluding QRR and SME)	439		1,024	189	430		1,095	193	429		1,136	188	415		1,194	181
Qualifying Revolving Retail			206	195			204	195			206	196			206	200
Retail SME			139	191			137	189			146	186			149	185
Total Retail	439		27,257	1,663	430		27,236	1,651	429		26,630	1,622	415		26,202	1,606
Total Gross Credit Exposure	1,335		86,061	15,753	851		84,824	15,198	885		82,080	15,289	820		80,407	15,222

	December 31, 2017				September 30, 2017				June 30, 2017				March 31, 2017			
	Standardized		AIRB		Standardized		AIRB		Standardized		AIRB		Standardized		AIRB	
	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn	Loans (Drawn)	Credit Equivalent Amount on Undrawn
Corporate	208		28,589	12,358	26		28,205	11,776	75		28,551	11,989	24		27,650	12,050
Sovereign			20,109	576			19,366	635			18,588	644			20,068	638
Bank			4,311	29			3,594	37			3,721	28			3,937	
Total Corporate, Sovereign and Bank	208		53,010	12,963	26		51,165	12,447	75		50,860	12,661	24		51,656	12,688
Residential Mortgages			22,674	2			21,890	2			20,817	4			19,938	3
HELOC's			1,722	1,041			1,747	1,033			1,769	1,026			1,780	1,027
Other Retail (excluding QRR and SME)	444		1,186	175	439		1,235	182	459		1,277	177	455		1,355	179
Qualifying Revolving Retail			214	203			225	211			224	207			227	210
Retail SME			168	278			170	263			178	270			178	209
Total Retail	444	-	25,964	1,699	439	-	25,268	1,690	459	-	24,266	1,684	455	-	23,478	1,628
Total Gross Credit Exposure	652	-	78,974	14,662	465	-	76,434	14,137	534	-	75,125	14,345	479	-	75,133	14,317

(1) Effective Q1 2016, OSFI has authorised HSBC Bank Canada's Market Risk model. As a result, credit risk exposures exclude the trading portfolio.

Standardized Exposures by Risk Weight Category

(\$ millions except as noted)

	December 31, 2018								September 30, 2018							
	Risk Weight Category								Risk Weight Category							
	0%	20%	35%	50%	75%	100%	150%	Total	0%	20%	35%	50%	75%	100%	150%	Total
Corporate Sovereign Bank						896		896						420		420
Total Corporate, Sovereign and Bank						896		896						420		420
Residential Mortgages (1) Heloc's Other Retail Retail SME					433	6		439					425	6		431
Total Retail					433	6		439					425	6		431
Total Exposure at Default					433	902		1,335					425	427		851

	June 30, 2018								March 31, 2018							
	Risk Weight Category								Risk Weight Category							
	0%	20%	35%	50%	75%	100%	150%	Total	0%	20%	35%	50%	75%	100%	150%	Total
Corporate Sovereign Bank						456		456						405		405
Total Corporate, Sovereign and Bank						456		456						405		405
Residential Mortgages Heloc's Other Retail Retail SME					423	6		429					407	7		415
Total Retail					423	6		429					407	7		415
Total Exposure at Default					423	462		885					407	405	7	820

	December 31, 2017								September 30, 2017							
	Risk Weight Category								Risk Weight Category							
	0%	20%	35%	50%	75%	100%	150%	Total	0%	20%	35%	50%	75%	100%	150%	Total
Corporate Sovereign Bank						208		208						26		26
Total Corporate, Sovereign and Bank						208		208						26		26
Residential Mortgages Heloc's Other Retail Retail SME					437	7		444					431	8		439
Total Retail					437	7		444					431	8		439
Total Exposure at Default					437	216		652					431	34		465

	June 30, 2017								March 31, 2017							
	Risk Weight Category								Risk Weight Category							
	0%	20%	35%	50%	75%	100%	150%	Total	0%	20%	35%	50%	75%	100%	150%	Total
Corporate Sovereign Bank						75		75						24		24
Total Corporate, Sovereign and Bank						75		75						24		24
Residential Mortgages Heloc's Other Retail Retail SME					451	8		459					446	9		455
Total Retail					451	8		459					446	9		455
Total Exposure at Default					451	83		534					446	33		479

Risk Assessment - IRB Retail Credit Portfolio

(\$ millions except as noted)

	December 31, 2018						September 30, 2018					
	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total
Strong	23,957	2,734	1,183	312	159	28,345	23,873	2,725	1,256	309	175	28,337
Medium	186	63	27	84	180	540	178	61	29	84	161	512
Sub-Standard			1	4		5			1	4		5
Impaired/Default	31	4	4	1	4	44	34	4	4	2	4	47
Total Exposure at Default	24,174	2,800	1,214	401	343	28,933	24,085	2,789	1,289	399	340	28,902

