HSBC Bank Canada

Second Quarter 2020 Interim Report

HSBC

HSBC Bank Canada second quarter 2020 performance

Quarter ended 30 June 2020

Total operating income

$502m ↓ 7.9%

(2019: $545m)

Profit before income tax expense

$8m ↓ 95%

(2019: $168m)

Profit/(loss) attributable to the common shareholder

$(8)m ↓ 107%

(2019: $112m)

Half-year ended 30 June 2020

Total operating income

$1,048m ↓ 3.9%

(2019: $1,090m)

Profit before income tax expense

$87m ↓ 78%

(2019: $397m)

Profit attributable to the common shareholder

$46m ↓ 83%

(2019: $270m)

At 30 June 2020

Total assets

$124.6bn ↑ 17%

(At 31 Dec 2019: $106.6bn)

Common equity tier 1 ratio[1]

12.3% ↑ 100 bps

(At 31 Dec 2019: 11.3%)

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 balances[2] 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. *Refer to the 'Use of non-IFRS financial measures' section of the Management's Discussion and Analysis ('MD&A') for a discussion of non-IFRS financial measures.*
2. *Total relationship balances includes lending, deposits and wealth balances.*

Select awards and recognition

Sector Distinction, Employment Equity Awards

Government of Canada (2016-2019)

Best Renminbi Bank in Canada

The Asset Triple A Treasury, Trade, Supply Chain and Risk Management Awards (2018-2020)

Best 50 Corporate Citizens in Canada

Corporate Knights (2012-2020)

Interim report contents

Our global businesses[1, 2]

Our operating model consists of three global businesses and a Corporate Centre, supported by HSBC Operations Services and Technology and 11 global functions.

Commercial Banking ('CMB')

We support business customers with banking products and services to help them operate and grow. Our customers range from small enterprises, through to large companies that operate globally.

Global Banking and Markets ('GBM')

We provide financial services and products to corporates, governments and institutions. Our comprehensive range of products and solutions can be combined and customized to meet our customers' specific objectives - from primary equity and debt capital to global trade and receivables finance.

Wealth and Personal Banking ('WPB')[2]

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

Quarter ended 30 June 2020

Total operating income

CMB		GBM		WPB	
$229m (2019: $254m)	↓ 9.8%	$101m (2019: $86m)	↑ 17%	$180m (2019: $203m)	↓ 11%

Profit/(loss) before income tax expense

CMB		GBM		WPB	
$(14)m (2019: $124m)	↓ 111%	$27m (2019: $37m)	↓ 27%	$14m (2019: $19m)	↓ 26%

Half-year ended 30 June 2020

Total operating income

CMB		GBM		WPB	
$495m (2019: $509m)	↓ 2.8%	$177m (2019: $179m)	↓ 1.1%	$387m (2019: $401m)	↓ 3.5%

Profit before income tax expense

CMB		GBM		WPB	
$33m (2019: $291m)	↓ 89%	$46m (2019: $88m)	↓ 48%	$43m (2019: $39m)	↑ 10%

At 30 June 2020

Customer assets[3]

CMB		GBM		WPB	
$29.6bn (At 31 Dec 2019: $30.2bn)	↓ 2.1%	$6.1bn (At 31 Dec 2019: $5.7bn)	↑ 6.8%	$30.4bn (At 31 Dec 2019: $29.5bn)	↑ 3%

1. *We manage and report our operations around three global businesses and the results presented are for these businesses. The consolidated HSBC Bank Canada results presented on the previous page also include the Corporate Centre (see page 14 of the MD&A for more information). The equivalent results for the Corporate Centre were: Total operating loss of $8m for the quarter and $11m for the half-year ended (2019 total operating income: $2m for the quarter and $1m for the half-year ended), profit/(loss) before income tax expense was a loss of $19m for the quarter and loss of $35m for the half-year ended (2019 was a loss of: $12m for the quarter and $21m for the half-year ended) and customer assets nil (2019: nil).*
2. *Effective from the second quarter of 2020, we made two changes to reportable segments. Firstly, the reallocation of 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. Secondly, to simplify our matrix organizational structure, HSBC Holdings Group ('HSBC Group') merged 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. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and half-year ended 30 June 2020.*
3. *Customer assets includes loans and advances to customers and customers' liability under acceptances.*

MD&A contents

Basis of preparation

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

The MD&A is provided to enable readers to assess our financial condition and results of operations for the quarter and half-year ended 30 June 2020, compared to the same periods in the preceding year. The MD&A should be read in conjunction with our unaudited interim condensed consolidated financial statements and related notes for the quarter and half-year ended 30 June 2020 ('consolidated financial statements') and our *Annual Report and Accounts 2019*. This MD&A is dated 24 July 2020, the date that our consolidated financial statements and MD&A were approved by our Board of Directors ('the Board'). The references to 'notes' throughout this MD&A refer to notes on the consolidated financial statements for the quarter and half-year ended 30 June 2020.

The bank has prepared its consolidated financial statements in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and should be read in conjunction with the bank's 2019 audited annual consolidated financial statements. The bank's 2019 audited annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and in consideration of the accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI'), as required under Section 308(4) of the Bank Act. Certain sections within the MD&A, that are marked with an asterisk (*), form an integral part of the accompanying consolidated financial statements. The abbreviations '$m' and '$bn' represent millions and billions of Canadian dollars, respectively. All tabular amounts are in millions of dollars except where otherwise stated.

Our continuous disclosure materials, including interim and annual filings, are available through a link on the bank's website at www.hsbc.ca. These documents, together with the bank's *Annual Information Form*, are also available on the Canadian Securities Administrators' website at www.sedar.com. Complete financial, operational and investor information for HSBC Holdings and the HSBC Group, including HSBC Bank Canada, can be obtained from its website, www.hsbc.com, including copies of *HSBC Holdings Annual Report and Accounts 2019*. Information contained in or otherwise accessible through the websites mentioned does not form part of this report.

Caution regarding forward-looking statements

This document contains forward-looking information, including statements regarding the business and anticipated actions of the bank. These statements can be identified by the fact that they do not pertain strictly to historical or current facts. Forward-looking statements often include words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words and terms of similar substance in connection with discussions of future operating or financial performance. By their very nature, these statements require us to make a number of assumptions and are subject to a number of inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. We caution you to not place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. The risk management section in the MD&A of our *Annual Report and Accounts 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 risk, 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, changes in accounting standards, changes in tax rates, tax law and policy, and its interpretation by taxing authorities, 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 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.

Who we are

HSBC Bank Canada is the leading international bank in the country. We help companies and individuals across Canada to do business and manage their finances here and internationally through three global businesses: Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking[1]. No international bank has our Canadian presence and no domestic bank has our international reach.

Canada is an important contributor to the HSBC Group growth strategy and a key player in the Group's work to support customers and drive growth, leveraging its footprint across all key trade corridors, including in North America, alongside the United States and Mexico, and with China.

HSBC Holdings plc, the parent company of the HSBC Group, is headquartered in London. HSBC serves customers worldwide from offices in 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.

Throughout our history we have been where the growth is, connecting customers to opportunities, enabling businesses to thrive and economies to prosper, helping people fulfill their hopes and dreams and realize their ambitions.

Shares in HSBC Holdings are listed on the London, Hong Kong, New York, Paris and Bermuda stock exchanges. The HSBC Holdings shares are traded in New York in the form of American Depositary Receipts.

1. *Effective from the second quarter of 2020, HSBC Holdings Group ('HSBC Group') merged 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. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and half-year ended 30 June 2020.*

Impact of COVID-19 and our response

The COVID-19 pandemic has had and continues to have a significant impact on people, businesses, societies and economies around the world. As we continue to prioritize the safety of our employees and customers there are a number of factors associated with the pandemic and its impact on global economies that are having a material adverse effect on financial institutions such as HSBC Bank Canada.

In Canada, government imposed restrictions on mobility and social interaction since the beginning of March have had a significant impact on economic activity. While some restrictions are starting to ease in some areas, it remains unclear how these restrictions will evolve through 2020, and we continue to closely monitor developments.

Customers, employees and communities

Banking in Canada is deemed an essential service and we have been operating within our Business Continuity Plan ('BCP') to maintain services for customers across all of our lines of business since mid-March. To reduce the risk and play our part in limiting the spread and impact of this public health crisis, and by implementing new technology solutions, 90% of non-branch staff are working from home.

To address the additional stress on our people created by the isolation in this extreme environment, we have significantly increased wellness supports including for mental health. Where employees must be on site to perform critical roles, we continue to have precautionary measures in place including enhanced cleaning, protective acrylic shields and reduced hours in branch locations, as well as control and screening of customer entry. While provisioning for our physical sites, we are also accommodating the significant increase in customer use of our digital channels and call centres. We are frequently reaching out to retail, commercial and corporate customers to update them on our service plans and help them manage the impacts to their finances.

We place great importance on supporting our customers who may be experiencing financial hardship through this unprecedented time and are working across all of our lines of business to offer them flexible solutions. For further details of customer relief programs, see page 18 of the Credit risk section.

Finally, our COVID-19 response has included a $500,000 donation to Food Banks Canada, Breakfast Club of Canada and United Way, targeting areas of need that emerged almost immediately including food insecurity and support for the most vulnerable members of society. In the second quarter, we have also donated another $500,000 to support health research, patient care and urgent needs related to COVID-19 at BC Children's Hospital Foundation, Alberta Children's Hospital Foundation, The Hospital for Sick Children ('SickKids') and Montreal Children's Hospital Foundation.

Regulators and governments

Many programs have been initiated by the Bank of Canada and Federal government to provide financial support to parts of the economy most impacted by the COVID-19 outbreak. We are committed to playing our part in the country's economic recovery and are actively participating in these programs and helping our customers to do so wherever it is appropriate. Programs include:

- The Canada Emergency Business Account ('CEBA') relief program, where funding from Export Development Canada ('EDC') provides interest-free loans of up to $40,000 to qualifying small businesses and not-for-profits to help cover COVID-19 related revenue loss. The loans are funded by the Government of Canada and the bank retains no credit risk. As at 30 June 2020, customers were provided with loans through the CEBA program with an outstanding balance of $153m.
- The Business Credit Availability Program ('BCAP'), comprised of the Business Development Bank of Canada ('BDC') and Export Development Canada ('EDC') relief programs.
  - Under the EDC program, the bank will provide eligible mid-size and large businesses loans of up to $6.25m of new operating credit and cash flow term loans to support short-term liquidity needs. These loans must be used to fund certain operating costs and are 80% guaranteed by the EDC. Loans under this program are recognized on our consolidated balance sheet. As at 30 June 2020, customers were provided with financial guarantees totaling $28m.
  - Under the BDC program, the bank and the BDC will jointly provide loans to eligible businesses of up to $6.25m to meet their operational and liquidity needs. The BDC will purchase an 80% participation in these loans and this portion has been derecognized from our consolidated balance sheet as they meet the IFRS 9 criteria for derecognition of financial assets. As at 30 June 2020, customers were provided with loans totaling $9m.

For further details of the regulatory developments, see the Regulatory development section of the MD&A on page 17.

Impact on risk environment

The impact on financial crime risk and regulatory compliance has also been considered, and the bank remains vigilant regarding the effectiveness of our risk controls during this challenging period when malicious activities - such as cyber-attacks and fraud - tend to increase.

Refer to the 'Risk Management' section of our *Annual Report and Accounts 2019* for a description of how the bank manages risk across the organization and across all risk types, outlining the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

Impact on financial results

In the first half of 2020 expected credit losses of $330m were primarily driven by further deterioration in forward-looking economic guidance used to calculate such losses. This is described in more detail in the Credit risk section of the MD&A on page 18. As well, lower interest rates continue to impact net interest income. The COVID-19 outbreak is expected to continue to disrupt economic activities globally and there could be further adverse impact to HSBC Bank Canada's business and results of operations.

In response, the bank has increased its capital and liquidity levels. These ratios are well in excess of the bank's minimum regulatory requirements and we will continue to prudently manage these levels. As a result, our common equity tier 1 ratio increased to 12.3% at 30 June 2020, compared to 11.3% at 31 December 2019 and our liquidity coverage ratio for the quarter ended 30 June 2020 increased to 193%, compared to 140% for the quarter ended 31 December 2019.

HSBC Bank Canada is part of one of the world's largest banking groups. Canada is a key global market for HSBC, with total assets in Canada of $125bn and US$2,923bn globally as of 30 June 2020. HSBC has a strong capital, funding and liquidity position and we are looking to continue to support the Canadian economy, our customers and wider society through this challenge and through the recovery beyond.

Use of non-IFRS financial measures

In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However, these are not presented within the consolidated financial statements and are not defined under IFRS. These are considered non-IFRS financial measures and are unlikely to be comparable to similar measures presented by other companies. The following non-IFRS financial measures include average balances and annualized income statement figures, as noted, are used throughout this document.

Return on average common shareholder's equity is calculated as the annualized profit attributable to the common shareholder for the period divided by average[1] common equity.

Return on average risk-weighted assets is calculated as annualized profit before income tax expense divided by the average[1] risk-weighted assets.

Operating leverage is calculated as the difference between the rates of change for operating income and operating expenses.

Net interest margin is net interest income expressed as an annualized percentage of average[1] interest earning assets.

Change in expected credit losses to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[2] as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances is calculated as the annualized change in expected credit losses[2] on stage 3 assets as a percentage of average[1] gross loans and advances to customers and customers' liabilities under acceptances.

Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances is calculated as the total allowance for expected credit losses[2] relating to stage 3 loans and advances to customers and customer liabilities under acceptances as a percentage of stage 3 loans and advances to customers and customers' liabilities under acceptances.

Net write-offs as a percentage of average customer advances and acceptances is calculated as annualized net write-offs as a percentage of average[1] net customer advances and customers' liabilities under acceptances.

The following supplementary financial measure calculated from IFRS figures as noted is used throughout this document.

Cost efficiency ratio is calculated as total operating expenses as a percentage of total operating income.

