

2 August 2020

**HSBC BANK CANADA
SECOND QUARTER 2020 RESULTS**

*Operating income and expected credit losses show impact of COVID-19,
customer deposits up significantly*

Highlights¹

Performance in the second quarter and first half of 2020 has been heavily impacted by COVID-19 as market volatility, central bank rate cuts, weakening oil prices and reduced customer activity combined to decrease operating income and increase expected credit losses resulting in a decline in profit before income tax expense.

Through this period, our focus has been on supporting and deepening our relationships with existing customers – many of whom have been affected by efforts to contain the pandemic. We continue to support their working capital needs, including offering payment deferrals to help customers through the current crisis and, as a result of a number of campaigns, we have seen significant growth in our customer deposits.

Operating income for the quarter was \$502m and \$1,048m for the half-year, down \$43m or 7.9% and \$42m or 3.9%, respectively, compared with the same periods in 2019.

Net interest income for the quarter was \$249m, a decrease of \$70m or 22% and \$567m for the half-year, a decrease of \$75m or 12%. The impact of maintaining higher levels of highly liquid assets at lower yields and central bank rate cuts had a negative impact on net interest income, which was partly offset by higher loans and deposits.

All other income lines increased in the second quarter compared to the prior year:

- Strong Markets trading and sales activities combined with favourable credit and funding valuation movements resulted in an increase in trading income. Half-year income was negatively impacted by the first quarter's unfavourable credit and funding valuation movements related to COVID-19.
- Other items of income increased for the quarter and half-year. This was mainly due to higher gains on the disposal of financial investments and the extinguishment of repurchased subordinated debentures.
- Net fee income increased for the quarter and half-year. This was from higher underwriting fees in Global Banking and Markets, an increase in credit facility fees as a result of higher volumes of bankers' acceptances in Commercial Banking, and an increase in net fee income from cards and on-line brokerage income in Wealth and Personal Banking².

As COVID-19 related economic restrictions began in March, the bank included an adverse shift in forward-looking economic scenarios in our first quarter results. The initial economic slowdown was steep and the bank's forward-looking economic guidance deteriorated in the second quarter. This, coupled with the weakened energy sector resulted in a further **charge in expected credit losses** of \$190m for the second quarter and \$330m for the half-year. Prior year charges were \$40m for the quarter and \$28m for the half-year.

1. For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year (unless otherwise stated).
2. In the second quarter of 2020, HSBC Holdings Group ('HSBC Group') combined Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking. Therefore going forward, our global business Retail Banking and Wealth Management ('RBWM') has been renamed to Wealth and Personal Banking ('WPB'). HSBC Bank Canada did not have a separate business line for Global Private Banking and there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the RBWM business line as a result of the change in structure.

Total operating expenses decreased by \$33m or 9.8% for the quarter and \$34m or 5.1% for the half-year as we prudently managed costs while strategically making investments to grow our businesses, simplify our processes and provide the digital services our customers are asking for.

As a result, **profit before income tax expense** was \$8m, down \$160m or 95% for the quarter and \$87m for the half-year, down \$310m or 78%.

Select financial metrics as at 30 June 2020:

- *Total assets*: \$124.6bn (31 Dec 2019: \$106.6bn)
- *Common equity tier 1 capital ratio*: 12.3% (31 Dec 2019: 11.3%)
- *Tier 1 ratio*: 14.8% (31 Dec 2019: 13.9%)
- *Total capital ratio*¹: 17.1% (31 Dec 2019: 16.4%)
- *Return on average common equity*¹: 1.7% (30 June 2019: 11.2%)

The abbreviations '\$m' and '\$bn' represent millions and billions of Canadian dollars, respectively.

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

"This pandemic environment is not a normal time and our results for this period are not what we are accustomed to delivering – with significant increases to estimated loan loss provisions in light of the macro-economic environment. Even in the midst of challenges as significant as COVID-19 there are bright spots. In our first full quarter of COVID-19 impact, we've increased customer deposits significantly across all our business lines. Operating income increased in Global Banking and Markets. Commercial Banking also saw year on year growth in loans and revenue decreased only slightly. In Wealth and Personal Banking, total relationship balances² experienced record growth.

"Through it all, we have served our customers well, supported our people, maintained our strong liquidity and capital footing, and our disciplined approach to costs has allowed us to continue to invest, laying a strong foundation for future growth.

"I will shortly retire after 40 years with HSBC, leaving the bank in the capable and experienced hands of my successor, Linda Seymour, as she and the entire leadership team continue to help our people and our customers navigate through this very difficult time."