	June 30, 2018						March 31, 2018					
	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total
Strong	23,168	2,659	1,292	311	238	27,669	22,698	2,635	1,342	314	240	27,228
Medium	242	90	28	86	103	550	237	90	29	87	104	546
Sub-Standard			1	3		4			1	3		4
Impaired/Default	33	2	4	2	4	44	32	2	4	2	4	44
Total Exposure at Default	23,443	2,752	1,325	402	345	28,267	22,967	2,726	1,376	406	348	27,823

	December 31, 2017						September 30, 2017					
	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total
Strong	22,390	2,647	1,330	323	217	26,907	21,607	2,669	1,386	327	214	26,202
Medium	245	113	27	88	237	710	247	108	27	103	227	712
Sub-Standard			1	4		5			1	4	1	5
Impaired/Default	40	3	5	2	5	55	38	4	4	2	5	54
Total Exposure at Default	22,675	2,763	1,362	417	460	27,677	21,892	2,781	1,418	435	447	26,973

	June 30, 2017						March 31, 2017					
	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total	Residential Mortgages	HELOC	Other Retail (excl. QRR and SME)	Qualifying Revolving Retail	Retail SME	Total
Strong	20,526	2,714	1,416	319	225	25,200	19,633	2,724	1,475	322	185	24,339
Medium	254	76	34	106	232	701	269	77	54	109	213	722
Sub-Standard			1	4		5			1	4		5
Impaired/Default	41	6	4	3	6	59	38	7	4	2	5	56
Total Exposure at Default	20,821	2,795	1,456	431	462	25,966	19,940	2,807	1,535	438	402	25,122

Risk Assessment - AIRB Non-Retail Credit Portfolio ⁽¹⁾

(\$ millions except as noted)

Internal Rating	December 31, 2018				September 30, 2018				June 30, 2018				March 31, 2018			
	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)
Corporate																
Minimal Risk	2,239	0.04	49	14	1,708	0.04	45	13	1,663	0.03	45	13	1,659	0.04	40	14
Low Risk	4,407	0.11	44	31	3,781	0.11	42	30	4,129	0.11	43	28	4,077	0.11	43	29
Satisfactory Risk	26,831	0.41	36	47	26,046	0.41	36	47	25,231	0.41	36	47	23,657	0.40	35	46
Fair Default Risk	11,877	1.12	34	67	11,387	1.13	34	67	11,659	1.09	34	66	11,041	1.11	33	66
Moderate Default Risk	3,232	3.20	32	84	3,557	3.14	34	92	3,672	3.09	34	92	3,554	3.12	34	92
Significant Default Risk	1,026	6.27	34	116	942	6.58	33	116	1,004	6.58	33	118	770	6.51	29	109
High Default Risk	668	10.43	34	140	661	10.31	35	143	568	10.31	34	143	627	10.91	35	144
Special Management	239	37.03	31	145	357	31.33	36	178	406	29.68	36	178	381	27.22	35	177
Default	227	100.00	45	91	254	100.00	48	123	285	100.00	47	149	387	100.00	43	186
Total Corporate (2)	50,745	1.58	37	55	48,694	1.74	36	57	48,617	1.81	36	56	46,152	2.04	35	56
Sovereign																
Minimal Risk	22,017	0.02	9	3	22,039	0.02	8	3	20,578	0.02	8	3	21,471	0.02	9	3
Low Risk	159	0.08	27	8	208	0.07	11	8	190	0.07	11	8	191	0.07	24	8
Satisfactory Risk	2	0.25	46	36	2	0.25	46	37	2	0.35	46	47	2	0.34	46	46
Fair Default Risk																
Default																
Total Sovereign (2)	22,178	0.02	9	3	22,249	0.02	8	3	20,770	0.02	8	3	21,664	0.02	9	3
Bank																
Minimal Risk	4,102	0.03	16	6	3,982	0.03	17	6	3,857	0.03	16	6	3,854	0.03	15	6
Low Risk	2,680	0.12	27	17	2,074	0.12	27	17	2,046	0.13	27	18	2,072	0.13	19	18
Satisfactory Risk	19	0.34	31	41	11	0.42	32	44	25	0.35	31	34	53	0.35	33	35
Fair Default Risk	1	1.22	35	59	6	0.91	40	71	8	1.34	31	55	10	1.34	15	56
Moderate Default Risk																
Significant Default Risk																
High Default Risk					1	10.00	59	313	1	10.00	59	313	1	10.00	59	313
Special Management																
Default																
Total Bank (2)	6,803	0.07	20	10	6,074	0.06	20	10	5,936	0.07	20	11	5,989	0.07	17	11