1. *The net interest margin is calculated using daily average balances. All other financial measures use average balances that are calculated using quarter-end balances.*
2. *Change in expected credit losses relates primarily to loans, acceptances and commitments.*

Financial highlights

($millions, except where otherwise stated)	Footnotes	Quarter ended 30 Jun 2020	Quarter ended 30 Jun 2019	Half-year ended 30 Jun 2020	Half-year ended 30 Jun 2019
Financial performance for the period					
Total operating income		**502**	545	**1,048**	1,090
Profit before income tax expense		**8**	168	**87**	397
Profit/(loss) attributable to the common shareholder		**(8)**	112	**46**	270
Change in expected credit losses and other credit impairment charges - (charge)		**(190)**	(40)	**(330)**	(28)
Operating expenses		**(304)**	(337)	**(631)**	(665)
Basic and diluted earnings per common share ($)		**(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**	0.26	**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

	Footnotes	At 30 Jun 2020	At 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, leverage and liquidity non-IFRS financial measures	2		
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

1. Refer to the 'Use of non-IFRS financial measures' section of this document for a discussion of non-IFRS financial measures.
2. The bank assesses capital adequacy against standards established in guidelines issued by OSFI in accordance with the Basel III capital adequacy framework.

Financial performance

Summary consolidated income statement

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
Net interest income	**249**	319	**567**	642
Net fee income	**178**	174	**356**	330
Net income from financial instruments held for trading	**47**	33	**73**	81
Other items of income	**28**	19	**52**	37
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
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

For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year.

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 of $502m for the quarter and $1,048m for the half-year, a decrease of $43m or 7.9% and $42m or 3.9%, respectively. 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 were partly offset by higher loans and deposits.

All other lines of income increased for the second quarter compared to the prior year. Strong Markets trading and sales activities continued in the quarter combined with favourable credit and funding valuation movements which resulted in an increase in trading income. Half-year trading income was negatively impacted by the first quarter’s unfavourable credit and funding valuation movements related to COVID-19. Other items of income increased mainly due to higher gains on the disposal of financial investments and the extinguishment of repurchased subordinated debentures. Net fee income increased 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 Banking.

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 a charge of $330m for the half-year. Prior year charges of $40m for the quarter and $28m for the half-year were primarily related to an expected slowdown in GDP growth at that time.

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%.

Performance by income and expense item

For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year.

Net interest income

Net interest income decreased by $70m or 22% for the quarter. 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 interest income decreased by $75m or 12% for the half-year driven by the same factors as described for the quarter.

Summary of interest income by types of assets

		Quarter ended						Half-year ended					
		30 Jun 2020			30 Jun 2019			**30 Jun 2020**			30 Jun 2019		
		Average balance	**Interest income**	**Yield**	Average balance	Interest income	Yield	**Average balance**	**Interest income**	**Yield**	Average balance	Interest income	Yield
	Footnote	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Short-term funds and loans and advances to banks		**11,833**	**6**	**0.23**	916	1	0.54	**6,468**	**7**	**0.25**	884	3	0.66
Loans and advances to customers		**62,929**	**441**	**2.82**	56,128	525	3.75	**62,569**	**965**	**3.10**	55,721	1,036	3.75
Reverse repurchase agreements - non-trading		**7,433**	**9**	**0.47**	8,633	46	2.13	**7,561**	**48**	**1.27**	7,584	82	2.16
Financial investments		**24,429**	**74**	**1.21**	25,487	127	2.00	**24,214**	**175**	**1.45**	25,077	255	2.05
Other interest-earning assets		**1,478**	**–**	**0.08**	733	4	2.07	**1,304**	**3**	**0.48**	686	7	2.15
Total interest-earning assets (A)		**108,102**	**530**	**1.97**	91,897	703	3.07	**102,116**	**1,198**	**2.37**	89,952	1,383	3.10
Trading assets and financial assets designated at fair value	*1*	**4,109**	**9**	**0.91**	6,773	29	1.77	**4,075**	**25**	**1.23**	5,785	54	1.90
Non-interest-earning assets		**15,599**	**–**	**–**	11,958	–	–	**13,759**	**–**	**–**	11,964	–	–
Total		**127,810**	**539**	**1.69**	110,628	732	2.66	**119,950**	**1,223**	**2.06**	107,701	1,437	2.69

1. *Interest income and expense on trading assets and liabilities is reported in `Net income from financial instruments held for trading' in the consolidated income statement.*

Summary of interest expense by types of liability and equity

		Quarter ended						Half-year ended					
		30 Jun 2020			30 Jun 2019			**30 Jun 2020**			30 Jun 2019		
		Average balance	**Interest expense**	**Cost**	Average balance	Interest expense	Cost	**Average balance**	**Interest expense**	**Cost**	Average balance	Interest expense	Cost
	Footnotes	**$m**	**$m**	**%**	$m	$m	%	**$m**	**$m**	**%**	$m	$m	%
Deposits by banks	*2*	**1,535**	**1**	**0.35**	982	1	0.26	**1,335**	**2**	**0.31**	924	1	0.25
Customer accounts	*3*	**63,145**	**149**	**0.95**	54,293	214	1.58	**60,188**	**344**	**1.15**	53,717	413	1.55
Repurchase agreements - non-trading		**5,169**	**5**	**0.39**	10,452	53	2.02	**6,932**	**43**	**1.26**	9,209	94	2.05
Debt securities in issue and subordinated debt		**22,899**	**108**	**1.89**	14,991	101	2.72	**19,505**	**208**	**2.14**	14,880	203	2.76
Other interest-bearing liabilities		**3,121**	**18**	**2.38**	2,139	15	2.67	**2,683**	**34**	**2.58**	2,134	30	2.80
Total interest bearing liabilities (B)		**95,869**	**281**	**1.18**	82,857	384	1.86	**90,643**	**631**	**1.40**	80,864	741	1.85
Trading liabilities	*1*	**2,993**	**6**	**0.80**	4,063	17	1.74	**2,761**	**15**	**1.11**	3,141	28	1.82
Non-interest bearing current accounts		**6,229**	**–**	**–**	5,784	–	–	**5,972**	**–**	**–**	5,888	–	–
Total equity and other non-interest bearing liabilities		**22,719**	**–**	**–**	17,924	–	–	**20,574**	**–**	**–**	17,808	–	–
Total		**127,810**	**287**	**0.90**	110,628	401	1.45	**119,950**	**646**	**1.09**	107,701	769	1.44
Net interest income (A-B)			**249**			319			**567**			642	

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

Net fee income

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
Account services	**17**	18	**33**	33
Broking income	**3**	2	**7**	4
Cards	**12**	16	**30**	31
Credit facilities	**77**	76	**155**	147
Funds under management	**46**	49	**94**	94
Imports/exports	**2**	3	**4**	6
Insurance agency commission	**2**	2	**3**	3
Other	**11**	11	**25**	23
Remittances	**10**	9	**19**	17
Underwriting	**18**	13	**29**	20
Fee income	**198**	199	**399**	378
Less: fee expense	**(20)**	(25)	**(43)**	(48)
Net fee income	**178**	174	**356**	330

Net fee income increased by $4m or 2.3% for the quarter 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. Reduced customer activity resulted in lower credit card fee income in both Wealth and Personal Banking and Commercial Banking.

Net fee income increased by $26m or 7.9% for the half-year. 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 a decline in fee expenses and an increase in on-line brokerage income in Wealth and Personal Banking.

Net income from financial instruments held for trading

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
Trading activities	**27**	19	**64**	47
Credit valuation, debit valuation and funding fair value adjustments	**15**	1	**(7)**	5
Net interest from trading activities	**3**	12	**10**	26
Hedge ineffectiveness	**2**	1	**6**	3
Net income from financial instruments held for trading	**47**	33	**73**	81

Net income from financial instruments held for trading increased by $14m or 42% for the quarter. 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 decreased by $8m or 9.9% for the half-year 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

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
Gains less losses from financial investments	**14**	10	**30**	18
Other operating income	**14**	9	**22**	19
Other items of income	**28**	19	**52**	37

Other items of income increased by $9m or 47% for the quarter, driven by an increase in other operating income related to an extinguishment gain of $6m recorded on a recent repurchase of $22m of subordinated debentures and higher gains on the disposal of financial investments from re-balancing the bank’s liquid asset portfolio.

Other items of income increased by $15m or 41% for the half-year, driven by higher gains on the disposal of financial investments from re-balancing the bank’s liquid asset portfolio. Gains in other operating income, related to the extinguishment of repurchased subordinated debentures also contributed to the increase.

Change in expected credit losses

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
Change in expected credit loss and other credit impairment charges - performing (stage 1 and 2)	**130**	16	**229**	4
Change in expected credit loss and other credit impairment charges - non-performing (stage 3)	**60**	24	**101**	24
Change in expected credit loss and other credit impairment charges	**190**	40	**330**	28

The change in expected credit losses for the quarter resulted in a charge of $190m compared to a charge of $40m in the same period in the prior year. The charge for the quarter was 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. Impairment charges from non-performing loans in the energy sector primarily driven by the decline in oil prices also contributed to the increase in expected credit losses. In 2019, the charge was related to the economic forecast at the time reflecting a slowdown in GDP growth and an increase in impairment charges from non-performing loans in construction related business and agribusiness.

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. The charge for the half-year was driven by the deterioration in forward-looking economic guidance as a result of the COVID-19 pandemic. This was coupled with impairments from non-performing loans in the energy sector primarily driven by the declines in oil prices. The charge in 2019 was driven by the same factors discussed in the quarter, partly offset by a release during the first quarter of 2019 relating to the outlook of certain customers in the energy sector at that time.

Total operating expenses

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
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

Total operating expenses decreased by $33m or 9.8% for the quarter 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.

Total operating expenses decreased by $34m or 5.1% for the half-year driven by the same factors discussed for the quarter.

Income tax expense

The effective tax rate in 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%.

Movement in financial position

	At	
	30 Jun 2020	31 Dec 2019
	$m	$m
Assets		
Cash and balances at central bank	**12,743**	54
Trading assets	**3,131**	4,322
Derivatives	**6,635**	3,267
Loans and advances	**63,349**	63,091
Reverse repurchase agreements – non-trading	**9,974**	6,269
Financial investments	**21,321**	23,645
Customers' liability under acceptances	**3,799**	3,500
Other assets	**3,669**	2,423
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
Trading liabilities	**2,477**	2,296
Derivatives	**6,878**	3,431
Debt securities in issue	**21,629**	14,594
Acceptances	**3,820**	3,505
Other liabilities	**5,748**	5,613
Total liabilities	**117,902**	100,462
Total shareholder's equity	**6,719**	6,109
Total liabilities and equity	**124,621**	106,571

Assets

Total assets at 30 June 2020 were $124.6bn, an increase of $18.1bn or 17% from 31 December 2019. Due to the impact of COVID-19, the bank strengthened its liquidity position to support our customers. Placement of these funds increased our cash and balances at central banks to $12.7bn. Derivatives increased by $3.4bn as a result of the mark-to-market changes from both foreign exchange and interest rates due to market volatility mainly from the impact of COVID-19. Increases in settlement balances from timing of customer facilitation trades contributed to the increase in other assets of $1.2bn. Non-trading reverse repurchase agreements increased by $3.7bn, partly offset by a decrease of $2.3bn in financial investments as a result of balance sheet management investment and cash management activities.

Liabilities

Total liabilities at 30 June 2020 were $117.9bn, an increase of $17.4bn or 17% from 31 December 2019. Customer accounts increased by $8.8bn as result of deposit growth in all global businesses. Increased term and wholesale funding contributed to an increase of $7.0bn in debt securities in issue. Derivatives increased by $3.4bn which corresponds with the movement within assets. This was partly offset by a decrease in non-trading repurchase agreements of $2.9bn from balance sheet management activities.

Equity

Total equity at 30 June 2020 was $6.7bn, an increase of $0.6bn or 10% from 31 December 2019. The increase represents profits after tax of $0.1bn generated in the period, gains of $0.2bn recorded on account of financial assets at fair value through other comprehensive income and cash flow hedges and $0.5bn from the issuance of common shares. The increase was offset by dividends of $0.2bn declared in the period.

Global businesses

We manage and report our operations around the following global businesses: Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking.

Commercial Banking

Commercial Banking ('CMB') offers a full range of commercial financial services and tailored solutions to customers ranging from small enterprises focused primarily on the domestic markets to corporates operating globally.

Review of financial performance[1, 2]

Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
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 and other credit impairment 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

Overview

Total operating income decreased by $25m or 9.8% for the quarter, and $14m or 2.8% for the half-year.

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-to-date 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 decreased by $138m or 111% for the quarter, and $258m or 89% for the half-year, primarily due to a significant increase in expected credit losses and lower net interest income, partly offset by lower operating costs.

Financial performance by income and expense item

Net interest income for the quarter and half-year decreased by $25m or 16% and $28m or 8.9%, respectively. This reflects lower margins as a result of central bank rate decreases and higher costs associated with maintaining increased liquidity. This was partly offset by higher average loans and advances and higher deposits.

Non-interest income for the quarter remained unchanged versus prior year as reduced customer activity impacted account service, credit card and foreign exchange fees but was offset by higher bankers' acceptance fees as a result of higher volumes. For the half-year, non-interest income increased by $14m or 7.3% driven primarily by higher bankers' acceptance fees and higher foreign exchange revenues as a result of a strong first quarter performance.

Change in expected credit losses resulted in a charge of $147m for the quarter and charge of $264m for the half-year. This was primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19 and certain energy sector accounts.

Total operating expenses for the quarter and half-year decreased by $8m or 7.7% and $8m or 3.9%, respectively, as we prudently manage costs in response to the current economic environment.

1. *For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year.*
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. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and half-year ended 30 June 2020.*

Global Banking and Markets

Global Banking and Markets ('GBM') provides tailored financial services and products to major government, corporate and institutional customers worldwide.

Review of financial performance[1,2]

Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
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 and other credit impairment 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

Overview

GBM's total operating income increased by $15m or 17% for the quarter, and decreased by $2m or 1.1% for the half-year. 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 continue to leverage the Group's global network to provide products and solutions to meet our global clients' needs.

Profit before income tax decreased by $10m or 27% for the quarter, and $42m or 48% for the half-year. The decrease 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.

