

2018

**HSBC Bank Canada
Regulatory Capital &
Risk Management**

**Pillar 3 Supplementary Disclosures
As at June 30, 2018**



Index & Notes to Users

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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 2017 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 2017 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.

Basel III Regulatory Capital

(\$ millions except as noted)

		All-in ¹							
Common Equity Tier 1 capital: instruments and reserves		2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016
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	3,401	3,696	3,696	3,650	3,533	3,445	3,313	3,310
3	Accumulated other comprehensive income (and other reserves)	(120)	(108)	(61)	(65)	5	61	27	167
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	4,506	4,814	4,860	4,810	4,763	4,731	4,565	4,702
Common Equity Tier 1 capital: regulatory adjustments									
28	Total regulatory adjustments to Common Equity Tier 1	(179)	(128)	(121)	(100)	(134)	(179)	(173)	(221)
29	Common Equity Tier 1 capital (CET1)	4,327	4,686	4,739	4,710	4,629	4,552	4,391	4,481
Additional Tier 1 capital: instruments									
30	Directly issued qualifying Additional Tier 1 instruments plus related stock surplus	850	850	850	500	500	500	500	500
31	of which: classified as equity under applicable accounting standards	850	850	850	500	500	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	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)	5,177	5,536	5,589	5,560	5,479	5,402	5,241	5,331
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	na	na	na
47	Directly issued capital instruments subject to phase out from Tier 2	39	39	39	39	39	380	442	445
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	4	4	3	2	3	2	3	7
51	Tier 2 capital before regulatory adjustments	1,043	1,043	1,042	1,042	1,042	382	445	452
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)	1,043	1,043	1,042	1,042	1,042	382	445	452
59	Total capital (TC = T1 + T2)	6,220	6,579	6,632	6,602	6,521	5,784	5,686	5,783
60	Total risk-weighted assets	na	na	na	na	na	na	na	na
60a	Common Equity Tier 1 (CET1) Capital RWA ²	39,802	46,241	45,035	43,624	44,281	42,921	42,005	41,915
60b	Tier 1 Capital RWA ²	39,822	46,241	45,035	43,624	44,281	42,921	42,005	41,915
60c	Total Capital RWA ²	39,841	46,241	45,035	43,624	44,281	42,921	42,005	41,915

(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.

(2) Since Q2 2018, the capital floor is based on the 70% standardized approach under Basel II framework (previously 90% of Basel 1).

Basel III Regulatory Capital (Continued)

(\$ millions except as noted)

Capital ratios		All-in Basis ¹							
		2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	10.9%	10.1%	10.5%	10.8%	10.5%	10.6%	10.5%	10.7%
62	Tier 1 (as percentage of risk-weighted assets)	13.0%	12.0%	12.4%	12.7%	12.4%	12.6%	12.5%	12.7%
63	Total capital (as percentage of risk-weighted assets)	15.6%	14.2%	14.7%	15.1%	14.7%	13.5%	13.6%	13.8%
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%	50%	50%	50%	50%	60%	60%
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%	50%	50%	50%	50%	60%	60%
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%	50%	50%	50%	50%	60%	60%
85	Amounts excluded from T2 due to cap (excess over cap after redemptions and maturities)	-	-	-	-	-	60	-	-