1. *In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However, these are not presented within the consolidated financial statements and are not defined under IFRS. These are considered non-IFRS financial measures and are unlikely to be comparable to similar measures presented by other companies. For further information on non-IFRS measures refer to the 'Use of non-IFRS financial measures' section of the Management's Discussion and Analysis ('MD&A') of the unaudited condensed interim consolidated financial statements for the quarter and half-year ended 30 June 2020.*

2. *Total relationship balances includes lending, deposits and wealth balances.*

Analysis of consolidated financial results for the second quarter and half-year ended 30 June 2020¹

Net interest income for the quarter was \$249m, a decrease of \$70m or 22% compared with the same period in the prior year. Net interest income for the half-year was \$567m, a decrease of \$75m or 12%. This reflects the impact of maintaining higher levels of highly liquid assets at lower yields and margin compression due to central bank rate cuts.

Net fee income for the quarter was \$178m, an increase of \$4m or 2.3% compared with the same period in the prior year. This increase was due to higher underwriting fees in Global Banking and Markets. In Wealth and Personal Banking, net fee income increased as fee expenses declined on lower transaction volumes, partly offset by a decrease in average funds under management fees related to adverse market conditions. Net fee income for the half-year was \$356m, an increase of \$26m or 7.9%. This increase was driven by higher underwriting fees in Global Banking and Markets, an increase in credit facility fees on higher volumes of bankers' acceptances in Commercial Banking, and an increase in net fee income from cards and on-line brokerage income in Wealth and Personal Banking.

Net income from financial instruments held for trading for the quarter was \$47m, an increase of \$14m or 42% compared with the same period in the prior year. This was due to favourable movements in credit and funding fair value adjustments, mainly driven by reduced credit spreads and lower market volatility during the quarter. Trading activities increased in Rates trading and balance sheet management, which were partly offset by a decrease in foreign exchange sales volumes. Lower net interest from trading activities due to product mix also contributed to the decrease. Net income from financial instruments held for trading was \$73m for the half-year, a decrease of \$8m or 9.9% as a result of lower net interest from trading activities due to product mix. Also contributing to the decrease were unfavourable movements in credit and funding fair value adjustments mainly from increases in credit spreads and market volatility related to COVID-19 during the first quarter. This was partly offset by favourable movements in the second quarter. Strong Market sales and trading activities continued into the second quarter from increased Rates trading and balance sheet management activities.

Other items of income for the quarter were \$28m, an increase of \$9m or 47% compared with the same period in the prior year. Other items of income for the half-year was \$52m, an increase of \$15m or 41%. The increase was driven by higher gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio. A gain in other operating income, related to the extinguishment of repurchased subordinated debentures also contributed to the increase.

Change in expected credit losses for the second quarter of 2020 resulted in a charge of \$190m compared to a charge of \$40m for the same period in the prior year. The change in expected credit losses for the half-year resulted in a charge of \$330m compared to a charge of \$28m in the same period in the prior year. These charges were primarily driven by further deterioration in forward-looking economic guidance as a result of the COVID-19 pandemic, impacting the performing loan portfolio in the second quarter. This was coupled with impairment charges from non-performing loans in the energy sector, primarily driven by the decline in oil prices. In 2019, the charges were primarily related to an expected slowdown in GDP growth at that time.

Total operating expenses for the quarter were \$304m, a decrease of \$33m or 9.8% compared with the same period in the prior year. Total operating expenses for the half-year were \$631m, a decrease of \$34m or 5.1%. This was mainly due to lower staff costs and reduced discretionary costs during the quarter. We continue to be focused on strategically making investments to grow our businesses, simplify our processes and provide the digital services our customers are asking for.

Income tax expense: the effective tax rate for the second quarter of 2020 was 38.6% which is higher than the statutory tax rate of 26.7% due to an increase in tax provisions. The effective tax rate for the second quarter of 2019 was 27.3%.

1. For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year (unless otherwise stated).

Dividends

Dividends declared in the second quarter 2020

The bank declared regular quarterly dividends of \$12m for the second quarter of 2020 on the HSBC Bank Canada Class 1 preferred shares Series G, I, and K. No dividends were declared or paid on HSBC Bank Canada common shares during the second quarter.

Dividends declared in the third quarter 2020

On 24 July 2020, the bank declared regular quarterly dividends for the third quarter of 2020 on all series of outstanding HSBC Bank Canada Class 1 preferred shares, to be paid in accordance with their terms in the usual manner on 30 September 2020 or the first business day thereafter to shareholder of record on 15 September 2020.