Financial performance by income and expense item

Net interest income for the quarter decreased by $4m or 13% due to higher costs associated with maintaining increased liquidity and the negative impact from central bank rate decreases, partly offset by decrease in funding costs of Markets trading activities. For the half-year, net interest income increased by $2m or 3.1% mainly due to a decrease in funding costs of Markets trading activities, partly offset by lower margins as result of market volatility and central bank rate decreases.

Non-interest income for the quarter increased by $19m or 35% driven by favourable movements in credit and funding valuations and higher underwriting and advisory fees. For the half-year, non-interest income decreased by $4m or 3.5% primarily due to unfavourable movements in credit and funding valuations. This was partly offset by higher underwriting and advisory fees.

Change in expected credit losses resulted in an increase of $27m in charges for the quarter and $40m in charges for the half-year. This was primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

Total operating expenses for the quarter decreased by $2m or 4.9% and remained flat for the half-year. Decrease in expenses was mainly due to lower staff costs.

1. *For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year.*
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. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and half-year ended 30 June 2020.*

Wealth and Personal Banking[1]

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

Review of financial performance[2,3]

Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
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 and other credit impairment 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

Overview

Total operating income decreased by $23m or 11% for the quarter and $14m or 3.5% for the half-year. Higher net fee income and strong volume growth in total relationship balances[4] 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 growth[5] in total relationship balances[4] 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 expense decreased by $5m or 26% for the quarter 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 expense increased by $4m or 10% for the half-year 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.

Financial performance by income and expense item

Net interest income for the quarter and half-year decreased by $29m or 21% and $34m or 12%, respectively, due to lower spreads as a result of central bank rate decreases and higher costs associated with maintaining increased liquidity, partly offset by higher volume growth in lending and deposits.

Non-interest income increased by $6m or 9.1% for the quarter due to higher net fee income from cards and account services, partly offset by lower income from funds under management due to market volatility. Non-interest income increased $20m or 16% for the half-year, due to higher net fee income from cards, account services, funds under management and higher income from the online broker business.

Change in expected credit losses resulted in a $2m increase in charges for the quarter and $10m increase in charges for the half-year primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

Total operating expenses for the quarter and half-year decreased by $20m or 11% and $28m or 7.9%, respectively, due to streamlining initiatives and prudent management of costs in response to COVID-19, partly offset by strategic investments to grow our business.

1. *Effective from 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. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and half-year ended 30 June 2020.*
2. *For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year.*
3. *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. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and half-year ended 30 June 2020.*
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.*

Corporate Centre

Corporate Centre contains other transactions which do not directly relate to our global businesses.

Review of financial performance[1,2]

Summary income statement

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
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)

Overview

Net operating income for the quarter and half-year decreased by $10m and $12m, respectively. The decrease in net interest income was primarily 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.

Operating expenses decreased by $3m or 21% for the quarter primarily due to lower salary costs and reduced discretionary costs within our support functions. Operating expenses increased by $2m or 9.1% for the half-year mainly due to prior year's adjustment of capital taxes.

The impact of these movements decreased profit before income tax expense by $7m or 58% for the quarter and $14m or 67% for the half-year.

1. *For the quarter and half-year ended 30 June 2020 compared with the same periods in the prior year.*
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. For further details, see note 4 of the interim condensed consolidated financial statements for the quarter and half-year ended 30 June 2020.*

Summary quarterly performance

Summary consolidated income statement

	Quarter ended							
	2020		2019				2018	
	Jun 30	Mar 31	Dec 31	Sep 30	Jun 30	Mar 31	Dec 31	Sep 30
	$m	$m	$m	$m	$m	$m	$m	$m
Net interest income	**249**	318	313	313	319	323	335	332
Net fee income	**178**	178	179	168	174	156	164	175
Net income from financial instruments held for trading	**47**	26	48	36	33	48	26	35
Other items of income	**28**	24	21	17	19	18	40	46
Total operating income	**502**	546	561	534	545	545	565	588
Change in expected credit losses and other credit impairment charges - (charge)/release	**(190)**	(140)	(33)	(17)	(40)	12	(19)	7
Net operating income	**312**	406	528	517	505	557	546	595
Total operating expenses	**(304)**	(327)	(315)	(311)	(337)	(328)	(324)	(324)
Profit before income tax expense	**8**	79	213	206	168	229	222	271
Income tax expense	**(3)**	(13)	(56)	(56)	(47)	(62)	(65)	(73)
Profit for the period	**5**	66	157	150	121	167	157	198
Profit/(loss) attributable to:								
– common shareholder	**(8)**	54	144	141	112	158	148	189
– preferred shareholder	**13**	12	13	9	9	9	9	9
Basic and diluted earnings per common share ($)	**(0.01)**	0.11	0.29	0.28	0.22	0.32	0.29	0.38

Comments on trends over the past eight quarters

Net interest income decreased in the second quarter as a result of maintaining higher levels of highly liquid assets at lower yields and central bank rate cuts related to COVID-19. Balance sheet management activities drove net interest income higher in the first quarter of 2020. From the first quarter of 2019 to the current quarter, net interest income declined as a result of higher costs of liabilities to fund the growth in average interest earning assets, and lower balance sheet management activities. Net interest income trended upwards from the second half of 2018 as a result of increased interest rates together with growth in loans and advances and customer accounts.

Net fee income is comprised of income from a number of sources that can fluctuate from quarter to quarter and are impacted by business activity, number of days in the quarter and seasonality. During the second quarter of 2020, as a result of COVID-19 we have seen a decrease in customer activity resulting in decreased net fee income. Otherwise, the largest driver of fluctuation from quarter to quarter in this line item is underwriting fees which are event driven. Notwithstanding this, the underlying trend of growth in fees from credit facilities are related to higher volumes of bankers' acceptances, funds under management and credit cards.

Net income from financial instruments held for trading is, by its nature, subject to fluctuations from quarter to quarter. During the second quarter of 2020, the increase was related to favourable movements in credit and funding fair value adjustments mainly driven by reduced credit spreads and lower market volatility, as well as increased Rates trading and balance sheet management activities. In the first quarter, net income from financial instruments decreased mainly due to lower unfavourable credit and funding valuation movements driven by increases in credit spreads and market volatility related to COVID-19, partly offset by strong Markets trading and sales activities. In the third and fourth quarter of 2019, net income from financial instruments held for trading increased mainly due to higher fixed income trading activities. In the second quarter of 2019, the decrease was mainly due to lower Rates trading activities. The first quarter in 2019 increased as a result of tightening credit spreads. 2018 also saw increased volumes of foreign exchange transactions, higher net interest from trading activities from higher yields and product mix, and favourable hedge ineffectiveness, which were partly offset by a loss relating to balance sheet management activities.

Other items of income include gains and losses from the sale of financial investments, which can fluctuate quarterly due to underlying balance sheet management activities. Notwithstanding this, during the second quarter of 2020, other items of income increased from a gain related to the extinguishment of repurchased subordinated debentures. In 2019, as a result of the implementation of ServCo group, as described in 'Implementation of the ServCo group' section of the MD&A and note 32 of our *Annual report and Accounts 2019*, there was a reduction in income from Group entities and a related decrease in operating expenses. In 2018, other items of income also included income from Group entities, which can also fluctuate due to the timing of services provided to Group.

Deterioration in forward-looking economic guidance as a result of the COVID-19 pandemic, coupled with the weakened energy sector primarily due to decline in oil prices resulted in the increase in charges for expected credit losses in the first quarter of 2020 and a further charge in the second quarter of 2020. The charges for expected credit losses in 2019 were driven by ongoing normalization of credit losses mainly from the change in the economic forecast reflecting a slowdown in GDP growth compared to the prior year. As well, 2019 saw impairment charges spike in the second and fourth quarters from non-performing loans in the wholesale and retail trade, mining and agriculture sectors. The reversal in the first quarter of 2019 was driven by the release of provisions as the outlook for certain customers in the energy service sector improved. The third quarters of 2018 saw recoveries as a result of improvements in several sectors, most notably the energy services sector. There was a charge of $19m in the fourth quarter of 2018 as a result of a number of small charges in the non-performing Commercial Banking portfolio, as well as an increase in expected credit losses for performing loans driven by forward-looking economic factors at the time across all of the global businesses.

From 2018 onwards, our focus has been on growing our business in support of our strategic plan. We continued to strategically make these investments in the first half of 2020. In the second quarter of 2020, these investments were offset by prudent management of costs. In 2019, these investments were partly offset by a decrease in employee compensation and benefits and general and administrative expenses as a result of the implementation of ServCo group, as described in the 'Implementation of the ServCo group' section of the MD&A and note 32 of our *Annual report and Accounts 2019*. In 2018, investments were partly offset by lower costs associated with a reduction in office space and leveraging the scale of centralizing specific business activities throughout the Group. The timing of expenses incurred in 2018 led to variances between the quarters.

Economic review and outlook

The predictions and forecasts in this section are based on information and assumptions from sources we consider reliable. If this information or these assumptions are not accurate, actual economic outcomes may differ materially from the outlook presented in this section.

Containment measures associated with COVID-19 dealt a severe blow to the economy in March and April. This resulted in the level of economic activity declining sharply in the first half of the year. Following a decline of 8.2% annualized in the first quarter, we believe the economy contracted by an annualized 47% in the second quarter. This would leave the level of economic activity 16.5% below what was observed in late 2019.

Although the data is not yet available, we expect it will show that consumption and business investment declined sharply in the second quarter. Consumption will be weak due to both significant job losses and the fact that many establishments were closed, or have been open for reduced hours, since mid-March. Business investment will decline in part as oil firms have cut back on capital expenditures due to weak oil prices, a sharp decline in oil revenues, and a slowdown in international trade that will impede imports of machinery and equipment.

However, there are encouraging signs that economic activity began to rebound in May as measures put in place to contain the spread of the coronavirus began to be lifted, helping to boost consumer and business confidence. At present, all provinces are reopening, though economic indicators suggest that activity and the pace of recovery is not consistent across provinces. Nonetheless, we expect economic growth to rebound in the second half of 2020, boosted by the release of pent-up demand.

Following the initial rebound in economic activity, we expect a moderate growth trajectory through 2021. Overall, we expect GDP to decline by 8.3% in 2020, and growth of 5.6% next year. Through 2021, as government support mechanisms taper off, and as firms adjust payrolls to new demand conditions, we see a possibility that consumer insolvencies and mortgage arrears will increase, thus limiting the growth of consumer spending.

An unprecedented shock

The economic hit from COVID-19 has been unprecedented. Job losses in March and April amounted to over 3m, and the unemployment rate increased from a near historic low of 5.6% in February to a record high of 13.7%. Even so, the unemployment rate under-represents the scale of joblessness. This is because many of those who lost their jobs in March and April left the labour force, and were thus not counted as unemployed. However, the surprise increase in employment in May was an encouraging sign that the worst is past, and in June the employment increase of almost 1m was largely due to people coming back into the labour force.

That said, we have some concerns about the pace of the recovery after the initial upswing. First, the job losses related to COVID-19 were heavily concentrated among lower wage workers, and in industries that were most affected by social distancing restrictions. Employment in these industries might lag the economic recovery, as social distancing requirements remain in place. While employment among higher wage workers has fully recovered - up 2.5% from its February levels - employment among those making less than $30 per hour (almost 60% of employees) is still down by over 12%. Second, the earlier job losses were in industries that tend to feature a higher relative share of female employment. Through May and June, female employment has lagged the recovery of male employment. The job recovery might, therefore, feature a divergence with longer bouts of unemployment among lower wage workers and females.

A rapid policy response

The policy response to COVID-19 was rapid and aggressive. On the fiscal front, there have been important initiatives at the federal and provincial levels. In terms of direct support to the economy, the two largest federal programs are the Canada Emergency Response Benefit ('CERB'), and the Canada Emergency Wage Subsidy ('CEWS').

CERB provides a taxable $2,000 per month for up to four months to workers who have lost income due to COVID-19. Thus far, the CERB has paid out more than $59.4bn to 8.34m applicants. This significant shift from labour income to increased transfers from the government played an important role in limiting the disruptions to the economy beyond the direct effect of COVID-19. Notably, the transfers cushioned the blow of significant job losses on the most vulnerable workers, who had suffered the largest employment losses. In fact, as neither income tax nor deductions were removed from CERB payments, some recipients ended up with a higher take-home pay under CERB than when employed. In its Economic and Fiscal Snapshot, the federal government projected that the CERB program, which is to run to 3 October 2020, would cost $80bn.

Another federal program, the CEWS is projected to cost $82.3bn, and will run through December. While the program was slow to gain momentum, there have been 667,400 applications accepted and $20.3bn in wage subsidies have been paid.

We estimate that the fiscal impact of the federal government's policy response totals $309bn, or 13.4% of GDP. Of that total, $224bn, or 9.7% of GDP, has been direct support to workers, students, and affected sectors. This total includes $19bn (up from a proposed $14bn), reflecting the federal government's contribution to the Safe Restart Agreement ('SRA') to help provinces safely restart their economies, and increase funding to help municipalities deliver essential services. The remaining $85bn has been through liquidity support in the form of income tax deferrals, and delays in sales tax and customs duty remittances. Including the contribution for SRA, the federal government's projected budget deficit of $348bn, or 16.1% of GDP in fiscal year 2020/21, pushing the federal debt to GDP ratio to 49.4%. On top of the federal response, provincial governments have provided a further $70bn in support.

Heading toward a recovery, the focus of fiscal policy will shift from responding to the COVID-19 shock, and the drop in oil prices, toward providing stimulus to support a lasting recovery. We also continue to anticipate support for industries, such as oil and gas, airlines, tourism, and hospitality that have been particularly hard hit by the economic slowdown and are most likely to continue to struggle with social distancing requirements. Governments are also starting to bring in measures to encourage people to return to work. In Manitoba, the provincial government has announced that it will provide $2,000 if people agree to return to work and to stop collecting CERB, or the Canada Emergency Student Benefit ('CESB'), a program to support students who were unable to find work due to COVID-19. Looking ahead, even as the recovery gains traction, some of those affected by COVID-19 will continue to require support as their jobs might lag the recovery, or might not come back at all.