Capital		Transitional Basis ²							
		2Q 2018	1Q 2018	4Q 2017	3Q 2017	2Q 2017	1Q 2017	4Q 2016	3Q 2016
29	Common Equity Tier 1 capital (CET1)	na	na	4,776	4,743	4,655	4,600	4,450	4,526
45	Tier 1 capital (T1 = CET1 + AT1)	na	na	5,612	5,581	5,494	5,428	5,277	5,351
59	Total capital (TC = T1 + T2)	na	na	6,648	6,619	6,534	5,806	5,719	5,802
60	Total risk-weighted assets	na	na	45,204	43,774	44,415	43,181	42,030	42,131
Capital ratios									
61	Common Equity Tier 1 (as percentage of risk-weighted assets)	na	na	10.6%	10.8%	10.5%	10.7%	10.6%	10.7%
62	Tier 1 (as percentage of risk-weighted assets)	na	na	12.4%	12.7%	12.4%	12.6%	12.6%	12.7%
63	Total capital (as percentage of risk-weighted assets)	na	na	14.7%	15.1%	14.7%	13.5%	13.6%	13.8%
	Leverage Ratio	4.4%	4.8%	4.9%	5.1%	4.9%	4.8%	4.7%	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
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 (1)	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	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
December 31, 2016						September 30, 2016						
Corporate	27,549	12,373	3,849	1,176	3,324	48,272	28,058	11,599	4,216	1,288	3,310	48,470
Sovereign	22,652	240	81	162	73	23,208	21,716	405	457	158	70	22,805
Bank	3,716	11	4,669	878	819	10,093	3,780	9	6,632	692	879	11,992
Total Corporate, Sovereign and Bank	53,917	12,624	8,600	2,217	4,215	81,573	53,553	12,013	11,305	2,138	4,258	83,267
Residential Mortgages	19,835	3				19,837	20,296	3				20,299
HELOC's	1,807	1,029				2,836	1,852	1,045				2,898
Other Retail (excluding QRR and SME)	1,909	168			1	2,079	2,001	179			2	2,181
Qualifying Revolving Retail	237	213				450	244	216				460
Retail SME	188	219			16	423	195	223			17	435
Total Retail	23,976	1,632			17	25,625	24,589	1,666			18	26,273
Total Gross Credit Exposure	77,894	14,256	8,600	2,217	4,233	107,199	78,142	13,678	11,305	2,138	4,277	109,540

(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)

	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 (1)	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

	December 31, 2016						September 30, 2016					
	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	22,413	3,535	903	84	545	27,479	22,677	3,297	185	114	544	26,818
Western Canada, excluding British Columbia	8,775	4,144		711	947	14,578	9,338	4,047		734	955	15,073
Ontario	40,033	4,331	6,827	1,265	1,957	54,412	39,392	4,231	11,101	1,058	1,995	57,776
Quebec & Atlantic provinces	6,673	2,246	871	157	784	10,731	6,736	2,103	18	232	783	9,872
Total Gross Credit Exposure	77,894	14,256	8,600	2,217	4,233	107,199	78,142	13,678	11,305	2,138	4,277	109,540

(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)

	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 (1)	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

	December 31, 2016						September 30, 2016					
	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	20,267	8,689	8,600	1,018	3,128	41,701	22,674	8,033	11,305	820	3,178	46,009
1-5 years	48,700	5,291		717	1,059	55,768	46,462	5,406		716	1,049	53,633
Greater than 5 years	8,926	276		482	46	9,730	9,006	240		601	50	9,898
Total Gross Credit Exposure	77,894	14,256	8,600	2,217	4,233	107,199	78,142	13,678	11,305	2,138	4,277	109,540

(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)

	June 30, 2018				March 31, 2018				December 31, 2017				September 30, 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	456		31,312	13,078	405		29,265	13,030	208		28,589	12,358	26		28,205	11,776
Sovereign			19,910	584			20,700	582			20,109	576			19,366	635
Bank			4,228	5			4,241	4			4,311	29			3,594	37
Total Corporate, Sovereign and Bank (1)	456		55,450	13,667	405		54,205	13,616	208		53,010	12,963	26		51,165	12,447
Residential Mortgages			23,443				22,967				22,674	2			21,890	2
HELOC's			1,700	1,052			1,686	1,040			1,722	1,041			1,747	1,033
Other Retail (excluding QRR and SME)	429		1,136	188	415		1,194	181	444		1,186	175	439		1,235	182
Qualifying Revolving Retail			206	196			206	200			214	203			225	211
Retail SME			146	186			149	185			168	278			170	263
Total Retail	429		26,630	1,622	415		26,202	1,606	444		25,964	1,699	439		25,268	1,690
Total Gross Credit Exposure	885		82,080	15,289	820		80,407	15,222	652		78,974	14,662	465		76,434	14,137