Internal Rating	December 31, 2017				September 30, 2017				June 30, 2017				March 31, 2017			
	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)
Corporate																
Minimal Risk	1,199	0.04	48	15	1,256	0.04	47	14	1,247	0.04	46	13	1,222	0.04	45	14
Low Risk	3,877	0.12	44	28	3,689	0.12	43	27	4,183	0.12	45	28	3,897	0.11	44	28
Satisfactory Risk	23,169	0.40	36	44	22,164	0.41	37	44	22,109	0.42	37	45	20,941	0.41	36	45
Fair Default Risk	10,807	1.12	34	63	11,012	1.13	34	63	11,684	1.14	34	63	11,911	1.17	34	65
Moderate Default Risk	3,296	3.12	34	87	3,199	3.00	32	82	3,153	2.93	33	83	3,391	2.85	33	82
Significant Default Risk	1,125	6.32	34	111	950	6.33	33	107	686	6.82	34	112	734	6.97	33	109
High Default Risk	552	10.81	37	143	823	10.83	36	145	961	10.71	34	138	982	10.78	34	136
Special Management	342	32.50	31	141	266	29.19	37	176	253	29.61	31	142	342	29.92	32	148
Default	405	100.00	47	237	427	100.00	41	170	485	100.00	44	180	576	100.00	45	193
Total Corporate	44,772	2.16	37	55	43,786	2.22	36	55	44,771	2.31	37	55	43,996	2.64	36	57
Sovereign																
Minimal Risk	20,748	0.02	8	3	20,073	0.02	7	2	19,317	0.03	17	3	20,624	0.02	7	3
Low Risk	133	0.07	12	10	67	0.07	14	15	72	0.07	14	15	255	0.07	35	14
Satisfactory Risk	2	0.37	45	45	3	0.38	45	46	2	0.34	46	43	2	0.34	47	43
Fair Default Risk																
Default																
Total Sovereign	20,883	0.02	8	3	20,143	0.02	7	2	19,391	0.03	17	3	20,881	0.02	8	3
Bank																
Minimal Risk	5,032	0.03	19	7	4,700	0.03	18	7	4,878	0.03	20	7	4,806	0.03	19	8
Low Risk	1,389	0.10	27	17	832	0.12	28	20	849	0.12	28	20	729	0.13	29	22
Satisfactory Risk	40	0.37	39	30	35	0.30	36	28	23	0.34	36	29	29	0.35	34	33
Fair Default Risk	5	1.18	39	38	16	1.48	51	76	6	1.58	57	67	16	1.25	46	72
Moderate Default Risk					4	3.05	51	111	1	3.05	51	113				
Significant Default Risk																
High Default Risk	1	10.00	59	215	1	10.00	59	215	1	10.00	59	216	1	10.00	62	227
Special Management																
Default																
Total Bank	6,467	0.05	21	9	5,588	0.06	20	9	5,758	0.05	21	9	5,581	0.05	20	10

(1) Net of collateral, guarantees and credit derivatives

"EAD" - Exposure at Default, "PD" - Probability of Default, "LGD" - Loss Given Default, "Risk Weight %" is a Weighted Average based on EAD

(2) Effective Q1 2016, OSFI has authorised HSBC Bank Canada's Market Risk model. As a result, credit risk exposures exclude the trading portfolio.

Exposures Covered By Credit Risk Mitigation

(\$ millions except as noted)

Counterparty Type	December 31, 2018			September 30, 2018			June 30, 2018			March 31, 2018		
	Standardized		AIRB	Standardized		AIRB	Standardized		AIRB	Standardized		AIRB
	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees
Corporate			882			899			900			842
Sovereign												
Bank												
Total Corporate, Sovereign and Bank			882			899			900			842
Residential Mortgages			2,461			2,516			1,976			1,952
HELOC's												
Other Retail (excluding QRR and SME)												
Qualifying Revolving Retail												
Retail SME												
Total Retail			2,461			2,516			1,976			1,952
Total			3,342			3,416			2,875			2,794

Counterparty Type	December 31, 2017			September 30, 2017			June 30, 2017			March 31, 2017		
	Standardized		AIRB	Standardized		AIRB	Standardized		AIRB	Standardized		AIRB
	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees	Eligible Financial Collateral	Credit Derivatives/ Guarantees	Credit Derivatives/ Guarantees
Corporate			711			711			675			1,072
Sovereign												
Bank												
Total Corporate, Sovereign and Bank			711			711			675			1,072
Residential Mortgages			2,002			2,057			1,539			1,701
HELOC's												
Other Retail (excluding QRR and SME)												
Qualifying Revolving Retail												
Retail SME												
Total Retail			2,002			2,057			1,539			1,701
Total			2,713			2,768			2,214			2,773

AIRB Credit Risk Exposures - Credit Commitments

(\$ millions except as noted)

Counterparty Type	December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018	
	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn
Corporate	33,818	13,492	32,484	12,960	32,646	13,078	32,513	13,030
Sovereign	1,436	589	1,418	581	1,425	584	1,419	582
Bank	29	10	19	6	15	5	14	4
Total Corporate, Sovereign and Bank	35,284	14,091	33,920	13,547	34,085	13,667	33,946	13,616
Residential Mortgages	2		2		3		3	
HELOC's	3,619	1,087	3,568	1,074	3,469	1,052	3,442	1,040
Other Retail (excluding QRR and SME)	622	189	616	193	610	188	588	181
Qualifying Revolving Retail	842	195	838	195	838	196	854	200
Retail SME	192	191	189	189	187	186	186	185
Total Retail	5,278	1,663	5,213	1,651	5,106	1,622	5,073	1,606
Total	40,561	15,753	39,134	15,198	39,192	15,289	39,019	15,222