Bank of Canada sets stage for low rates for extended period

The Bank of Canada ('BoC') also responded aggressively to the economic impact of COVID-19 and the disruptive effect on financial market operations. The BoC's policy rate was reduced to 0.25%, and several large scale asset purchase programs were initiated to support funding markets. However, as market functioning has now improved, some of the Bank's programs are being used less frequently. Other large scale asset purchase programs, such as one to purchase Government of Canada ('GoC') bonds, have shifted to provide monetary stimulus via quantitative easing. On 15 July, the BoC said it will continue to purchase at least $5bn per week of GoC bonds, spread across the yield curve, until the recovery is well underway.

BoC Governor, Tiff Macklem, has reaffirmed that inflation targeting remains a beacon for the Bank. However, as COVID-19 has affected consumption patterns, the rate of consumer price index ('CPI') inflation might be less relevant than during normal times. As a result, the BoC and Statistics Canada have created a modified CPI that more accurately reflects current consumption patterns and the price pressures facing households.

Nonetheless, with supply expected to rebound more strongly than demand, the BoC remains particularly concerned about downside risks to inflation. As a result, the Bank adopted explicit forward guidance on 15 July saying that the policy rate would remain at 0.25% "until economic slack is absorbed so that the 2% inflation target is sustainably achieved." We believe that the Bank will leave its policy rate at 0.25% through 2022, with additional stimulus to come through increases in large scale asset purchase programs.

Regulatory developments

Like all Canadian financial institutions, we face an increasing pace of regulatory change. The summary of some key regulatory changes with the potential to impact our results or operations are described in the 'Regulatory developments' section of our *Annual report and Accounts 2019*. As a result of the COVID-19 pandemic, there were a number of regulatory developments in the first quarter of 2020 which are described in the 'Regulatory developments' section of our *First Quarter 2020 Interim Report*. The following is a summary of some key regulatory changes announced in the second quarter of 2020 with the potential to impact our results or operations:

Continued regulatory response to COVID-19

In the second quarter of 2020, the Federal Government and financial institution regulators continued to introduce measures to bolster the resilience of financial institutions, while ensuring that financial institutions have the necessary resource to respond to the needs of customers during the COVID-19 pandemic.

Office of the Superintendent of Financial Institutions ('OSFI')

Following the suite of regulatory adjustments to capital and liquidity adequacy requirements in response to the COVID-19 pandemic in the first quarter of 2020, OSFI continued to develop and refine its expectations surrounding capital management by financial institutions. In the second quarter, OSFI set out its expectations on the use of Pillar II capital buffers during the pandemic, advising that the ability to use Pillar II capital buffers applies to all deposit taking institutions ('DTIs'), including those using the Standardized Approach to credit risk. OSFI expects all DTIs to consider the appropriateness of their capital management, such as any appropriate capital conservation actions, capital restoration, and stress testing information (including plausible future adverse scenarios) as part of the decision-making process. DTIs must ensure that they undertake prudent actions to protect depositors and other creditors.

On 13 July 2020, OSFI released a statement announcing plans to gradually restart its policy development work with the financial sector. OSFI had previously suspended consultations and policy development, including the domestic implementation of the remaining measures of the Basel III international capital standard, in an effort to reduce operational stress on DTIs during the COVID-19 outbreak. OSFI is of the view that conditions have now become more stable. More details will be available this summer and throughout the fall on how OSFI will be resuming policy work, which will include adjusting both the content and pace of what it does to reflect the new economic and operational environment. OSFI will be seeking input from DTIs to make the necessary adjustments.

Other regulators

Most of the bank's regulators, including the Canadian Deposit Insurance Corporation ('CDIC') and the securities regulators, have suspended in-flight consultations on new regulatory change until further notice and delayed the implementation of previously planned regulatory changes to allow financial institutions to concentrate resources on the more immediate COVID-19 response. Implementation of some regulatory developments have been delayed out to 31 December 2021 and beyond.

Government of Canada

The Federal Government announced a number of emergency funding and loan programs which require facilitation and participation by financial institutions. HSBC continues to actively participate in these programs to assist our customers wherever possible. Programs include:

- The Canada Emergency Response Benefit ('CERB'), which gives financial support to employed and self-employed individuals who are directly affected by COVID-19, up to 24 weeks; and
- The Canada Emergency Wage Subsidy ('CEWS'), which extends a 75% wage subsidy (to a maximum amount per employee per week) to eligible employers affected by COVID-19, up to 24 weeks.

In response to the significant increase in the volume of cheques issued by the Federal Government through its programs, the Minister of Finance advised that the Federal Government has temporarily increased the indemnification limit for financial institutions required to cash government cheques. It also urged financial institutions to minimize, to the furthest extent possible, the cheque hold period for consumers who deposit emergency benefits-related cheques into their accounts.

Consumer protection

Certain amendments to the Bank Act and the Financial Consumer Agency of Canada Act ('FCAC') made by Bill C-86 were declared in force 30 April 2020. These amendments expand the powers of the FCAC.

Accounting matters

The bank's results are sensitive to the accounting policies that underlie the preparation of our consolidated financial statements. A summary of our significant accounting policies are provided in note 2 of our *Annual Report and Accounts 2019*.

The preparation of financial information requires the use of estimates and judgments, and management believes that our critical accounting estimates and judgments are those that relate to expected credit loss, valuation of financial instruments, income taxes and deferred tax assets and defined benefit obligations. There were no changes in the current period to the critical accounting estimates and judgments applied in 2019, which are stated on pages 24 and 64 of the *Annual Report and Accounts 2019*. However, the level of estimation uncertainty and judgment for the calculation of expected credit loss ('ECL') has increased since 31 December 2019 as a result of the economic effects of the COVID-19 pandemic as set out in 'Measurement uncertainty and sensitivity analysis of ECL estimates' section on page 21.

Off-balance sheet arrangements

As part of our banking operations, we enter into a number of off-balance sheet financial transactions that have a financial impact, but may not be recognized in our financial statements. These types of arrangements are contingent and may not necessarily, but in certain circumstances could, involve us incurring a liability in excess of amounts recorded in our consolidated balance sheet. These arrangements include guarantees and letters of credit and are described in the 'Off-balance sheet arrangements' section of our *Annual report and Accounts 2019*.

Financial instruments

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

Financial instruments are accounted for according to their classification which involves the use of judgment. A detailed description of the classification and measurements of financial instruments is included in note 2 of our *Annual Report and Accounts 2019*.

The use of financial instruments has the potential of exposing the bank to, or mitigating against, market, credit and/or liquidity risks. A detailed description of how the bank manages these risks can be found in the Risk section of our *Annual Report and Accounts 2019*.

Disclosure controls and procedures and internal control over financial reporting

The Chief Executive Officer ('CEO') and Chief Financial Officer ('CFO') have signed certifications relating to the appropriateness of the financial disclosures in interim filings with the Canadian Securities Administrators, including this MD&A and the accompanying consolidated financial statements for the quarter and half-year ended 30 June 2020. The CEO and CFO are responsible for the design and maintenance of disclosure controls and procedures and internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting in accordance with IFRS. There have been no changes in internal controls over financial reporting during the quarter and half-year ended 30 June 2020 that have materially affected or are reasonably likely to affect internal control over financial reporting.

Related party transactions

We enter into transactions with other HSBC affiliates, as part of the normal course of business, such as banking, short-term borrowing and operational services. In particular, as a member of one of the world's largest financial services organizations, we share the expertise and economies of scale provided by the HSBC Group. We provide and receive services or enter into transactions with a number of HSBC Group companies, including sharing the cost of development for technology platforms used around the world and benefit from worldwide contracts for advertising, marketing research, training and other operational areas.

These related party transactions are on terms similar to those offered to non-related parties and are subject to formal approval procedures. Further details can be found in note 29 of our *Annual Report and Accounts 2019*.

On 30 March 2020, the bank issued an additional 50,000,000 common shares to HSBC Overseas Holdings (UK) Limited. Further details can be found in the 'Outstanding shares and dividends' section of the MD&A.

On 30 June 2020, HSBC Overseas Holdings (UK) Limited, holder of the preferred shares Series G exercised its option to convert the preferred shares Series G into preferred shares Series H in accordance with their terms.

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

Risk

Refer to the 'Risk Management' section of our *Annual Report and Accounts 2019* for a description of how the bank manages risk across the organization and across all risk types, outlining the key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

Like many organizations, COVID-19 is impacting our business operations, employees, customers and suppliers. A summary of the impact is covered in 'Impact of COVID-19 and our response' section of the MD&A on page 4 and in the relevant sections as appropriate.

Credit risk

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

During the year, due to the unique market conditions in the COVID-19 crisis, we expanded operational practices to provide support to customers under the current policy framework, such as the application of payment relief options outlined below. There have been no material changes to the credit risk policy.

A summary of our current policies and practices for the management of credit risk is set out in 'Credit risk management' on page 31 of the *Annual Report and Accounts 2019*.

Payment relief options

In response to COVID-19, we continue to work with our wholesale and personal customers who might need additional assistance to manage their working capital cycle, or supply chain and other risks, or who might need flexibility in managing their loans.

We have launched flexible solutions for our impacted customers, including up to six months of payment deferral for mortgages and relief on other credit products as needed. These payment relief options allow customers to temporarily stop making their regular payments.

For the contracts that are modified, we have performed a careful assessment to consider reasonable and supportable information at an individual level and/or at a collective level in order to identify customers at higher susceptibility of long term economic impacts which might indicate a significant increase in credit risk. Payment deferrals are not considered to automatically trigger a significant increase in credit risk or result in the loans involved being moved into stage 2 or stage 3 for the purposes of calculating ECL, all things being equal.

The assessment not only considered reliefs, where relevant, but also other available reasonable and supportable information about lifetime risk of default.

The following table presents the number of accounts and drawn loan balances of accounts under payment relief options implemented by the bank at 30 June 2020.

Personal lending		
Number of residential mortgages and home equity lines of credit accounts under payment relief	**Thousands**	**5**
Drawn loan balance of residential mortgages and home equity lines of credit accounts under payment relief	**$m**	**2,467**
Total residential mortgages and home equity lines of credit balance	**$m**	**28,491**
Payment relief as a proportion of total residential mortgages and home equity lines of credit	**%**	**8.7**
Number of other personal lending accounts under payment relief	**Thousands**	**1**
Drawn loan balance of other personal lending accounts under payment relief	**$m**	**27**
Total other personal lending balance	**$m**	**1,408**
Payment holidays as a proportion of total other personal lending	**%**	**1.9**
Wholesale lending		
Number of accounts under payment relief	**Thousands**	**2**
Drawn loan balance of accounts under payment relief	**$m**	**2,430**
Total wholesale lending balance	**$m**	**32,850**
Payment relief as a proportion of total wholesale lending	**%**	**7.4**

Summary of credit risk

The following disclosure presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

The allowance for ECL at 30 June 2020 comprised of $533m in respect of assets held at amortized cost, $58m in respect of loan commitments and financial guarantees, $1m in respect of debt instruments measured at fair value through other comprehensive income ('FVOCI'), and $7m in respect of performance guarantee contracts.

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

	Footnotes	At 30 Jun 2020 Gross carrying/ nominal amount	At 30 Jun 2020 Allowance for ECL	At 31 Dec 2019 Gross carrying/ nominal amount	At 31 Dec 2019 Allowance for ECL
		$m	$m	$m	$m
Loans and advances to customers at amortized cost		**62,749**	**(486)**	62,164	(242)
– personal		**29,899**	**(71)**	29,192	(60)
– corporate and commercial		**32,850**	**(415)**	32,972	(182)
Loans and advances to banks at amortized cost		**1,086**	**—**	1,169	—
Other financial assets measured at amortized cost		**29,550**	**(47)**	11,662	(30)
– cash and balances at central banks		**12,743**	**—**	54	—
– items in the course of collection from other banks		**18**	**—**	15	—
– reverse repurchase agreements non - trading		**9,974**	**—**	6,269	—
– customers' liability under acceptances		**3,819**	**(20)**	3,505	(5)
– other assets, prepayments and accrued income	1	**2,996**	**(27)**	1,819	(25)
Total gross carrying amount on-balance sheet		**93,385**	**(533)**	74,995	(272)
Loans and other credit related commitments		**44,747**	**(54)**	42,700	(22)
– personal		**7,953**	**(1)**	7,444	(1)
– corporate and commercial		**36,794**	**(53)**	35,256	(21)
Financial guarantees	2	**2,001**	**(4)**	2,124	(2)
– personal		**7**	**—**	7	—
– corporate and commercial		**1,994**	**(4)**	2,117	(2)
Total nominal amount off-balance sheet	3	**46,748**	**(58)**	44,824	(24)

		Fair value	Allowance for ECL	Fair value	Allowance for ECL
		$m	$m	$m	$m
Debt instruments measured at fair value through other comprehensive income ('FVOCI')	4	**21,314**	**(1)**	23,625	(1)

1. *Includes only those financial instruments which are subject to the impairment requirements of IFRS 9. 'Other assets' and 'Prepayments and accrued income' as presented within the consolidated balance sheet include both financial and non-financial assets.*
2. *Excludes performance guarantee contracts.*
3. *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*
4. *Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognized in 'Change in expected credit losses and other credit impairment charges' in the income statement.*

The following table provides an overview of the bank's credit risk by stage and segment, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognized.

Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognized.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognized.