	June 30, 2017				March 31, 2017				December 31, 2016				September 30, 2016			
	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	75		28,551	11,989	24		27,650	12,050	17		27,532	12,373			28,058	11,599
Sovereign			18,588	644			20,068	638			22,652	240			21,716	405
Bank			3,721	28			3,937				3,716	11			3,780	9
Total Corporate, Sovereign and Bank	75		50,860	12,661	24		51,656	12,688	17		53,901	12,624			53,553	12,013
Residential Mortgages			20,817	4			19,938	3			19,835	3			20,296	3
HELOC's			1,769	1,026			1,780	1,027			1,807	1,029			1,852	1,045
Other Retail (excluding QRR and SME)	459		1,277	177	455		1,355	179	503		1,406	168	515		1,486	179
Qualifying Revolving Retail			224	207			227	210			237	213			244	216
Retail SME			178	270			178	209			188	219			195	223
Total Retail	459	-	24,266	1,684	455	-	23,478	1,628	503	-	23,473	1,632	515	-	24,074	1,666
Total Gross Credit Exposure	534	-	75,125	14,345	479	-	75,133	14,317	520	-	77,374	14,256	515	-	77,627	13,678

(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)

	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 (1) 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

	December 31, 2016								September 30, 2016							
	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						17		17								
Total Corporate, Sovereign and Bank						17		17								
Residential Mortgages Heloc's Other Retail Retail SME					492	12		503					503		11	515
Total Retail					492	12		503					503		11	515
Total Exposure at Default					492	28		520					503		11	515

Risk Assessment - IRB Retail Credit Portfolio

(\$ millions except as noted)

	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

	December 31, 2016						September 30, 2016					
	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	19,521	2,749	1,529	331	195	24,325	19,968	2,809	1,612	338	195	24,921
Medium	279	80	42	112	222	735	292	82	49	116	234	773
Sub-Standard			1	4		6			1	4		5
Impaired/Default	37	7	5	3	6	57	39	7	5	3	6	60
Total Exposure at Default	19,837	2,836	1,576	450	423	25,122	20,299	2,898	1,667	460	435	25,758

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

(\$ millions except as noted)

Internal Rating	June 30, 2018				March 31, 2018				December 31, 2017				September 30, 2017			
	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)
Corporate																
Minimal Risk	1,663	0.03	45	13	1,659	0.04	40	14	1,199	0.04	48	15	1,256	0.04	47	14
Low Risk	4,129	0.11	43	28	4,077	0.11	43	29	3,877	0.12	44	28	3,689	0.12	43	27
Satisfactory Risk	25,231	0.41	36	47	23,657	0.40	35	46	23,169	0.40	36	44	22,164	0.41	37	44
Fair Default Risk	11,659	1.09	34	66	11,041	1.11	33	66	10,807	1.12	34	63	11,012	1.13	34	63
Moderate Default Risk	3,672	3.09	34	92	3,554	3.12	34	92	3,296	3.12	34	87	3,199	3.00	32	82
Significant Default Risk	1,004	6.58	33	118	770	6.51	29	109	1,125	6.32	34	111	950	6.33	33	107
High Default Risk	568	10.31	34	143	627	10.91	35	144	552	10.81	37	143	823	10.83	36	145
Special Management	406	29.68	36	178	381	27.22	35	177	342	32.50	31	141	266	29.19	37	176
Default	285	100.00	47	149	387	100.00	43	186	405	100.00	47	237	427	100.00	41	170
Total Corporate (2)	48,617	1.81	36	56	46,152	2.04	35	56	44,772	2.16	37	55	43,786	2.22	36	55
Sovereign																
Minimal Risk	20,578	0.02	8	3	21,471	0.02	9	3	20,748	0.02	8	3	20,073	0.02	7	2
Low Risk	190	0.07	11	8	191	0.07	24	8	133	0.07	12	10	67	0.07	14	15
Satisfactory Risk	2	0.35	46	47	2	0.34	46	46	2	0.37	45	45	3	0.38	45	46
Fair Default Risk																
Default																
Total Sovereign (2)	20,770	0.02	8	3	21,664	0.02	9	3	20,883	0.02	8	3	20,143	0.02	7	2
Bank																
Minimal Risk	3,857	0.03	16	6	3,854	0.03	15	6	5,032	0.03	19	7	4,700	0.03	18	7
Low Risk	2,046	0.13	27	18	2,072	0.13	19	18	1,389	0.10	27	17	832	0.12	28	20
Satisfactory Risk	25	0.35	31	34	53	0.35	33	35	40	0.37	39	30	35	0.30	36	28
Fair Default Risk	8	1.34	31	55	10	1.34	15	56	5	1.18	39	38	16	1.48	51	76
Moderate Default Risk										2.25	45	88	4	3.05	51	111
Significant Default Risk																
High Default Risk	1	10.00	59	313	1	10.00	59	313	1	10.00	59	215	1	10.00	59	215
Special Management																
Default																
Total Bank (2)	5,936	0.07	20	11	5,989	0.07	17	11	6,467	0.05	21	9	5,588	0.06	20	9