Counterparty Type	December 31, 2017		September 30, 2017		June 30, 2017		March 31, 2017	
	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn
Corporate	30,861	12,358	29,400	11,776	29,904	11,989	30,038	12,050
Sovereign	1,405	576	1,548	635	1,571	644	1,557	638
Bank	72	29	94	37	71	28	61	
Total Corporate, Sovereign and Bank	32,338	12,963	31,043	12,447	31,545	12,661	31,656	12,688
Residential Mortgages	5	2	3	2	8	4	8	3
HELOC's	3,412	1,041	3,354	1,033	3,320	1,026	3,298	1,027
Other Retail (excluding QRR and SME)	585	175	596	182	596	177	596	179
Qualifying Revolving Retail	865	203	878	211	876	207	888	210
Retail SME	279	278	264	263	271	270	210	209
Total Retail	5,146	1,699	5,095	1,690	5,070	1,684	5,000	1,628
Total	37,485	14,662	36,138	14,137	36,615	14,345	36,656	14,317

Securitization

Securitization strategy

HSBC acts as originator, sponsor, investor, liquidity provider and derivative counterparty to its own originated and sponsored securitizations, as well as those of third party securitizations. Our strategy is to use securitizations to meet our needs for aggregate funding or capital management, to the extent that market regulatory treatments and other conditions are suitable, and for customer facilitation.

Our roles in the securitization process are as follows:

Originator: where we originate the assets being securitized;

Sponsor: where we establish and manage a securitization programme that purchases exposures from third parties and provide derivatives or liquidity facilities; and

Investor: where we invest in a securitization transaction directly.

HSBC as an originator

We securitize National Housing Act ('NHA') mortgage backed securities ('MBS') through programs sponsored by the Canada Mortgage and Housing Corporation. Under International Financial Reporting Standards ('IFRS'), the terms of the transaction do not meet the de-recognition criteria included within IAS 39 because the pass-through test is not met. Therefore, the transaction is accounted for as a secured borrowing with the underlying mortgages of the MBS remaining on balance sheet and a liability recognized for the funding received, with no recognition of gains or losses on transfer.

Risk weighted assets are calculated on the mortgage pools and no regulatory relief is taken on the securitization. As a result, these are not considered securitization exposures and have been excluded from all securitization quantitative disclosures.

HSBC as sponsor

We act as financial services agent for a multi-seller asset-backed commercial paper conduit program ('multi-seller conduit') and also provide swap and liquidity facilities.

This multi-seller conduit provides the bank's clients with alternate sources of financing through the securitization of their assets. Clients sell financial assets to the conduit and the conduit funds its purchase of such financial assets through the issuance of short-term asset-backed commercial paper to investors. Each client continues to service the financial assets they have sold to the multi-seller conduit and absorbs the first losses associated with such assets. The bank has no rights to the assets as they are owned by the multi-seller conduit.

For more detail on the liquidity facilities outlined above, refer to the note on contingent liabilities, contractual commitments and guarantees, Annual Report and Accounts 2018.

Securitization

HSBC as investor

We have exposure to third party securitizations in the form of NHA MBS, Canada Housing Trust bullet bonds, non-NHA residential mortgage securitizations and asset backed commercial paper.

These securitization positions are managed by a dedicated team that uses a combination of market standard systems and third party data providers to monitor performance data and manage market and credit risks.

For a description of the bank's credit and market risk policies please refer to the credit risk and market risk sections in Management's Discussion and Analysis, Annual Report and Accounts 2018.

Valuation of securitization positions

The valuation process of our investments in securitization exposures primarily focuses on quotations from third parties, observed trade levels and calibrated valuations from market standard models. This process has not changed.

Securitization activities during 2018

No activity during 2018.

Calculation of risk-weighted assets for securitization exposures

Securitization exposures are currently treated as on balance sheet and included in the Basel III category to which the exposures relate. The bank uses the Advanced Internal Ratings Based approach (AIRB). This approach uses the bank's own historical experience of probability of default (PD), loss given default (LGD) and exposure at default (EAD) and other key risk assumptions to calculate credit risk capital requirements.

Securitization accounting treatment

For information on the bank's securitization accounting treatment, please refer to the note on significant account policies, Annual Report and Accounts 2018.

Securitization Exposures

(\$ millions except as noted)

Securitization exposure - by trading and banking book^{1 2}

	At December 31, 2018			At September 30, 2018			At June 30, 2018			At March 31, 2018		
	Trading	Banking	Total	Trading	Banking	Total	Trading	Banking	Total	Trading	Banking	Total
As Sponsor³												
Trade receivables	-	-	-	-	-	-	-	-	-	-	-	-
As Investor												
Residential mortgages												
Trade receivables												

	At December 31, 2017			At September 30, 2017			At June 30, 2017			At March 31, 2017		
	Trading	Banking	Total	Trading	Banking	Total	Trading	Banking	Total	Trading	Banking	Total
As Sponsor³												
Trade receivables	-	-	-	-	-	-	-	-	-	-	-	-
As Investor												
Residential mortgages												
Trade receivables												

1 All securitizations exposures result from traditional securitizations. National Housing Association MBS and bonds issued by Canada Housing Trust are not considered securitization exposures and are excluded.