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

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%
Loans and advances to customers at amortized cost	52,623	9,699	427	62,749	(80)	(219)	(187)	(486)	0.2	2.3	43.8	0.8
– personal	28,691	1,119	89	29,899	(17)	(38)	(16)	(71)	0.1	3.4	18.0	0.2
– corporate and commercial	23,932	8,580	338	32,850	(63)	(181)	(171)	(415)	0.3	2.1	50.6	1.3
Loans and advances to banks at amortized cost	1,086	—	—	1,086	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	28,701	822	27	29,550	(6)	(14)	(27)	(47)	—	1.7	100.0	0.2
Loan and other credit-related commitments	35,862	8,823	62	44,747	(13)	(41)	—	(54)	—	0.5	—	0.1
– personal	7,844	97	12	7,953	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	28,018	8,726	50	36,794	(12)	(41)	—	(53)	—	0.5	—	0.1
Financial guarantees[2]	1,738	262	1	2,001	(1)	(3)	—	(4)	0.1	1.1	—	0.2
– personal	6	1	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,732	261	1	1,994	(1)	(3)	—	(4)	0.1	1.1	—	0.2
At 30 Jun 2020	**120,010**	**19,606**	**517**	**140,133**	**(100)**	**(277)**	**(214)**	**(591)**	**0.1**	**1.4**	**41.4**	**0.4**

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

	Gross carrying/nominal amount[1]				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m	%	%	%	%
Loans and advances to customers at amortized cost	57,168	4,662	334	62,164	(40)	(85)	(117)	(242)	0.1	1.8	35.0	0.4
– personal	28,536	569	87	29,192	(14)	(31)	(15)	(60)	—	5.4	17.2	0.2
– corporate and commercial	28,632	4,093	247	32,972	(26)	(54)	(102)	(182)	0.1	1.3	41.3	0.6
Loans and advances to banks at amortized cost	1,169	—	—	1,169	—	—	—	—	—	—	—	—
Other financial assets measured at amortized cost	11,305	331	26	11,662	(2)	(3)	(25)	(30)	—	0.9	96.2	0.3
Loan and other credit-related commitments	38,620	4,014	66	42,700	(6)	(15)	(1)	(22)	—	0.4	1.5	0.1
– personal	7,268	164	12	7,444	(1)	—	—	(1)	—	—	—	—
– corporate and commercial	31,352	3,850	54	35,256	(5)	(15)	(1)	(21)	—	0.4	1.9	0.1
Financial guarantees[2]	1,921	201	2	2,124	(1)	(1)	—	(2)	0.1	0.5	—	0.1
– personal	6	1	—	7	—	—	—	—	—	—	—	—
– corporate and commercial	1,915	200	2	2,117	(1)	(1)	—	(2)	0.1	0.5	—	0.1
At 31 Dec 2019	110,183	9,208	428	119,819	(49)	(104)	(143)	(296)	—	1.1	33.4	0.2

1. Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
2. Excludes performance guarantee contracts.

Measurement uncertainty and sensitivity analysis of ECL estimates*

The recognition and measurement of ECL involves the use of significant judgment and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

Methodology

Our methodology in relation to the adoption and generation of economic scenarios is described on page 35 of the *Annual Report and Accounts 2019*.

No changes were made to the methodology during 2020, except for the enhancements made to assess the impact of COVID-19.

Description of consensus economic scenarios

The following table describes key macroeconomic variables and the probabilities assigned in the consensus economic scenarios.

Consensus economic scenarios[1, 2]

	Central scenario	Upside scenario	Downside scenario	Additional Downside scenario
GDP growth (%)				
Annual average growth rate: 2020	-7.1	-7.0	-7.3	-9.6
Annual average growth rate: 2021	5.5	5.9	4.6	-9.1
1Q22–2Q25: average growth	2.1	2.2	2.1	3.9
3Q20–2Q22: worst quarter	-8.2 (3Q20)	-8.1 (3Q20)	-8.6 (3Q20)	-14.3 (2Q21)
Unemployment rate (%)				
Annual average: 2020	10.0	9.9	10.2	13.1
Annual average: 2021	8.1	7.3	9.1	11.9
1Q22–2Q25: average	6.5	6.4	6.6	11
3Q20–2Q22: worst quarter	11.1 (3Q20)	11.0 (3Q20)	11.5 (3Q20)	19.5 (3Q20)
House Price Index (%)				
Annual average growth rate: 2020	0.2	0.8	-1.1	-6.6
Annual average growth rate: 2021	2.1	9.5	-4.8	-19.8
1Q22–2Q25: average growth	3.4	5.6	1.0	3.4
3Q20–2Q22: worst quarter	-4.0 (1Q21)	-1.3 (3Q20)	-9.0 (1Q21)	-27.6 (2Q21)
Brent oil prices (US$/barrel)				
Annual average: 2020	34.2	46.5	29.0	29.8
Annual average: 2021	37.0	76.4	22.4	14.9
1Q22–2Q25: average	44.3	49.0	42.3	31.3
3Q20–2Q22: worst quarter	28.1 (3Q20)	47.4 (3Q20)	17.8 (4Q20)	14.3 (3Q21)
Probability	70	10	15	5

1. Consensus economic scenarios are based on average 3Q20-2Q25.
2. The quarterly update of the consensus economic scenarios did not have a material impact for the comparative period.

Additional Downside scenario

An alternative downside scenario has been created to reflect management's view of extreme risks. This 'U-shaped' scenario assumes that a number of Bank's top risks crystallize simultaneously and results in an extremely severe and long-lived recession. This scenario has been assigned a 5% probability.

Critical accounting estimates and judgments

The calculation of ECL under IFRS 9 involves significant judgments, assumptions and estimates, as set out in the *Annual Report and Accounts 2019* under 'Critical accounting estimates and judgments'. The level of estimation uncertainty and judgment has increased since 31 December 2019 as a result of the economic effects of the COVID-19 pandemic, including significant judgments relating to:

- the selection and weighting of economic scenarios, given that it is not possible to predict the timing or impact of the virus, spread, treatment and containment, rapidly changing economic conditions in an unprecedented manner, which could be intensified by any restrictions on global trade or travel, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a widening in the distribution of economic forecasts. The key judgment is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;
- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by COVID-19. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and
- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

How economic scenarios are reflected in ECL

The methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and personal loans and portfolios is set out in the *Annual Report and Accounts 2019 page 36*. These models are based largely on historical observations and correlations with default rates.

For certain scenarios the projections at 30 June 2020 of macroeconomic variables are outside the historical observations on which IFRS 9 models have been built and calibrated to operate. Moreover, the complexities of governmental support programs and regulatory guidance on treatment of customer impacts (such as forbearance, payment holidays) and the unpredictable pathways of the pandemic have never been modelled. Consequently, in some cases and particularly in the additional downside scenario, the Bank's IFRS 9 models, generate less reliable modelled output and in-model and post model adjustments are required to ensure that an appropriate amount of ECL impairment is recognized.

These adjustments include refining model inputs and outputs and using management judgment and higher level quantitative analysis for impacts that are difficult to model. To ensure a consistent framework, we identified the model segments where results are implausible based on historical benchmarks and defined the worst economic inputs where the model output is considered reliable. Re-running the models with these capped economic limits established boundary conditions used by credit experts as a starting point for further adjustments based on their own structured judgment and granular analysis.

Post-model adjustments

In the context of IFRS 9, post-model adjustments are short-term increases or decreases to the ECL at either a customer or portfolio level to account for late breaking events, model deficiencies and expert credit judgment applied following management review and challenge. We have internal governance in place to regularly monitor post-model adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible actual ECL outcomes. The impact of defaults that might occur in future under different economic scenarios is captured by recalculating ECL for loans in stages 1 and 2 at the balance sheet date. The population of stage 3 loans (in default) at the balance sheet date is unchanged in these sensitivity calculations. Stage 3 ECL would only be sensitive to changes in forecasts of future economic conditions if the LGD of a particular portfolio was sensitive to these changes.

For wholesale lending credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and it is impracticable to separate the effect of macroeconomic factors in individual assessments.

For personal lending credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the personal lending ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

Wholesale portfolio analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of financial instruments subject to significant measurement uncertainty at 30 June 2020[2]	$m
Reported ECL	**324**
Consensus scenarios	
Central scenario	**286**
Upside scenario	**208**
Downside scenario	**406**
Alternative scenarios	
Alternative Downside scenario	**889**
Gross carrying amount[3]	**112,319**

ECL of financial instruments subject to significant measurement uncertainty at 31 December 2019[2]	$m
Reported ECL	105
Consensus scenarios	
Central scenario	103
Upside scenario	83
Downside scenario	141
Gross carrying amount[3]	96,846

1. *Excludes ECL and financial instruments relating to defaulted obligors because the measurement of ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios.*
2. *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*
3. *Includes low credit-risk financial instruments such as debt instruments at FVOCI, which have high carrying values but low ECL under all the scenarios.*

Personal portfolio analysis

IFRS 9 ECL sensitivity to future economic conditions[1]

ECL of loans and advances to customers at 30 June 2020[2]	**$m**
Reported ECL	**63**
Consensus scenarios	
Central scenario	**57**
Upside scenario	**52**
Downside scenario	**67**
Alternative scenarios	
Alternative Downside scenario	**169**
Gross carrying amount	**29,706**

ECL of loans and advances to customers at 31 December 2019[2]	$m
Reported ECL	50
Consensus scenarios	
Central scenario	50
Upside scenario	47
Downside scenario	53
Gross carrying amount	28,999

1. *ECL sensitivity excludes portfolios utilizing less complex modelling approaches.*
2. *ECL sensitivity includes only on-balance sheet financial instruments to which IFRS 9 impairment requirements are applied.*

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

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

	Quarter ended							
	30 Jun 2020				30 Jun 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**58**	**182**	**144**	**384**	34	89	76	199
Transfers of financial instruments:	**20**	**(22)**	**2**	**—**	9	(12)	3	—
– transfers from stage 1 to stage 2	**(10)**	**10**	**—**	**—**	(2)	2	—	—
– transfers from stage 2 to stage 1	**29**	**(29)**	**—**	**—**	11	(11)	—	—
– transfers to stage 3	**—**	**(3)**	**3**	**—**	—	(3)	3	—
– transfers from stage 3	**1**	**—**	**(1)**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	**(15)**	**12**	**—**	**(3)**	(7)	4	—	(3)
New financial assets originated or purchased	**3**	**—**	**—**	**3**	3	—	—	3
Changes to risk parameters	**29**	**97**	**59**	**185**	(2)	22	30	50
Asset derecognized (including final repayments)	**—**	**(3)**	**—**	**(3)**	(1)	(1)	(7)	(9)
Assets written off	**—**	**—**	**(16)**	**(16)**	—	—	(12)	(12)
Other	**(1)**	**(3)**	**(2)**	**(6)**	—	—	(1)	(1)
Balance at the end of the period	**94**	**263**	**187**	**544**	36	102	89	227
ECL charge/(release) for the period	**17**	**106**	**59**	**182**	(7)	25	23	41
Recoveries	**—**	**—**	**(2)**	**(2)**	—	—	(1)	(1)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**17**	**106**	**57**	**180**	(7)	25	22	40

1. *Excludes performance guarantee contracts.*

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

	Half-year ended							
	30 Jun 2020				30 Jun 2019			
	Non-credit impaired		Credit-impaired		Non-credit impaired		Credit-impaired	
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Balance at the beginning of the period	**47**	**101**	**118**	**266**	43	99	89	231
Transfers of financial instruments:	**24**	**(32)**	**8**	**—**	16	(20)	4	—
– transfers from stage 1 to stage 2	**(16)**	**16**	**—**	**—**	(4)	4	—	—
– transfers from stage 2 to stage 1	**38**	**(38)**	**—**	**—**	19	(19)	—	—
– transfers to stage 3	**—**	**(11)**	**11**	**—**	—	(6)	6	—
– transfers from stage 3	**2**	**1**	**(3)**	**—**	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	**(21)**	**20**	**—**	**(1)**	(14)	9	—	(5)
New financial assets originated or purchased	**6**	**—**	**—**	**6**	4	—	—	4
Changes to risk parameters	**40**	**178**	**99**	**317**	(12)	17	37	42
Asset derecognized (including final repayments)	**(1)**	**(4)**	**(4)**	**(9)**	(1)	(3)	(10)	(14)
Assets written off	**—**	**—**	**(34)**	**(34)**	—	—	(28)	(28)
Other	**(1)**	**—**	**—**	**(1)**	—	—	(3)	(3)
Balance at the end of the period	**94**	**263**	**187**	**544**	36	102	89	227
ECL charge/(release) for the period	**24**	**194**	**95**	**313**	(23)	23	27	27
Recoveries	**—**	**—**	**(4)**	**(4)**	—	—	(4)	(4)
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**24**	**194**	**91**	**309**	(23)	23	23	23

1. *Excludes performance guarantee contracts.*

	Half-year ended			
	30 Jun 2020		30 Jun 2019	
	Allowance for ECL/Other credit loss provisions	ECL charge/ (release)	Allowance for ECL/ Other credit loss provisions	ECL charge/ (release)
	$m	$m	$m	$m
As above	**544**	**309**	227	23
Other financial assets measured at amortized cost	**47**	**19**	35	5
Performance guarantee contracts	**7**	**2**	2	—
Debt instruments measured at FVOCI	**1**	**—**	1	—
Total allowance for ECL / Total income statement ECL charge/(release) for the period	**599**	**330**	265	28

Credit quality of financial instruments*

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition.

Accordingly, for non-credit impaired financial instruments there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in stage 2.

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

The five credit quality classifications, as defined above, each encompasses a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities.

The personal lending credit quality is disclosed based on a 12-month point-in-time (‘PIT’) weighted probability of default (‘PD’). The credit quality classifications for wholesale lending are based on internal credit risk ratings.