As the dividends on preferred shares for the third quarter of 2020 were declared after 30 June 2020, the amounts have not been included in the balance sheet as a liability.

Business performance in the second quarter and half-year ended 30 June 2020^{1, 2}

Commercial Banking ('CMB')

Total operating income for the second quarter of 2020 was \$229m, a decrease of \$25m or 9.8% compared with the second quarter of 2019. Total operating income for the half-year was \$495m, a decrease of \$14m or 2.8%.

COVID-19 impacted income for the quarter and half-year with central bank rate cuts reducing deposit margins and higher costs associated with maintaining increased liquidity resulting in compressed lending margins in the second quarter. Despite the market volatility, CMB continued to support its customers throughout this period with year-on-year growth in both loan and deposit balances. In particular, deposits have seen significant growth with balances increasing \$2.9bn for the year.

Deterioration in forward-looking economic guidance as a result of the COVID-19 pandemic and declines in the oil price have impacted impairment charges for the half-year. We continue to support existing customers with their working capital needs, including offering payment deferrals to help customers through the current crisis.

Profit before income tax for the second quarter of 2020 was a loss of \$14m, a decrease of \$138m or 111% compared with the second quarter of 2019. Profit before income tax for the half-year was \$33m, a decrease of \$258m or 89%. This was primarily due to a significant increase in expected credit losses and lower net interest income, partly offset by lower operating costs.

Global Banking and Markets ('GBM')

Total operating income for the second quarter of 2020 was \$101m, an increase of \$15m or 17% compared with the second quarter of 2019. Total operating income for the half-year was \$177m, a decrease of \$2m or 1.1%. Strong Markets trading and sales activities continued in the quarter, coupled with favourable credit and funding valuation movements, which increased trading income. Half-year income was negatively impacted by first quarter's unfavourable credit and funding valuation movements as a result of increases in credit spreads and market volatility driven by COVID-19.

Throughout the COVID-19 related disruptions and volatile market conditions, the Banking and Markets teams worked closely with our clients to understand their unique challenges and to support them through

the crisis. This increased client activity and income across all products, mainly from Markets trading and sales activities, lending activities and underwriting fees as we continued to leverage the Group's global network to provide products and solutions to meet our global clients' needs.

Profit before income tax for the second quarter of 2020 was \$27m, a decrease of \$10m or 27% compared with the second quarter of 2019. Profit before income tax for the half-year was \$46m, a decrease of \$42m or 48%. This was primarily a result of higher charges in expected credit losses due to the impact of COVID-19, coupled with first quarter's unfavourable credit and funding adjustments for the half-year.

Wealth and Personal Banking ('WPB')³

Total operating income for the second quarter of 2020 was \$180m, a decrease of \$23m or 11% compared with the second quarter of 2019. Total operating income for the half-year was \$387m, a decrease of \$14m or 3.5%. Higher net fee income and strong volume growth in total relationship balances⁴ were more than offset by lower net interest income due to the central bank rate decreases and higher costs associated with maintaining increased liquidity.

We achieved record growth⁵ in total relationship balances⁴ and grew our overall and international client base as we invested in our branches and digital technologies, along with market-competitive products. Despite the challenging environment under COVID-19, we have continued to serve our clients and support them by keeping our branches, digital platforms and contact centres fully operational while launching various initiatives including payment deferral options.

Profit before income tax for the second quarter of 2020 was \$14m, a decrease of \$5m or 26% compared with the second quarter of 2019. This was due to lower net interest income as noted above and an increase in expected credit losses, partly offset by lower operating expenses. Profit before income tax for the half-year was \$43m, an increase of \$4m or 10% as lower net interest income and an increase in expected credit losses due to the impact of COVID-19 were more than offset by lower operating expenses and higher net fee income.

Corporate Centre

Profit before income tax for the second quarter of 2020 was a loss of \$19m, a decrease in profit before income tax of \$7m or 58% compared with the second quarter of 2019. Profit before income tax for the half-year was a loss of \$35m, a decrease in profit before tax of \$14m or 67%. This was primarily a result of a decrease in net interest income due to an increase in liquidity costs, partly offset by an increase in other operating income from a gain related to the extinguishment of repurchased subordinated debentures.

1. For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year (unless otherwise stated).
2. Effective from the second quarter of 2020, we have made a change in reportable segments by reallocating Balance Sheet Management from Corporate Centre to the global businesses to better align the income and expenses to the businesses generating or utilizing these activities and as a result Corporate Centre is no longer considered an operating segment. All comparatives have been restated.
3. In the second quarter of 2020, HSBC Holdings Group ('HSBC Group') combined Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking. Therefore going forward, our global business Retail Banking and Wealth Management ('RBWM') has been renamed to Wealth and Personal Banking ('WPB'). HSBC Bank Canada did not have a separate business line for Global Private Banking and there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the RBWM business line as a result of the change in structure.
4. Total relationship balances includes lending, deposits and wealth balances.
5. Record 6 months since inception of WPB (previously RBWM) as a single global business in 2011.