2 All securitization exposures in role of Investor are recorded on-Balance Sheet; exposures in role of Sponsor are off-Balance Sheet with the exception of \$4 million at March 2014 (zero for periods thereafter) in respect of derivative contracts with the bank sponsored multi-seller conduit.

3 Securitization exposures in role of sponsor are reported pre credit conversion factor.

Securitization exposure - movement year to date

	Total at January 1	Year to date movement		Total at December 31
		As sponsor	As investor	
2018				
Aggregate amount of securitization exposures (retained or purchased)				
Residential mortgages				
Trade receivables	0	-	-	0
	0	-	-	0

Securitization exposure - asset values and impairment charges

	At December 31, 2018			At September 30, 2018			At June 30, 2018			At March 31, 2018		
	Underlying assets ¹		Securitization exposures Impairment charge	Underlying assets ¹		Securitization exposures Impairment charge	Underlying assets ¹		Securitization exposures Impairment charge	Underlying assets ¹		Securitization exposures Impairment charge
	Total	Impaired & past due		Total	Impaired & past due		Total	Impaired & past due		Total	Impaired & past due	
As Sponsor												
Trade receivables	-	-	-	-	-	-	-	-	-	-	-	
As Investor												
Residential mortgages												
Trade receivables												

	At December 31, 2017			At September 30, 2017			At June 30, 2017			At March 31, 2017		
	Underlying assets ¹		Securitization exposures Impairment charge	Underlying assets ¹		Securitization exposures Impairment charge	Underlying assets ¹		Securitization exposures Impairment charge	Underlying assets ¹		Securitization exposures Impairment charge
	Total	Impaired & past due		Total	Impaired & past due		Total	Impaired & past due		Total	Impaired & past due	
As Sponsor												
Trade receivables	-	-	-	-	-	-	-	-	-	-	-	
As Investor¹												
Residential mortgages												
Trade receivables												

1 For securitisations where HSBC acts as investor, information on third-party underlying assets is not available.

Securitization Exposures

(\$ millions except as noted)

Securitization exposures by risk weighting

	Exposure value at December 31, 2018			Exposure value at September 30, 2018			Exposure value at June 30, 2018			Exposure value at March 31, 2018		
	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total
Category risk weights												
≤ 10%												
> 10% ≤ 20%	-	-	-	-	-	-	-	-	-	-	-	-
> 20% ≤ 50%												
> 50% ≤ 100%												
> 100% ≤ 650%												
> 650% < 1250%												
1250%												
Total	-	-	-	-	-	-	-	-	-	-	-	-

	Exposure value at December 31, 2017			Exposure value at September 30, 2017			Exposure value at June 30, 2017			Exposure value at March 31, 2017		
	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total
Category risk weights												
≤ 10%												
> 10% ≤ 20%	-	-	-	-	-	-	-	-	-	-	-	-
> 20% ≤ 50%												
> 50% ≤ 100%												
> 100% ≤ 650%												
> 650% < 1250%												
1250%												
Total	-	-	-	-	-	-	-	-	-	-	-	-

Capital required by risk weighting

	Capital required at December 31, 2018			Capital required at September 30, 2018			Capital required at June 30, 2018			Capital required at March 31, 2018		
	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total
Category risk weights												
≤ 10%												
> 10% ≤ 20%	-	-	-	-	-	-	-	-	-	-	-	-
> 20% ≤ 50%												
> 50% ≤ 100%												
> 100% ≤ 650%												
> 650% < 1250%												
1250%												
Total	-	-	-	-	-	-	-	-	-	-	-	-

	Capital required at December 31, 2017			Capital required at September 30, 2017			Capital required at June 30, 2017			Capital required at March 31, 2017		
	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total	Trading book	Banking book	Total
Category risk weights												
≤ 10%												
> 10% ≤ 20%	-	-	-	-	-	-	-	-	-	-	-	-
> 20% ≤ 50%												
> 50% ≤ 100%												
> 100% ≤ 650%												
> 650% < 1250%												
1250%												
Total	-	-	-	-	-	-	-	-	-	-	-	-

Market Risk

Market Risk

Market Risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spread, equity prices and commodity prices will reduce the value of our portfolios.

Market Risk Governance

(a) HSBC Bank Canada's strategic objectives in undertaking trading activities are to solidify the Bank's position as the leading international bank in Canada through finance-focused and emerging markets-led strategy. The Bank delivers global products and solutions to domestic clients, and provides global clients access to local products and services.

HSBC Bank Canada computes various measures to monitor market risk and compute capital charges, including sensitivity (daily) to changes in risk factor values, VaR (daily), stressed VaR (weekly), and stress testing (monthly). The risk measures are compared to limits and breaches are escalated to senior management.