Credit quality classification

	Debt securities and other bills	Wholesale lending		Personal lending	
	External credit rating	Internal credit rating	12-month Basel probability of default %	Internal credit rating	12-month Basel probability-weighted PD %
Quality classification					
Strong	**A– and above**	**CRR1 to CRR2**	**0.000-0.169**	**Band 1 and 2**	**0.000-0.500**
Good	**BBB+ to BBB-**	**CRR3**	**0.170-0.740**	**Band 3**	**0.501-1.500**
Satisfactory	**BB+ to B and unrated**	**CRR4 to CRR5**	**0.741-4.914**	**Band 4 and 5**	**1.501-20.000**
Sub-standard	**B- to C**	**CRR6 to CRR8**	**4.915-99.999**	**Band 6**	**20.001-99.999**
Credit-impaired	**Default**	**CRR9 to CRR10**	**100.000**	**Band 7**	**100.000**

Distribution of financial instruments by credit quality and stage allocation*

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
	$m	$m	$m	$m	$m	$m	$m	$m
Debt instruments at fair value through other comprehensive income[1]	20,610	–	–	–	–	20,610	(1)	20,609
– stage 1	20,610	–	–	–	–	20,610	(1)	20,609
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
Loans and advances to customers at amortized cost	29,816	15,927	14,436	2,143	427	62,749	(486)	62,263
– stage 1	29,768	13,915	8,803	137	–	52,623	(80)	52,543
– stage 2	48	2,012	5,633	2,006	–	9,699	(219)	9,480
– stage 3	–	–	–	–	427	427	(187)	240
Loans and advances to banks at amortized cost	1,086	–	–	–	–	1,086	–	1,086
– stage 1	1,086	–	–	–	–	1,086	–	1,086
– stage 2	–	–	–	–	–	–	–	–
– stage 3	–	–	–	–	–	–	–	–
Other financial assets at amortized cost	24,812	2,439	2,128	144	27	29,550	(47)	29,503
– stage 1	24,803	2,241	1,640	17	–	28,701	(6)	28,695
– stage 2	9	198	488	127	–	822	(14)	808
– stage 3	–	–	–	–	27	27	(27)	–
Total gross carrying amount on-balance sheet	76,324	18,366	16,564	2,287	454	113,995	(534)	113,461
Percentage of total credit quality	67.0 %	16.1 %	14.5 %	2.0 %	0.4 %	100.0 %		
Loan and other credit-related commitments	16,467	16,753	10,126	1,339	62	44,747	(54)	44,693
– stage 1	16,288	14,081	5,451	42	–	35,862	(13)	35,849
– stage 2	179	2,672	4,675	1,297	–	8,823	(41)	8,782
– stage 3	–	–	–	–	62	62	–	62
Financial guarantees[2]	1,113	538	243	106	1	2,001	(4)	1,997
– stage 1	1,090	522	125	1	–	1,738	(1)	1,737
– stage 2	23	16	118	105	–	262	(3)	259
– stage 3	–	–	–	–	1	1	–	1
Total nominal amount off-balance sheet	17,580	17,291	10,369	1,445	63	46,748	(58)	46,690
At 30 Jun 2020	93,904	35,657	26,933	3,732	517	160,743	(592)	160,151

1. *For the purposes of this disclosure gross carrying value is defined as the amortized cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
2. *Excludes performance guarantee contracts.*

Distribution of financial instruments by credit quality and stage allocation (continued)*

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
	$m	$m	$m	$m	$m	$m	$m	$m
Debt instruments at fair value through other comprehensive income[1]	23,480	—	—	—	—	23,480	(1)	23,479
– stage 1	23,480	—	—	—	—	23,480	(1)	23,479
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortized cost	30,152	17,813	12,304	1,561	334	62,164	(242)	61,922
– stage 1	30,082	17,292	9,620	174	—	57,168	(40)	57,128
– stage 2	70	521	2,684	1,387	—	4,662	(85)	4,577
– stage 3	—	—	—	—	334	334	(117)	217
Loans and advances to banks at amortized cost	1,169	—	—	—	—	1,169	—	1,169
– stage 1	1,169	—	—	—	—	1,169	—	1,169
– stage 2	—	—	—	—	—	—	—	—
– stage 3	—	—	—	—	—	—	—	—
Other financial assets at amortized cost	7,513	2,401	1,647	75	26	11,662	(30)	11,632
– stage 1	7,513	2,373	1,401	18	—	11,305	(2)	11,303
– stage 2	—	28	246	57	—	331	(3)	328
– stage 3	—	—	—	—	26	26	(25)	1
Total gross carrying amount on-balance sheet	62,314	20,214	13,951	1,636	360	98,475	(273)	98,202
Percentage of total credit quality	63.3 %	20.5 %	14.2 %	1.7 %	0.4 %	100.0 %		
Loan and other credit-related commitments	16,851	16,796	8,208	779	66	42,700	(22)	42,678
– stage 1	16,831	15,908	5,772	109	—	38,620	(6)	38,614
– stage 2	20	888	2,436	670	—	4,014	(15)	3,999
– stage 3	—	—	—	—	66	66	(1)	65
Financial guarantees[2]	1,151	610	241	120	2	2,124	(2)	2,122
– stage 1	1,151	610	151	9	—	1,921	(1)	1,920
– stage 2	—	—	90	111	—	201	(1)	200
– stage 3	—	—	—	—	2	2	—	2
Total nominal amount off-balance sheet	18,002	17,406	8,449	899	68	44,824	(24)	44,800
At 31 Dec 2019	80,316	37,620	22,400	2,535	428	143,299	(297)	143,002

1. *For the purposes of this disclosure gross carrying value is defined as the amortized cost of a financial asset, before adjusting for any loss allowance. As such the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the balance sheet as it excludes fair value gains and losses.*
2. *Excludes performance guarantee contracts.*

Wholesale lending

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

		At			
		30 Jun 2020		31 Dec 2019	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnote	**$m**	**$m**	$m	$m
Corporate and commercial					
– agriculture, forestry and fishing		**533**	**(5)**	446	(9)
– mining and quarrying	*1*	**1,725**	**(170)**	1,878	(42)
– manufacture		**5,548**	**(57)**	5,505	(27)
– electricity, gas, steam and air-conditioning supply		**393**	**(1)**	336	(1)
– water supply, sewerage, waste management and remediation		**106**	**—**	101	—
– construction		**960**	**(14)**	963	(11)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**5,419**	**(59)**	5,728	(42)
– transportation and storage		**2,798**	**(24)**	2,829	(14)
– accommodation and food		**1,336**	**(13)**	1,167	(1)
– publishing, audiovisual and broadcasting		**966**	**(6)**	1,040	(6)
– real estate		**8,171**	**(36)**	8,509	(12)
– professional, scientific and technical activities		**1,208**	**(7)**	1,181	(6)
– administrative and support services		**820**	**(12)**	1,090	(5)
– education		**149**	**—**	171	—
– health and care		**230**	**(1)**	244	—
– arts, entertainment and recreation		**304**	**(2)**	294	—
– other services		**174**	**(1)**	195	(1)
– government		**29**	**—**	25	—
– non-bank financial institutions		**1,981**	**(7)**	1,270	(5)
Total		**32,850**	**(415)**	32,972	(182)
By geography	*2*				
Canada		**30,598**	**(387)**	30,547	(171)
– British Columbia		**9,223**	**(71)**	9,309	(27)
– Ontario		**11,117**	**(86)**	10,486	(49)
– Alberta		**5,273**	**(169)**	5,562	(59)
– Quebec		**3,609**	**(41)**	3,812	(21)
– Saskatchewan and Manitoba		**911**	**(12)**	896	(10)
– Atlantic provinces		**465**	**(8)**	482	(5)
United States of America		**1,221**	**(11)**	1,437	(4)
Other		**1,031**	**(17)**	988	(7)
Total		**32,850**	**(415)**	32,972	(182)

1. *Mining and quarrying includes energy related exposures.*
2. *Provincial geographic distribution is based on the address of originating branch and foreign geographic distribution is based on the country of incorporation.*

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

	Quarter ended							
	30 Jun 2020				30 Jun 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**48**	**144**	**127**	**319**	24	61	61	146
Transfers of financial instruments:	**13**	**(15)**	**2**	**—**	3	(5)	2	—
– transfers from stage 1 to stage 2	**(10)**	**10**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**23**	**(23)**	**—**	**—**	4	(4)	—	—
– transfers to stage 3	**—**	**(2)**	**2**	**—**	—	(2)	2	—
– transfers from stage 3	**—**	**—**	**—**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	**(12)**	**9**	**—**	**(3)**	(2)	2	—	—
New financial assets originated or purchased	**3**	**—**	**—**	**3**	2	—	—	2
Changes to risk parameters	**25**	**91**	**57**	**173**	(1)	12	25	36
Asset derecognized (including final repayments)	**—**	**(1)**	**—**	**(1)**	—	—	(4)	(4)
Assets written off	**—**	**—**	**(13)**	**(13)**	—	—	(8)	(8)
Other	**(1)**	**(3)**	**(2)**	**(6)**	—	—	(2)	(2)
Balance at the end of the period	**76**	**225**	**171**	**472**	26	70	74	170
ECL charge/(release) for the period	**16**	**99**	**57**	**172**	(1)	14	21	34
Recoveries	**—**	**—**	**—**	**—**	—	—	—	—
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**16**	**99**	**57**	**172**	(1)	14	21	34

1. *Excludes performance guarantee contracts.*

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

	Half-year ended							
	30 Jun 2020				30 Jun 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**32**	**70**	**103**	**205**	29	74	73	176
Transfers of financial instruments:	**12**	**(19)**	**7**	**—**	3	(7)	4	—
– transfers from stage 1 to stage 2	**(15)**	**15**	**—**	**—**	(3)	3	—	—
– transfers from stage 2 to stage 1	**26**	**(26)**	**—**	**—**	6	(6)	—	—
– transfers to stage 3	**—**	**(8)**	**8**	**—**	—	(4)	4	—
– transfers from stage 3	**1**	**—**	**(1)**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	**(13)**	**15**	**—**	**2**	(4)	6	—	2
New financial assets originated or purchased	**5**	**—**	**—**	**5**	3	—	—	3
Changes to risk parameters	**41**	**160**	**89**	**290**	(5)	(2)	24	17
Asset derecognized (including final repayments)	**—**	**(1)**	**(1)**	**(2)**	—	(1)	(4)	(5)
Assets written off	**—**	**—**	**(27)**	**(27)**	—	—	(20)	(20)
Other	**(1)**	**—**	**—**	**(1)**	—	—	(3)	(3)
Balance at the end of the period	**76**	**225**	**171**	**472**	26	70	74	170
ECL charge/(release) for the period	**33**	**174**	**88**	**295**	(6)	3	20	17
Recoveries	**—**	**—**	**—**	**—**	—	—	—	—
Other	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**33**	**174**	**88**	**295**	(6)	3	20	17

1. *Excludes performance guarantee contracts.*

The wholesale allowance for ECL during the half-year increased by $267m or 130% as compared to 31 December 2019, and the wholesale lending change in ECL for the period resulted in an income statement charge of $295m, primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

The total ECL coverage for loans and advances to customers for corporate and commercial at 30 June 2020 was 1.3%, an increase of 0.7% as compared to 31 December 2019. For the half-year stage 3 had the largest ECL coverage increase of 9.3% and the increases for stage 1 and stage 2 both increased were 0.2% and 0.8%, respectively.

Personal lending

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

		At			
		30 Jun 2020		31 Dec 2019	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnote	**$m**	**$m**	$m	$m
Residential mortgages		**26,903**	**(28)**	25,855	(23)
Home equity lines of credit		**1,588**	**(4)**	1,664	(4)
Personal revolving loan facilities		**547**	**(16)**	610	(14)
Other personal loan facilities		**533**	**(8)**	665	(4)
Retail card		**278**	**(8)**	341	(9)
Run-off consumer loan portfolio		**50**	**(7)**	57	(6)
Total		**29,899**	**(71)**	29,192	(60)
By geography	1				
Canada		**29,714**	**(69)**	29,009	(58)
– British Columbia		**14,685**	**(28)**	14,327	(22)
– Ontario		**11,369**	**(21)**	11,161	(18)
– Alberta		**1,729**	**(8)**	1,663	(7)
– Quebec		**1,369**	**(6)**	1,327	(6)
– Saskatchewan and Manitoba		**318**	**(2)**	304	(2)
– Atlantic provinces		**237**	**(4)**	220	(3)
– Territories		**7**	**—**	7	—
Other		**185**	**(2)**	183	(2)
Total		**29,899**	**(71)**	29,192	(60)

1. *Geographic distribution is based on the customer address.*

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

	Quarter ended							
	30 Jun 2020				30 Jun 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**10**	**38**	**17**	**65**	10	28	15	53
Transfers of financial instruments:	**7**	**(7)**	**—**	**—**	6	(7)	1	—
– transfers from stage 1 to stage 2	**—**	**—**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**6**	**(6)**	**—**	**—**	7	(7)	—	—
– transfers to stage 3	**—**	**(1)**	**1**	**—**	—	(1)	1	—
– transfers from stage 3	**1**	**—**	**(1)**	**—**	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	**(3)**	**3**	**—**	**—**	(5)	2	—	(3)
New financial assets originated or purchased	**—**	**—**	**—**	**—**	1	—	—	1
Changes to risk parameters	**4**	**6**	**2**	**12**	(1)	10	5	14
Asset derecognized (including final repayments)	**—**	**(2)**	**—**	**(2)**	(1)	(1)	(3)	(5)
Assets written off	**—**	**—**	**(3)**	**(3)**	—	—	(4)	(4)
Others	**—**	**—**	**—**	**—**	—	—	1	1
Balance at the end of the period	**18**	**38**	**16**	**72**	10	32	15	57
ECL charge/(release) for the period	**1**	**7**	**2**	**10**	(6)	11	2	7
Recoveries	**—**	**—**	**(2)**	**(2)**	—	—	(1)	(1)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**1**	**7**	**—**	**8**	(6)	11	1	6

1. *Excludes performance guarantee contracts.*

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

	Half-year ended							
	30 Jun 2020				30 Jun 2019			
	Non-credit impaired		**Credit-impaired**		Non-credit impaired		Credit-impaired	
	Stage 1	**Stage 2**	**Stage 3**	**Total**	Stage 1	Stage 2	Stage 3	Total
	Allowance for ECL	**Allowance for ECL**	**Allowance for ECL**	**Allowance for ECL**	Allowance for ECL	Allowance for ECL	Allowance for ECL	Allowance for ECL
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Balance at the beginning of the period	**15**	**31**	**15**	**61**	14	25	16	55
Transfers of financial instruments:	**12**	**(13)**	**1**	**—**	13	(13)	—	—
– transfers from stage 1 to stage 2	**(1)**	**1**	**—**	**—**	(1)	1	—	—
– transfers from stage 2 to stage 1	**12**	**(12)**	**—**	**—**	13	(13)	—	—
– transfers to stage 3	**—**	**(3)**	**3**	**—**	—	(2)	2	—
– transfers from stage 3	**1**	**1**	**(2)**	**—**	1	1	(2)	—
Net remeasurement of ECL arising from transfer of stage	**(8)**	**5**	**—**	**(3)**	(10)	3	—	(7)
New financial assets originated or purchased	**1**	**—**	**—**	**1**	1	—	—	1
Changes to risk parameters	**(1)**	**18**	**10**	**27**	(7)	19	13	25
Asset derecognized (including final repayments)	**(1)**	**(3)**	**(3)**	**(7)**	(1)	(2)	(6)	(9)
Assets written off	**—**	**—**	**(7)**	**(7)**	—	—	(8)	(8)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Balance at the end of the period	**18**	**38**	**16**	**72**	10	32	15	57
ECL charge/(release) for the period	**(9)**	**20**	**7**	**18**	(17)	20	7	10
Recoveries	**—**	**—**	**(4)**	**(4)**	—	—	(4)	(4)
Others	**—**	**—**	**—**	**—**	—	—	—	—
Total ECL charge/(release) for the period	**(9)**	**20**	**3**	**14**	(17)	20	3	6

1. *Excludes performance guarantee contracts.*

The total personal lending allowance for ECL increased by $11m for the half-year, primarily driven by an adverse shift in forward-looking economic scenarios related to COVID-19.