(Figures in \$m, except where otherwise stated)

Financial performance and position

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
Financial performance for the period				
Total operating income	502	545	1,048	1,090
Profit before income tax expense	8	168	87	397
Profit/(loss) attributable to the common shareholder	(8)	112	46	270
Change in expected credit losses and other credit impairment charges	(190)	(40)	(330)	(28)
Operating expenses	(304)	(337)	(631)	(665)
Basic and diluted earnings per common share (\$)	(0.01)	0.22	0.09	0.54
Financial measures %¹				
Return on average common shareholder's equity	(0.6)	9.1	1.7	11.2
Return on average risk-weighted assets ²	0.1	1.6	0.4	1.9
Cost efficiency ratio	60.6	61.8	60.2	61.0
Operating leverage ratio	1.9	(5.3)	1.3	(3.9)
Net interest margin	0.93	1.40	1.12	1.45
Change in expected credit losses to average gross loans and advances and acceptances	1.13	0.3	0.99	0.09
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	0.32	0.10	0.27	0.06
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances	43.6	29.0	43.6	29.0
Net write-offs as a percentage of average loans and advances and acceptances	0.10	0.08	0.11	0.09

Financial and capital measures

	At	
	30 Jun 2020	31 Dec 2019
Financial position at period end		
Total assets	124,621	106,571
Loans and advances to customers	62,263	61,922
Customer accounts	71,704	62,889
Ratio of customer advances to customer accounts (%) ¹	86.8	98.5
Common shareholder's equity	5,619	5,009
Capital measures²		
Common equity tier 1 capital ratio (%)	12.3	11.3
Tier 1 ratio (%)	14.8	13.9
Total capital ratio (%)	17.1	16.4
Leverage ratio (%)	5.5	4.9
Risk-weighted assets (\$m)	43,731	42,080
Liquidity coverage ratio (%)	193	140

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2. The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.

(Figures in \$m, except per share amounts)

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
Interest income	530	703	1,198	1,383
Interest expense	(281)	(384)	(631)	(741)
Net interest income	249	319	567	642
Fee income	198	199	399	378
Fee expense	(20)	(25)	(43)	(48)
Net fee income	178	174	356	330
Net income from financial instruments held for trading	47	33	73	81
Gains less losses from financial investments	14	10	30	18
Other operating income	14	9	22	19
Total operating income	502	545	1,048	1,090
Change in expected credit losses and other credit impairment charges	(190)	(40)	(330)	(28)
Net operating income	312	505	718	1,062
Employee compensation and benefits	(145)	(171)	(314)	(345)
General and administrative expenses	(132)	(141)	(262)	(272)
Depreciation	(17)	(17)	(37)	(35)
Amortization and impairment of intangible assets	(10)	(8)	(18)	(13)
Total operating expenses	(304)	(337)	(631)	(665)
Profit before income tax expense	8	168	87	397
Income tax expense	(3)	(47)	(16)	(109)
Profit for the period	5	121	71	288
Profit/(loss) attributable to the common shareholder	(8)	112	46	270
Profit attributable to the preferred shareholder	13	9	25	18
Profit attributable to shareholder	5	121	71	288
Average number of common shares outstanding (000's)	548,668	498,668	524,217	498,668
Basic and diluted earnings per common share (\$)	(0.01)	0.22	0.09	0.54

(Figures in \$m)	At	
	30 Jun 2020	31 Dec 2019
ASSETS		
Cash and balances at central banks	12,743	54
Items in the course of collection from other banks	18	15
Trading assets	3,131	4,322
Other financial assets mandatorily measured at fair value through profit or loss	7	5
Derivatives	6,635	3,267
Loans and advances to banks	1,086	1,169
Loans and advances to customers	62,263	61,922
Reverse repurchase agreements – non-trading	9,974	6,269
Financial investments	21,321	23,645
Other assets	2,786	1,580
Prepayments and accrued income	214	241
Customers' liability under acceptances	3,799	3,500
Current tax assets	27	26
Property, plant and equipment	331	339
Goodwill and intangible assets	163	155
Deferred tax assets	123	62
Total assets	124,621	106,571
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	1,420	1,036
Customer accounts	71,704	62,889
Repurchase agreements – non-trading	4,226	7,098
Items in the course of transmission to other banks	186	225
Trading liabilities	2,477	2,296
Derivatives	6,878	3,431
Debt securities in issue	21,629	14,594
Other liabilities	3,647	3,384
Acceptances	3,820	3,505
Accruals and deferred income	487	600
Retirement benefit liabilities	275	265
Subordinated liabilities	1,011	1,033
Provisions	76	41
Current tax liabilities	66	65
Total liabilities	117,902	100,462
Equity		
Common shares	1,725	1,225
Preferred shares	1,100	1,100
Other reserves	272	39
Retained earnings	3,622	3,745
Total shareholder's equity	6,719	6,109
Total liabilities and equity	124,621	106,571