Calculations are performed using global models and systems for measuring market risk. Information from the Primary Trading Systems is sent to the global systems, where the calculations are performed and made available for review.

(b) Market Risk is the independent oversight unit within HSBC Bank Canada and has a mandate to ensure that market risks are within the risk appetite of the Bank. Market Risk is responsible for the daily calculation of market risk measures and backtesting reports, setting of limits and monitoring exposures against limits, and calculation and reporting of capital charges. The Global Risk Analytics team, which is responsible for development and validation of model methodology, as well as liaison with external regulators, works closely with the core Market Risk team.

The Audit and Risk Committee (ARC), a committee of the Board of Directors, has non-executive responsibility for oversight and advice to the Board on matters related to financial reporting and high-level risk related matters and governance. The Risk Management Meeting (RMM) has a mission to provide strategic enterprise-wide risk management. A subcommittee of the RMM is the Markets Model Oversight Committee, which is primarily responsible for oversight (including approval, monitoring, vetting, ensuring fitness of purpose, etc.) of models, which are used primarily for regulatory capital charges.

(c) HSBC Bank Canada uses a range of tools to monitor and limit market risk exposures. These include but not limited to: present value of a basis point, Value at Risk ('VaR'), foreign exchange exposure limits, maximum loss limits, credit spread limits, and issuer limits.

Market Risk

Internal Model Approach (IMA)

(a) At HSBC Bank Canada the IMA covers VaR, stressed VaR, and stress testing calculations for the Trading Book. A historical simulation approach is used to measure general market risk for interest rate and foreign exchange risk factors. All risks are included in the historical simulation approach for general market risk. A standard charge approach is used to estimate the interest rate specific risk.

(b) HSBC Bank Canada uses the global models and systems to compute general market risk. The valuation approach used in our models relies on a sensitivity based approach for linear instruments such as bond and swap. Information from the primary trading systems is passed to the global market risk systems and the results are made available to HSBC Bank Canada. A local system is used to compute the standard charge.

(c) A historical simulation approach is used to compute VaR and stressed VaR.

(d) For management purposes 1-day VaR and 10-day Stressed VaR are computed. For regulatory purposes, 10-day VaR and 10-day Stressed VaR are computed.

(e) For VaR, the historical scenarios are based on potential market movements that are calculated with reference to data from the past two years. The VaR is calculated to a 99% confidence level and for a one-day holding period. The result is scaled, using the square root of 10, from one day to provide an equivalent 10-day loss. For specific risk, the standard charge calculation is separate from the historical simulation approach for the general market risk. The standard charge is aggregated with the VaR and Stressed VaR contributions when computing the market risk capital charge. A sensitivity-based approach is used to compute the profit and loss for the VaR calculation. Relative returns are used for credit spreads and exchange rates and absolute returns are used for interest rates.

(f) The Stressed VaR calculation follows the same approach as our VaR risk measure except that 10-day VaR is computed directly and one year of stress for the trading portfolio scenarios are used. Each quarter the stressed VaR period is determined by computing VaR on a continuous one-year window going back to 2007 to determine the period yielding the most volatile period in recent history. This period is then used for the remainder of the quarter for the weekly Stressed VaR calculation. Both global and HSBC Bank Canada stressed VaR period are computed.

(g) Stress Testing is performed on monthly basis using both globally-defined and locally-defined scenarios. The locally-defined scenarios are chosen based on the HSBC Bank Canada portfolio and relevant risk factors. Stressed profit and loss figures are compared against limits and breaches are reported to senior management.

(h) Backtesting is performed on a daily basis. The historical simulation general market risk 1-day VaR is compared against the hypothetical 1 day profit and loss (assuming portfolio remains constant over the 1 day). This is done at various levels, including Total Trading Book, lines of business, and at the risk factor level. Breaches of 99%-ile 1-day VaR are investigated and reported to the regulator within 2 business days.

Market Risk RWA

(\$ millions except as noted)

RWA flow statement of market risk exposures	December 31, 2018			September 30, 2018			June 30, 2018			March 31, 2018		
	VaR	Stressed VaR	Total RWA	VaR	Stressed VaR	Total RWA	VaR	Stressed VaR	Total RWA	VaR	Stressed VaR	Total RWA
Internal model approach:												
RWA at previous quarter-end	206	408	614	321	487	808	275	328	603	253	370	623
Movement in risk levels (1)	33	55	88	(115)	(80)	(194)	46	159	205	23	(42)	(20)
Methodology and policy (2)												
RWA at end of reporting period	239	462	702	206	408	614	321	487	808	275	328	603
Standardised method:												
Interest rate position risk (specific)			138			248			369			519
RWA at end of reporting period			840			862			1,177			1,123

RWA flow statement of market risk exposures	December 31, 2017			September 30, 2017			June 30, 2017			March 31, 2017		
	VaR	Stressed VaR	Total RWA	VaR	Stressed VaR	Total RWA	VaR	Stressed VaR	Total RWA	VaR	Stressed VaR	Total RWA
Internal model approach:												
RWA at previous quarter-end	229	280	509	212	704	916	200	668	868	247	504	751
Movement in risk levels (1)	24	90	115	17	(424)	(407)	12	36	48	(47)	164	117
Methodology and policy (2)												
RWA at end of reporting period	253	370	623	229	280	509	212	704	916	200	668	868
Standardised method:												
Interest rate position risk (specific)			410			536			382			400
RWA at end of reporting period			1,033			1,045			1,298			1,268

(1) Movement due to position changes; foreign exchange movements are embedded in the movement in risk levels.