The bank recorded an ECL charge of $18m for the period on the personal lending portfolio, offset by $4m of recoveries.

The total ECL coverage for loans and advances to customers for personal lending remained stable for the half-year at 0.2%.

Mortgages and home equity lines of credit

The bank's mortgage and home equity lines of credit portfolios are considered to be low-risk since the majority are secured by a first charge against the underlying real estate.

The following tables detail how the bank mitigates risk further by diversifying the geographical markets in which it operates as well as benefiting from borrower default insurance. In addition, the bank maintains strong underwriting and portfolio monitoring standards to ensure the quality of its portfolio is maintained.

Insurance and geographic distribution[1]

	Residential mortgages					**HELOC[2]**	
	Insured[3]		**Uninsured[3]**		**Total**		**Uninsured**
	$m	**%**	**$m**	**%**	**$m**	**$m**	**%**
British Columbia	**1,318**	**10 %**	**12,238**	**90 %**	**13,556**	**792**	**100 %**
Western Canada[4]	**693**	**42 %**	**955**	**58 %**	**1,648**	**177**	**100 %**
Ontario	**2,115**	**19 %**	**8,895**	**81 %**	**11,010**	**561**	**100 %**
Quebec and Atlantic provinces	**532**	**39 %**	**823**	**61 %**	**1,355**	**82**	**100 %**
At 30 Jun 2020	**4,658**	**17 %**	**22,911**	**83 %**	**27,569**	**1,612**	**100**

	Residential mortgages[5]					HELOC[2, 5]	
	Insured[3]		Uninsured[3]		Total		Uninsured
	$m	%	$m	%	$m	$m	%
British Columbia	960	7 %	12,393	93 %	13,353	822	100 %
Western Canada[4]	476	30 %	1,103	70 %	1,579	190	100 %
Ontario	1,298	13 %	8,919	87 %	10,217	589	100 %
Quebec and Atlantic provinces	384	29 %	933	71 %	1,317	88	100 %
At 31 Dec 2019	3,118	12 %	23,348	88 %	26,466	1,689	100 %

1. *Geographic distribution is based on the property location.*
2. *HELOC is an abbreviation for Home Equity Lines of Credit, which are lines of credit secured by equity in real estate.*
3. *Insured mortgages are protected from potential losses caused by borrower default through the purchase of insurance coverage, either from the Canadian Housing and Mortgage Corporation or other accredited private insurers.*
4. *Western Canada excludes British Columbia.*
5. *Certain prior year amounts have been reclassified to conform to the current year presentation.*

Amortization period[1]

	Residential mortgages		
	< 20 years	> 20 years < 25 years	> 25 years < 30 years
At 30 Jun 2020	**20.4 %**	**51.8 %**	**27.8 %**
At 31 Dec 2019	20.1 %	48.0 %	31.9 %

1. *Amortization period is based on the remaining term of residential mortgages.*

Average loan-to-value ratios of new originations[1, 2]

	Quarter ended	
	Uninsured % LTV[3]	
	Residential mortgages	**HELOC**
	%	**%**
British Columbia	**57.9 %**	**54.2 %**
Western Canada[4]	**66.9 %**	**66.9 %**
Ontario	**62.9 %**	**59.3 %**
Quebec and Atlantic provinces	**63.2 %**	**61.1 %**
Total Canada for the three months ended 30 Jun 2020	**61.4 %**	**57.9 %**
Total Canada for the three months ended 31 Dec 2019	61.0 %	57.0 %

1. *All new loans and home equity lines of credit were originated by the bank; there were no acquisitions during the period.*
2. *New originations exclude existing mortgage renewals.*
3. *Loan-to-value ratios are simple averages, based on property values at the date of mortgage origination.*
4. *Western Canada excludes British Columbia.*

Potential impact of an economic downturn on residential mortgage loans and home equity lines of credit

The bank performs stress testing on its personal lending portfolio to assess the impact of increased levels of unemployment, rising interest rates, reduction in property values and changes in other relevant macro-economic variables. Potential increase in losses in the mortgage portfolio under downturn economic scenarios are considered manageable given the diversified composition of the portfolio, the low Loan-to-Value in the portfolio and risk mitigation strategies in place.

Credit-impaired loans

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

Credit-impaired loans and advances to banks and customers*

		At			
		30 Jun 2020		31 Dec 2019	
		Gross carrying amount	**Allowance for ECL**	Gross carrying amount	Allowance for ECL
	Footnotes	**$m**	**$m**	$m	$m
Corporate and commercial		**338**	**(171)**	247	(102)
– agriculture, forestry and fishing		**8**	**(2)**	10	(5)
– mining and quarrying	*1*	**182**	**(98)**	62	(24)
– manufacture		**37**	**(20)**	39	(13)
– construction		**12**	**(7)**	13	(8)
– wholesale and retail trade, repair of motor vehicles and motorcycles		**56**	**(21)**	51	(29)
– transportation and storage		**8**	**(6)**	7	(5)
– accommodation and food		**3**	**(2)**	—	—
– publishing, audiovisual and broadcasting		**14**	**(4)**	15	(4)
– real estate		**12**	**(5)**	8	(7)
– professional, scientific and technical activities		**—**	**—**	37	(3)
– administrative and support services		**4**	**(4)**	4	(3)
– non-bank financial institutions		**2**	**(2)**	1	(1)
Households	*2*	**89**	**(16)**	87	(15)
Loans and advances to banks		**—**	**—**	—	—
Total		**427**	**(187)**	334	(117)

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

Renegotiated loans

The carrying amount of renegotiated loans was $208m at 30 June 2020 (31 December 2019: $135m).

Liquidity and funding risk

Liquidity risk is the risk that the bank does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time. The risk arises when the funding needed for illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity and funding risk management

Our liquidity and funding management strategy as described in the 'Liquidity and funding risk' section of our *Annual Report and Accounts 2019* continues to apply. The bank's internal liquidity and funding risk management framework uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, and adds additional metrics, limits and overlays to address the risks that the bank considers are not adequately reflected by the external regulatory framework.

We continue to monitor liquidity and funding risk against our stated risk tolerance and management framework.

In March 2020, the financial markets became extremely volatile as the COVID-19 outbreak accelerated, causing severe disruption to business and economic activity. The bank had a strong liquidity position at the start of the disruption and took action early and throughout to further strengthen the bank's liquidity position. The bank actively raised customer deposits and accessed the wholesale term market to raise long-term funding with a covered bond issuance to meet potential future funding needs. The bank's liquidity metrics, including the LCR and liquid assets, strengthened further in the quarter. As a result, compared to the previous quarter the bank's average LCR increased to 193% from 156%.

Liquid assets

The table below shows the estimated liquidity value unweighted (before assumed haircuts) of assets categorized as liquid and used for the purpose of calculating the OSFI LCR metric. The level of liquid assets reported reflects the stock of unencumbered liquid assets at the reporting date, using the regulatory definition of liquid assets. Liquid assets consist of cash or assets that can be converted into cash at little or no loss of value.

Our liquid assets increased by $17.1bn from 31 December 2019, primarily due to an increase in customer deposit as well as an increase in short and long-term funding.

Liquid assets[1]

	At	
	30 Jun 2020	31 Dec 2019
	$m	$m
Level 1	**37,255**	18,969
Level 2a	**3,487**	4,603
Level 2b	**29**	98
Total	**40,771**	23,670

1. *The liquid asset balances stated here are as at the above dates (spot rate) and are unweighted and therefore do not match the liquid asset balances stated in the LCR calculations which are the average for the quarter and are weighted.*

Liquidity regulation

In accordance with OSFI's Liquidity Adequacy Requirements ('LAR') guideline, which incorporates Basel liquidity standards, the bank is required to maintain a LCR above 100% as well as monitor the Net Cumulative Cash Flow ('NCCF'). The LCR estimates the adequacy of liquidity over a 30 day stress period while the NCCF calculates a horizon for net positive cash flows in order to capture the risk posed by funding mismatches between assets and liabilities. As at 30 June 2020, the bank was compliant with both requirements.

As a basis to determine the bank's stable funding requirement, the bank calculates the NSFR according to Basel Committee on Banking Supervision ('BCBS') publication number 295, pending its implementation. OSFI implemented the NSFR starting effective 1 January 2020 for domestic systemically important banks ('D-SIBs'). OSFI is conducting further work to assess requirements for non D-SIBs, which includes the bank. In Europe, implementation of NSFR is expected in 2021. The NSFR requires banks to maintain a stable funding profile relative to the composition of their assets and off-balance sheet activities and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The bank's OSFI LCR is summarized in the following table. For the quarter ended 30 June 2020, the bank's average LCR of 193% is calculated as the ratio of High-Quality Liquid Assets ('HQLA') to the total net stressed cash outflows over the next 30 calendar days. HQLA is substantially comprised of Level 1 assets such as cash, deposits with central banks and highly rated securities issued or guaranteed by governments, central banks and supranational entities.

OSFI liquidity coverage ratio[1]

	Average for the three months ended[1]	
	30 Jun 2020	31 Mar 2020
Total HQLA[2] ($m)	**38,135**	23,965
Total net cash outflows[2] ($m)	**19,782**	15,399
Liquidity coverage ratio (%)	**193**	156

1. *The data in this table has been calculated using averages of the three month-end figures in the quarter. Consequently, the LCR is an average ratio for the three months of the quarter and might not equal the LCR calculated dividing total weighted HQLA by total weighted net cash outflows.*
2. *These are weighted values and are calculated after the application of the weights prescribed under the OSFI LAR Guideline for HQLA and cash inflows and outflows.*

Market risk

Market risk is the risk that movements in market risk factors, including interest rates, foreign exchange rates, credit spreads, commodity prices and equity prices will adversely affect our income or the value of our assets and liabilities.

Market risk management

Market risk management is independent of the business and is responsible for establishing the policies, procedures and limits that align with the risk appetite of the bank. The objective of market risk management is to identify, measure and control market risk exposures in order to optimize return on risk and remain within the bank's risk appetite.

Refer to the 'Risk management' section of our *Annual Report and Accounts 2019* for a discussion of how the bank manages market risk as well as a more in depth explanation of our market risk measures.

Value at risk

Value at Risk ('VaR') is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all trading and non-trading portfolios to have a complete picture of risk.

VaR disclosed in the following tables and graph is the bank's total VaR for both trading and non-trading books and remained within the bank's limits.

Total VaR of $12.7m at the quarter ended 30 June 2020 increased by $0.8m from the prior year, due to higher volatility in the market and an increased interest rate risk in non-trading books. Over the first half year of 2020, the average Total VaR of $11.5m decreased by $1.9m, mainly due to a decrease in average interest rate risk in non-trading books compared to the average interest rate during the first half year of 2019. Total VaR is largely driven by non-trading VaR.

The global COVID-19 pandemic and the sudden breakdown of the talks between the Organization of the Petroleum Exporting Countries ('OPEC') and Russia resulted in a decline in oil prices and market volatility. In order to manage the bank's risk during the volatile market, the trading business reduced the risk to minimum levels upon the start of the market volatility in March, which resulted in a decrease of both the trading VaR at quarter end and the average trading VaR for the quarter. The trading VaR of $2.1m at the quarter and the average trading VaR of $1.4m, decreased by $0.3m and $0.4m, respectively.