Internal Rating	June 30, 2017				March 31, 2017				December 31, 2016				September 30, 2016			
	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)	EAD	PD (%)	LGD (%)	Risk Weight (%)
Corporate																
Minimal Risk	1,247	0.04	46	13	1,222	0.04	45	14	1,406	0.04	47	12	983	0.04	44	11
Low Risk	4,183	0.12	45	28	3,897	0.11	44	28	3,891	0.11	43	28	3,970	0.11	43	27
Satisfactory Risk	22,109	0.42	37	45	20,941	0.41	36	45	21,034	0.41	36	45	21,280	0.42	36	47
Fair Default Risk	11,684	1.14	34	63	11,911	1.17	34	65	11,766	1.16	34	65	11,355	1.15	34	69
Moderate Default Risk	3,153	2.93	33	83	3,391	2.85	33	82	3,391	2.82	33	80	3,326	2.82	31	81
Significant Default Risk	686	6.82	34	112	734	6.97	33	109	862	7.03	33	112	1,015	6.62	33	117
High Default Risk	961	10.71	34	138	982	10.78	34	136	979	10.46	35	140	872	10.10	34	142
Special Management	253	29.61	31	142	342	29.92	32	148	385	30.87	33	154	548	29.84	34	161
Default	485	100.00	44	180	576	100.00	45	193	718	100.00	45	157	914	100.00	47	150
Total Corporate	44,761	2.31	37	55	43,996	2.64	36	57	44,432	2.98	36	57	44,263	3.51	36	60
Sovereign																
Minimal Risk	19,317	0.03	17	3	20,624	0.02	7	3	23,021	0.02	7	3	22,179	0.02	8	3
Low Risk	72	0.07	14	15	255	0.07	35	14	105	0.07	13	13	113	0.08	13	13
Satisfactory Risk	2	0.34	46	43	2	0.34	47	43	2	0.34	45	43	2	0.42	45	50
Fair Default Risk													60	1.65	10	20
Default																
Total Sovereign	19,391	0.03	17	3	20,881	0.02	8	3	23,128	0.02	7	3	22,354	0.03	8	3
Bank																
Minimal Risk	4,878	0.03	20	7	4,806	0.03	19	8	4,489	0.04	20	8	4,437	0.03	20	8
Low Risk	849	0.12	28	20	729	0.13	29	22	931	0.11	28	18	888	0.11	30	19
Satisfactory Risk	23	0.34	36	29	29	0.35	34	33	60	0.34	32	30	72	0.39	32	32
Fair Default Risk	6	1.58	57	67	16	1.25	46	72	6	1.28	30	56	5	1.39	34	71
Moderate Default Risk	1	3.05	51	113						3.05	54	119	2	3.33	61	153
Significant Default Risk										5.75	69	199				
High Default Risk	1	10.00	59	216	1	10.00	62	227	1	10.00	59	215	1	10.00	59	216
Special Management																
Default																
Total Bank	5,758	0.05	21	9	5,581	0.05	20	10	5,487	0.05	21	10	5,405	0.06	22	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	June 30, 2018			March 31, 2018			December 31, 2017			September 30, 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			900			842			711			711
Sovereign												
Bank												
Total Corporate, Sovereign and Bank			900			842			711			711
Residential Mortgages			1,976			1,952			2,002			2,057
HELOC's												
Other Retail (excluding QRR and SME)												
Qualifying Revolving Retail												
Retail SME												
Total Retail			1,976			1,952			2,002			2,057
Total			2,875			2,794			2,713			2,768