(2) HSBC has been authorised to use its internal models to calculate Market Risk beginning with Q1 2016.

IMA values for trading portfolios

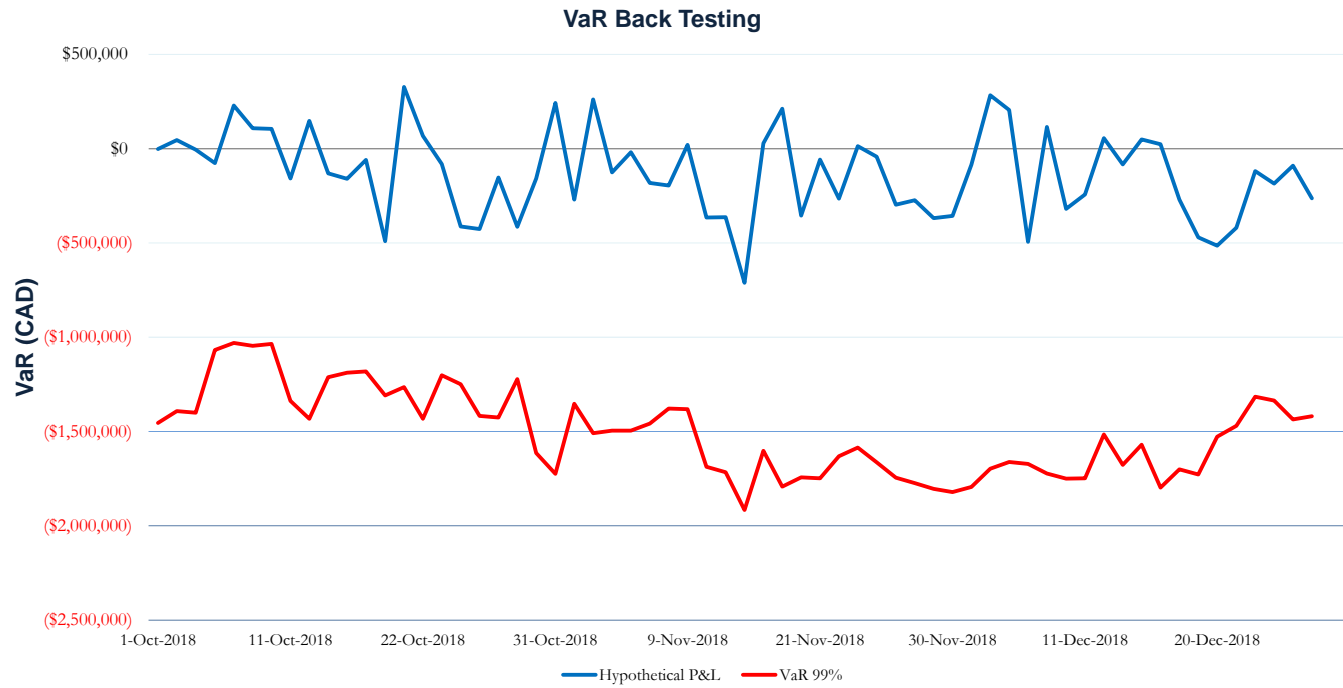
(\$ thousands except as noted)

	December 31, 2018		September 30, 2018		June 30, 2018		March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017	
	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR
1 Maximum value	6,049	12,073	5,455	8,967	9,234	12,897	9,641	11,785	9,197	10,400	7,101	7,650	8,490	23,307
2 Average value	4,769	9,142	4,160	8,172	6,419	9,892	5,503	6,276	5,102	7,331	4,533	5,653	4,273	13,969
3 Minimum value	3,274	7,194	3,222	7,349	4,019	7,367	2,957	2,539	2,727	5,352	2,785	4,342	2,895	6,462
4 Period end	4,480	11,051	4,559	8,952	5,238	8,393	6,479	11,785	8,023	5,352	6,805	7,577	3,573	6,462

Comparison of VaR estimates with gains/losses

(\$ thousands except as noted)

For the fourth quarter ended December 31, 2018



There were no backtesting exceptions during the period.