(Figures in \$m)

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	30 Jun 2020	30 Jun 2019
Commercial Banking				
Net interest income	131	156	288	316
Non-interest income	98	98	207	193
Total operating income	229	254	495	509
Change in expected credit losses charges	(147)	(26)	(264)	(12)
Net operating income	82	228	231	497
Total operating expenses	(96)	(104)	(198)	(206)
Profit/(loss) before income tax expense	(14)	124	33	291
Global Banking and Markets				
Net interest income	28	32	67	65
Non-interest income	73	54	110	114
Total operating income	101	86	177	179
Change in expected credit losses charges	(35)	(8)	(49)	(9)
Net operating income	66	78	128	170
Total operating expenses	(39)	(41)	(82)	(82)
Profit before income tax expense	27	37	46	88
Wealth and Personal Banking²				
Net interest income	108	137	240	274
Non-interest income	72	66	147	127
Total operating income	180	203	387	401
Change in expected credit losses charges	(8)	(6)	(17)	(7)
Net operating income	172	197	370	394
Total operating expenses	(158)	(178)	(327)	(355)
Profit before income tax expense	14	19	43	39
Corporate Centre				
Net interest income	(18)	(6)	(28)	(13)
Non-interest income	10	8	17	14
Net operating income/(loss)	(8)	2	(11)	1
Total operating expenses	(11)	(14)	(24)	(22)
Profit/(loss) before income tax expense	(19)	(12)	(35)	(21)

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About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in the country. We help companies and individuals across Canada to do business and manage their finances internationally through three global business lines: Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking¹. HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 64 countries and territories in our geographical regions: Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US\$2,923bn at 30 June 2020, HSBC is one of the world's largest banking and financial services organizations.

For more information visit www.hsbc.ca or follow us on Twitter: @hsbc_ca or Facebook: @HSBCCanada

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Caution regarding forward-looking statements

This document contains forward-looking information, including statements regarding the business and anticipated actions of the bank. These statements can be identified by the fact that they do not pertain strictly to historical or current facts. Forward-looking statements often include words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words and terms of similar substance in connection with discussions of future operating or financial performance. By their very nature, these statements require us to make a number of assumptions and are subject to a number of inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. We caution you to not place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. The risk management section in the Management's Discussion and Analysis in our Annual Report and Accounts 2019 describes the most significant risks to which the bank is exposed and, if not managed appropriately, could have a material impact on our future financial results. These risk factors include: credit risk, liquidity and funding risk, market risk, resilience risks, regulatory compliance risk, financial crime risk, model risk and pension risk. Additional factors that may cause our actual results to differ materially from the expectations expressed in such forward-looking statements include: general economic and market conditions, fiscal and monetary policies, changes in laws, regulations and approach to supervision, level of competition and disruptive technology, changes to our credit rating, climate change risk, interbank offered rate ('IBOR') transition and other risks such as changes in accounting standards, changes in tax rates, tax law and policy, and our ability to attract, develop and retain key personnel, risk of fraud by employees or others, unauthorized transactions by employees and human error. Despite contingency plans we have in place for resilience in the event of sustained and significant operational disruption, our ability to conduct business may be adversely affected by disruption in the infrastructure that supports both our operations and the communities in which we do business, including but not limited to disruption caused by public health emergencies, environmental disasters and terrorist acts. Refer to the 'Factors that may affect future results' section of the Management's Discussion and Analysis in our Annual Report and Accounts 2019 for a description of these risk factors. We caution you that the risk factors disclosed above are not exhaustive, and there could be other uncertainties and potential risk factors not considered here which may adversely affect our results and financial condition. Any forward-looking statements in this document speak only as of the date of this document. We do not undertake any obligation to, and expressly disclaim any obligation to, update or alter our forward-looking statements, whether as a result of new information, subsequent events or otherwise, except as required under applicable securities legislation.

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