Counterparty Type	June 30, 2017			March 31, 2017			December 31, 2016			September 30, 2016		
	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			675			1,072			1,108			1,043
Sovereign												
Bank												
Total Corporate, Sovereign and Bank			675			1,072			1,108			1,043
Residential Mortgages			1,539			1,701			1,888			1,802
HELOC's												
Other Retail (excluding QRR and SME)												
Qualifying Revolving Retail												
Retail SME												
Total Retail			1,539			1,701			1,888			1,802
Total			2,214			2,773			2,996			2,845

AIRB Credit Risk Exposures - Credit Commitments

(\$ millions except as noted)

Counterparty Type	June 30, 2018		March 31, 2018		December 31, 2017		September 30, 2017	
	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn
Corporate	32,646	13,078	32,513	13,030	30,861	12,358	29,400	11,776
Sovereign	1,425	584	1,419	582	1,405	576	1,548	635
Bank	15	5	14	4	72	29	94	37
Total Corporate, Sovereign and Bank	34,085	13,667	33,946	13,616	32,338	12,963	31,043	12,447
Residential Mortgages	3		3		5	2	3	2
HELOC's	3,469	1,052	3,442	1,040	3,412	1,041	3,354	1,033
Other Retail (excluding QRR and SME)	610	188	588	181	585	175	596	182
Qualifying Revolving Retail	838	196	854	200	865	203	878	211
Retail SME	187	186	186	185	279	278	264	263
Total Retail	5,106	1,622	5,073	1,606	5,146	1,699	5,095	1,690
Total	39,192	15,289	39,019	15,222	37,485	14,662	36,138	14,137

Counterparty Type	June 30, 2017		March 31, 2017		December 31, 2016		September 30, 2016	
	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn	Notional Undrawn	EAD on Undrawn
Corporate	29,904	11,989	30,038	12,050	30,778	12,373	28,823	11,599
Sovereign	1,571	644	1,557	638	585	240	988	405
Bank	71	28	61		166	11	180	9
Total Corporate, Sovereign and Bank	31,545	12,661	31,656	12,688	31,529	12,624	29,991	12,013
Residential Mortgages	8	4	8	3	9	3	9	3
HELOC's	3,320	1,026	3,298	1,027	3,310	1,029	3,333	1,045
Other Retail (excluding QRR and SME)	596	177	596	179	595	168	620	179
Qualifying Revolving Retail	876	207	888	210	895	213	902	216
Retail SME	271	270	210	209	220	219	225	223
Total Retail	5,070	1,684	5,000	1,628	5,029	1,632	5,089	1,666
Total	36,615	14,345	36,656	14,317	36,558	14,256	35,080	13,678

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 2017.

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 2017.

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 2017.

Securitization Exposures

(\$ millions except as noted)

Securitization exposures by risk weighting

	Exposure value at June 30, 2018			Exposure value at March 31, 2018			Exposure value at December 31, 2017			Exposure value at September 30, 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	-	-	-	-	-	-	-	-	-	-	-	-

	Exposure value at June 30, 2017			Exposure value at March 31, 2017			Exposure value at December 31, 2016			Exposure value at September 30, 2016		
	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%	-	-	-	-	-	-	-	-	-	-	51	51
> 20% ≤ 50%												
> 50% ≤ 100%												
> 100% ≤ 650%												
> 650% < 1250%												
1250%												
Total	-	-	-	-	-	-	-	-	-	-	51	51

Capital required by risk weighting

	Capital required at June 30, 2018			Capital required at March 31, 2018			Capital required at December 31, 2017			Capital required at September 30, 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 at June 30, 2017			Capital required at March 31, 2017			Capital required at December 31, 2016			Capital required at September 30, 2016		
	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%	-	-	-	-	-	-	-	-	-	-	1	1
> 20% ≤ 50%												
> 50% ≤ 100%												
> 100% ≤ 650%												
> 650% < 1250%												
1250%												
Total	-	-	-	-	-	-	-	-	-	-	1	1