LEVERAGE RATIO COMMON DISCLOSURE TEMPLATE
(Millions of Canadian dollars, except percentages)

Q4/18 Q3/18 Q2/18 Q1/18 Q4/17

	Q4/18	Q3/18	Q2/18	Q1/18	Q4/17
On-balance sheet exposures					
1 On-balance sheet items (excluding derivatives, SFTs and grandfathered securitization exposures but including collateral)	93,076	92,499	91,719	89,281	86,551
2 (Asset amounts deducted in determining Basel III Tier 1 capital)	(200)	(165)	(177)	(126)	(120)
3 Total on-balance sheet exposures (excluding derivatives and SFTs)(Sum of lines 1 and 2)	92,876	92,334	91,542	89,155	86,431
Derivative exposures					
4 Replacement cost associated with all derivative transactions (i.e. net of eligible cash variation margin)	2,211	971	1,220	1,202	1,077
5 Add-on amounts for PFE associated with all derivative transactions	1,351	1,064	1,035	1,016	1,181
6 Gross up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	0	0	0	0	0
7 (Deductions of receivables assets for cash variation margin provided in derivative transactions)	(1,194)	(286)	(589)	(678)	(87)
8 (Exempted CCP-leg of client cleared trade exposures)	0	0	0	0	0
9 Adjusted effective notional amount of written credit derivatives	0	0	0	0	0
10 (Adjusted effective notional offsets and add-on deductions for written credit derivatives)	0	0	0	0	0
11 Total derivative exposures (sum of lines 4 to 10)	2,368	1,749	1,666	1,540	2,171
Securities financing transaction exposures					
12 Gross SFT assets recognised for accounting purposes (with no recognition of netting), after adjusting for sale accounting transactions	7,342	8,664	7,134	7,146	8,022
13 (Netted amounts of cash payables and cash receivables of gross SFT assets)	(1,481)	(900)	(1,848)	(1,641)	(1,869)
14 Counterparty credit risk (CCR) exposure for SFTs	108	115	61	90	72
15 Agent transaction exposures	0	0	0	0	0
16 Total securities financing transaction exposures (sum of lines 12 to 15)	5,969	7,879	5,347	5,595	6,225
Other off-balance sheet exposures					
17 Off-balance sheet exposure at gross notional amount	48,913	47,373	47,543	46,863	45,415
18 (Adjustments for conversion to credit equivalent amounts)	(33,958)	(33,240)	(27,617)	(27,578)	(26,361)
19 Off-balance sheet items (sum of lines 17 and 18)	14,955	14,133	19,926	19,285	19,054
Capital and Total Exposures					
20 Tier 1 capital	5,381	5,259	5,177	5,536	5,589
21 Total Exposures (sum of lines 3, 11, 16 and 19)	116,168	116,095	118,481	115,575	113,881
Leverage Ratios					
22 Basel III leverage ratio	4.6%	4.5%	4.4%	4.8%	4.9%

Glossary

Advanced Internal Ratings Based (AIRB) approach for credit risk - Under this approach, banks use their own internal historical experience of PD, LGD, EAD and other key risk assumptions to calculate credit risk capital requirements.

All-in regulatory capital assumes that all Basel III regulatory adjustments are applied effective January 1, 2013 and that the capital value of instruments which no longer qualify as regulatory capital under Basel III rules will be phased out at a rate of 10% per year from January 1, 2013 and continuing to January 1, 2022.

Bank - Deposit taking institutions, securities firms and certain public sector entities.

Commitments (Undrawn) - A credit risk exposure resulting from the unutilized portion of an authorized credit line/committed credit facility.

Corporate - Exposures to corporations, partnerships and proprietorships.

Drawn - A credit risk exposure resulting from loans advanced to a borrower.

Exposure At Default (EAD) - An estimate of the amount of exposure to a customer at the time of default.

Home Equity Lines of Credit (HELOC) - Revolving personal lines of credit secured by home equity.

Loss Given Default (LGD) - An estimate of the economic loss, expressed as a percentage (0%-100%) of the exposure at default, that the Bank will incur in the event a borrower defaults

OTC Derivatives - Over-the-counter derivatives contracts.

Other Off Balance Sheet Items - Off-balance sheet arrangements other than derivatives and undrawn commitments, such as standby letters of credit and letters of guarantee.

Other Retail - Personal loans not captured in Retail Mortgages, HELOCs and QRR.

Probability of Default (PD) - An estimate of the likelihood of a customer defaulting on any credit related obligation within a 1 year time horizon, expressed as a percentage.

Qualifying Revolving Retail (QRR) - Credit cards and unsecured lines of credit extended to individuals.

Repo-Style Transactions - Repurchase and reverse repurchase agreements as well as securities borrowing and lending.

Retail SME - Retail Small Medium Enterprises eg. small business loans.

Sovereign - Exposures to central governments, central banks, multilateral development banks and certain public sector entities.

Standardized Approach for credit risk - Under this approach, banks use a standardized set of risk-weights as prescribed by OSFI to calculate credit risk capital requirements. The standardized risk-weights are based on external credit assessments, where available, and other risk-related factors, including exposure asset class, collateral, etc.

Transitional regulatory capital assumes that all Basel III regulatory capital adjustments are phased in from January 1, 2014 to January 1, 2018 and that the capital value of instruments which no longer qualify as regulatory capital under Basel III rules will be phased out at a rate of 10% per year from January 1, 2013 and continuing to January 1, 2022.