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	June 30, 2018			March 31, 2018			December 31, 2017			September 30, 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	275	328	603	253	370	623	229	280	509	212	704	916
Movement in risk levels (1)	46	159	205	23	(42)	(20)	24	90	115	17	(424)	(407)
Methodology and policy (2)												
RWA at end of reporting period	321	487	808	275	328	603	253	370	623	229	280	509
Standardised method:												
Interest rate position risk (specific)			369			519			410			536
RWA at end of reporting period			1,177			1,123			1,033			1,045

RWA flow statement of market risk exposures	June 30, 2017			March 31, 2017			December 31, 2016			September 30, 2016		
	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	200	668	868	247	504	751	229	331	560	217	383	600
Movement in risk levels (1)	12	36	48	(47)	164	117	18	174	191	12	(52)	(40)
Methodology and policy (2)												
RWA at end of reporting period	212	704	916	200	668	868	247	504	751	229	331	560
Standardised method:												
Interest rate position risk (specific)			382			400			205			230
RWA at end of reporting period			1,298			1,268			956			790

(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

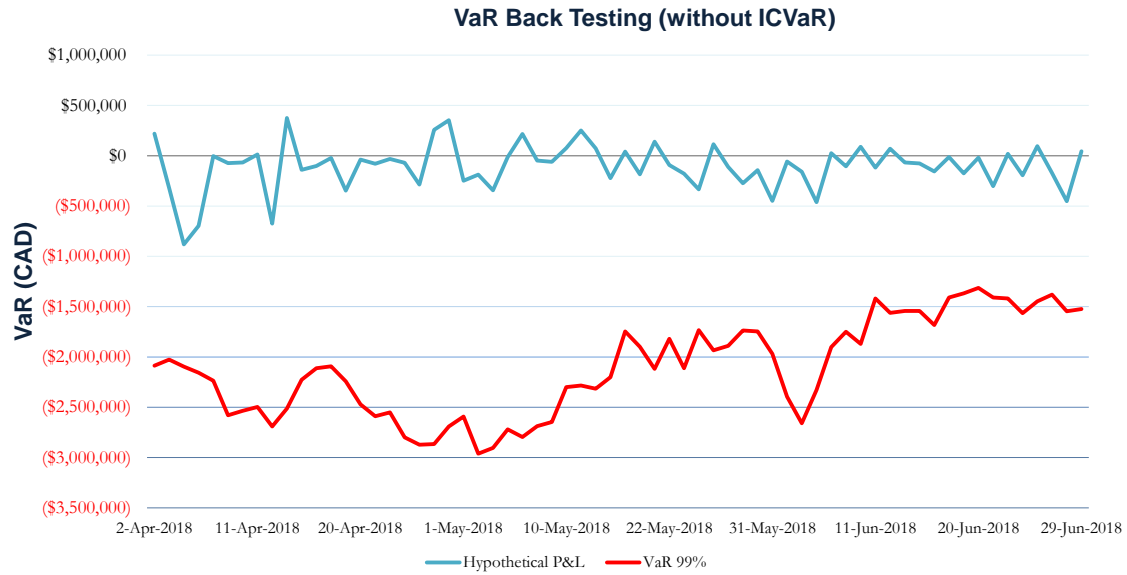
(\$ thousands except as noted)

	June 30, 2018		March 31, 2018		December 31, 2017		September 30, 2017		June 30, 2017		March 31, 2017		December 30, 2016	
	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR	VaR	Stressed VaR
1 Maximum value	9,234	12,897	9,641	11,785	9,197	10,400	7,101	7,650	8,490	23,307	6,068	19,260	8,445	17,486
2 Average value	6,419	9,892	5,503	6,276	5,102	7,331	4,533	5,653	4,273	13,969	3,959	12,851	4,936	10,113
3 Minimum value	4,019	7,367	2,957	2,539	2,727	5,352	2,785	4,342	2,895	6,462	2,635	6,681	3,183	4,900
4 Period end	5,238	8,393	6,479	11,785	8,023	5,352	6,805	7,577	3,573	6,462	6,016	14,541	3,259	5,006

Comparison of VaR estimates with gains/losses

(\$ thousands except as noted)

For the second quarter ended June 30, 2018



There were no backtesting exceptions during the period.

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.