Non-trading VaR

	Half-year ended	
	30 Jun 2020	30 Jun 2019
	$m	$m
At period end	**12.5**	12.1
Average	**11.6**	13.4
Minimum	**7.0**	11.2
Maximum	**19.1**	15.5

Total VaR

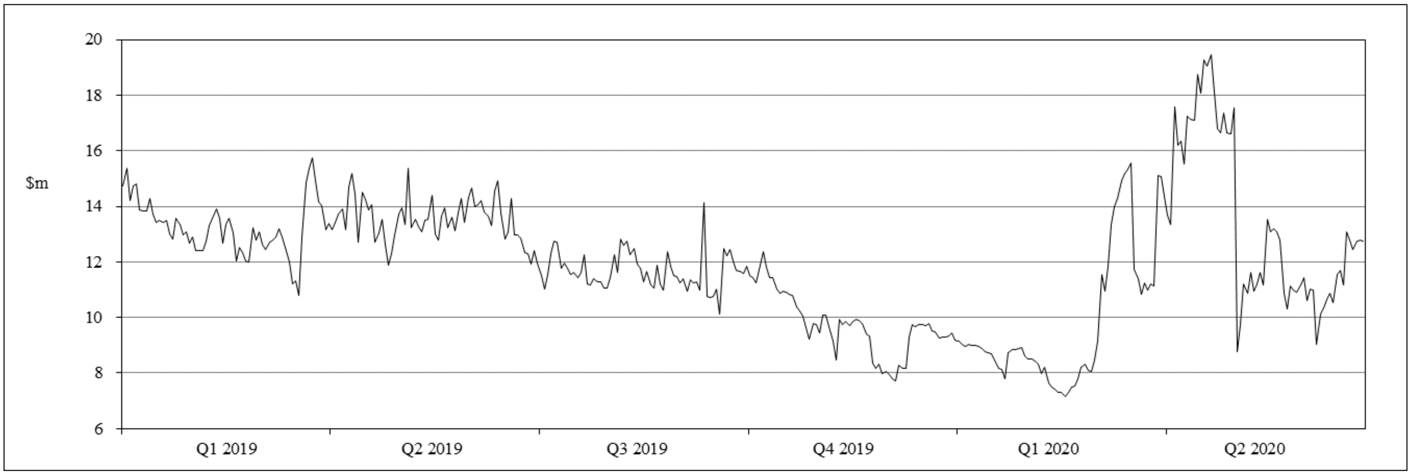
	Half-year ended	
	30 Jun 2020	30 Jun 2019
	$m	$m
At period end	**12.7**	11.9
Average	**11.5**	13.4
Minimum	**7.2**	10.8
Maximum	**19.5**	15.7

Trading VaR (by risk type)[1]

	Footnote	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification[2]	Total[4]
		$m	$m	$m	$m	$m	$m
January - June 2020							
At period end		**–**	**2.0**	**–**	**0.7**	**(0.6)**	**2.1**
Average		**–**	**1.2**	**–**	**0.5**	**(0.3)**	**1.4**
Minimum	3	**–**	**0.6**	**–**	**0.3**	**–**	**0.6**
Maximum	3	**0.3**	**2.6**	**–**	**1.4**	**–**	**2.7**
January - June 2019							
At period end		–	1.6	–	1.5	(0.7)	2.4
Average		–	1.4	–	1.0	(0.6)	1.8
Minimum	3	–	1.1	–	0.3	–	1.3
Maximum	3	0.1	2.0	–	2.5	–	3.2

1. *Trading portfolios comprise positions arising from the market-making of financial instruments and customer-driven derivatives positions. Trading is aligned to regulatory treatment.*
2. *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate, equity and foreign exchange, together in one portfolio. It is measured as the difference between the combined total VaR and the sum of the VaRs by individual risk type. A negative number represents the benefit of portfolio diversification.*
3. *As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures. Some small differences in figures presented are due to rounding.*
4. *The total VaR is non-additive across risk types due to diversification effects.*

Daily total VaR. 1 year history of daily figures[1]



1. *Total VaR fluctuation in the second quarter of 2020 was driven mainly by credit spread scenarios, used to estimate VaR, which reflects the market volatility observed during the COVID-19 pandemic resulting in bigger swings than in historical trends of VaR.*

Structural interest rate risk

Interest rate risk is the risk of an adverse impact to earnings or capital due to changes in market interest rates. Structural interest rate risk is that which originates from the bank's non-trading assets and liabilities and shareholder's funds.

Refer to the 'Structural Interest Rate Risk' section of our *Annual Report and Accounts 2019* for a discussion of how the bank manages structural interest rate risk as well as an explanation of our monitoring measures.

Sensitivity of structural interest rate risk in the non-trading portfolio (before-tax impact resulting from an immediate and sustained shift in interest rates):

		30 Jun 2020		30 Jun 2019	
		Economic value of equity	**Earnings at risk**	Economic value of equity	Earnings at risk
	Footnote	**$m**	**$m**	$m	$m
100 basis point increase		**(349)**	**210**	(170)	156
25/100 basis point decrease	*1*	**72**	**(50)**	101	(127)

1. *Due to the current low interest rate environment, starting in Q2 2020, economic value of equity and earnings at risk sensitivity for a down shock scenario are measured using a 25 basis point decrease, prior periods reflect a 100 basis points decrease.*

Factors that may affect future results

The risk management section in the MD&A describes the most significant risks to which the bank is exposed that, if not managed appropriately, could have a material impact on our future financial results.

Refer to the 'Factors that may affect future results' section of our *Annual Report and Accounts 2019* and the 'Impact of COVID-19 and our response' section of the MD&A on page 4 for a description of additional factors which may affect future financial results.

Capital

Our objective in the management of capital is to maintain appropriate levels of capital to support our business strategy and meet our regulatory requirements.

Refer to the 'Capital' section of our *Annual Report and Accounts 2019* for a discussion of how the bank manages its capital.

Regulatory capital and capital ratios in the tables below are presented under a Basel III 'all-in' basis, under which non-qualifying capital instruments are phased out over 10 years starting 1 January 2013.

The bank remained within its required regulatory capital limits during the quarter ended 30 June 2020.

Regulatory capital ratios

Actual regulatory capital ratios and capital requirements

		30 Jun 2020	31 Dec 2019
	Footnotes	**%**	%
Actual regulatory capital ratios	*1*		
– common equity tier 1 capital ratio		**12.3**	11.3
– tier 1 capital ratio		**14.8**	13.9
– total capital ratio		**17.1**	16.4
– leverage ratio		**5.5**	4.9
Regulatory capital requirements	*2*		
– minimum common equity tier 1 capital ratio		**7.0**	7.0
– minimum tier 1 capital ratio		**8.5**	8.5
– minimum total capital ratio		**10.5**	10.5

1. *Presented under a Basel III basis with non-qualifying capital instruments phased out over 10 years starting 1 January 2013.*
2. *OSFI target capital ratios including mandated capital conservation buffer.*

Regulatory capital

Total regulatory capital and risk-weighted assets

		30 Jun 2020	31 Dec 2019
	Footnotes	**$m**	$m
Gross common equity	*1*	**5,619**	5,009
Regulatory adjustments		**(256)**	(246)
Common equity tier 1 capital	*4*	**5,363**	4,763
Additional tier 1 eligible capital		**1,100**	1,100
Tier 1 capital		**6,463**	5,863
Tier 2 capital	*2, 4*	**1,015**	1,037
Total capital		**7,478**	6,900
Risk-weighted assets ('RWA')	*3*	**43,731**	42,080

1. *Includes common share capital, retained earnings and accumulated other comprehensive income.*
2. *Includes a capital instrument subject to phase out and allowances.*
3. *In April 2020, OSFI announced certain regulatory flexibility measures to support COVID-19 efforts in light of the current evolving situation. Effective 31 March 2020, OSFI lowered the capital floor factor from 75% to 70%. The revised floor factor is expected to stay in place until the first quarter 2023.*
4. *As part of the new transitional arrangements, effective 31 March 2020, a portion of allowances that would otherwise be included in tier 2 capital has instead been included in common equity tier 1 ('CET 1') capital. The impact is $94m as at 30 June 2020.*

Outstanding shares and dividends

		Half-year ended			Year ended		
		30 Jun 2020			31 Dec 2019		
		Dividend	Number of issued shares	Carrying value	Dividend	Number of issued shares	Carrying value
	Footnotes	$ per share	000's	$m	$ per share	000's	$m
Common shares	1, 2	0.32085	548,668	1,725	0.86230	498,668	1,225
Class 1 preferred shares	3						
– Series G	4	0.50000	—	—	1.00000	20,000	500
– Series H	4	—	20,000	500	—	—	—
– Series I		0.57500	14,000	350	1.15000	14,000	350
– Series K	5	0.68126	10,000	250	0.35560	10,000	250

1. *Dividends recorded in the financial statements are dividends per ordinary share declared in a year and are not dividends in respect of, or for, that year.*
2. *Common shares were issued on 30 March 2020.*
3. *Cash dividends on preferred shares are non-cumulative and are payable quarterly.*
4. *Holder of the preferred shares Series G exercised their option to convert the preferred shares Series G into preferred shares Series H on 30 June 2020 in accordance with their terms; no dividends were declared on the preferred shares Series H during the half-year ended 30 June 2020.*
5. *Preferred shares - Class 1, Series K were issued on 27 September 2019; initial dividends were declared during the fourth quarter of 2019 and paid in accordance with their terms in the usual manner on 31 December 2019 or the first business day thereafter.*

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.

Consolidated Financial Statements

Consolidated income statement

		Quarter ended		Half-year ended	
		30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	Notes	**$m**	$m	**$m**	$m
Net interest income		**249**	319	**567**	642
– interest income		**530**	703	**1,198**	1,383
– interest expense		**(281)**	(384)	**(631)**	(741)
Net fee income	2	**178**	174	**356**	330
– fee income		**198**	199	**399**	378
– fee expense		**(20)**	(25)	**(43)**	(48)
Net income from financial instruments held for trading		**47**	33	**73**	81
Gains less losses from financial investments		**14**	10	**30**	18
Other operating income		**14**	9	**22**	19
Total operating income		**502**	545	**1,048**	1,090
Change in expected credit losses and other credit impairment charges		**(190)**	(40)	**(330)**	(28)
Net operating income		**312**	505	**718**	1,062
Employee compensation and benefits	3	**(145)**	(171)	**(314)**	(345)
General and administrative expenses		**(132)**	(141)	**(262)**	(272)
Depreciation		**(17)**	(17)	**(37)**	(35)
Amortization and impairment of intangible assets		**(10)**	(8)	**(18)**	(13)
Total operating expenses		**(304)**	(337)	**(631)**	(665)
Profit before income tax expense		**8**	168	**87**	397
Income tax expense		**(3)**	(47)	**(16)**	(109)
Profit for the period		**5**	121	**71**	288
Profit/(loss) attributable to:					
– the common shareholder		**(8)**	112	**46**	270
– the preferred shareholder		**13**	9	**25**	18
Profit for the period		**5**	121	**71**	288
Average number of common shares outstanding (000's)		**548,668**	498,668	**524,217**	498,668
Basic and diluted earnings per common share ($)		**$ (0.01)**	$ 0.22	**$ 0.09**	$ 0.54

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of comprehensive income

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
Profit for the period	**5**	121	**71**	288
Other comprehensive income				
Items that will be reclassified subsequently to profit or loss when specific conditions are met:				
Debt instruments at fair value through other comprehensive income	**130**	23	**69**	97
– fair value gains	**191**	42	**123**	151
– fair value gains transferred to the income statement on disposal	**(14)**	(10)	**(30)**	(18)
– income taxes	**(47)**	(9)	**(24)**	(36)
Cash flow hedges	**8**	20	**168**	63
– fair value gains	**73**	28	**308**	136
– fair value gains reclassified to the income statement	**(62)**	(1)	**(79)**	(50)
– income taxes	**(3)**	(7)	**(61)**	(23)
Items that will not be reclassified subsequently to profit or loss:				
Remeasurement of defined benefit plans	**(24)**	—	**(10)**	(11)
– before income taxes	**(32)**	—	**(13)**	(15)
– income taxes	**8**	—	**3**	4
Equity instruments designated at fair value through other comprehensive income	**(1)**	—	**(4)**	—
– fair value losses	**(1)**	—	**(4)**	—
Other comprehensive income for the period, net of tax	**113**	43	**223**	149
Total comprehensive income for the period	**118**	164	**294**	437
Attributable to:				
– the common shareholder	**105**	155	**269**	419
– the preferred shareholder	**13**	9	**25**	18
Total comprehensive income for the period	**118**	164	**294**	437

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated balance sheet

		At	
		30 Jun 2020	31 Dec 2019
	Notes	**$m**	$m
Assets			
Cash and balances at central banks		**12,743**	54
Items in the course of collection from other banks		**18**	15
Trading assets	*5*	**3,131**	4,322
Other financial assets mandatorily measured at fair value through profit or loss		**7**	5
Derivatives	*6*	**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	*7*	**21,321**	23,645
Other assets	*8*	**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	*9*	**2,477**	2,296
Derivatives	*6*	**6,878**	3,431
Debt securities in issue	*10*	**21,629**	14,594
Other liabilities	*11*	**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

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of cash flows

	Half-year ended	
	30 Jun 2020 $m	30 Jun 2019 $m
Profit before income tax expense	**87**	397
Adjustments for non-cash items:		
Depreciation and amortization	**55**	48
Share-based payment expense	**4**	6
Change in expected credit losses	**330**	28
Charge for defined benefit pension plans	**8**	8
Changes in operating assets and liabilities		
Change in prepayment and accrued income	**27**	(37)
Change in net trading securities and net derivatives	**1,728**	(692)
Change in loans and advances to customers	**(614)**	207
Change in reverse repurchase agreements – non-trading	**(3,755)**	(4,121)
Change in other assets	**(1,587)**	(3,533)
Change in accruals and deferred income	**(113)**	(50)
Change in deposits by banks	**384**	307
Change in customer accounts	**8,815**	697
Change in repurchase agreements – non-trading	**(2,872)**	2,190
Change in debt securities in issue	**7,035**	1,122
Change in other liabilities	**602**	4,673
Tax paid	**(133)**	(137)
Net cash from operating activities	**10,001**	1,113
Purchase of financial investments	**(6,227)**	(6,121)
Proceeds from the sale and maturity of financial investments	**8,640**	5,234
Purchase of intangibles and property, plant and equipment	**(33)**	(47)
Net cash from investing activities	**2,380**	(934)
Issuance of common shares	**500**	—
Dividends paid to shareholder	**(185)**	(229)
Repurchase of subordinated debentures	**(22)**	—
Lease principal payments	**(27)**	(22)
Net cash from financing activities	**266**	(251)
Net increase in cash and cash equivalents	**12,647**	(72)
Cash and cash equivalents at the beginning of the period	**1,357**	1,333
Cash and cash equivalents at the end of the period	**14,004**	1,261
Cash and cash equivalents comprise:		
Cash and balances at central bank	**12,743**	76
Items in the course of collection from other banks and Items in the course of transmission to other banks	**(168)**	(158)
Loans and advances to banks of one month or less	**1,086**	717
Non-trading reverse repurchase agreements with banks of one month or less	**272**	613
T-Bills and certificates of deposits less than three months	**71**	13
Cash and cash equivalents at the end of the period	**14,004**	1,261
Interest:		
Interest paid	**(680)**	(709)
Interest received	**1,226**	1,354

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

Consolidated statement of changes in equity

			Other reserves			
	Share capital[1]	**Retained earnings**	**Financial assets at FVOCI reserve**	**Cash flow hedging reserve**	**Total other reserves**	**Total equity**
	$m	**$m**	**$m**	**$m**	**$m**	**$m**
At 1 Jan 2020	**2,325**	**3,745**	**36**	**3**	**39**	**6,109**
Profit for the period	**—**	**71**	**—**	**—**	**—**	**71**
Other comprehensive income/(loss), net of tax	**—**	**(10)**	**65**	**168**	**233**	**223**
– debt instruments at fair value through other comprehensive income	**—**	**—**	**69**	**—**	**69**	**69**
– equity instruments designated at fair value through other comprehensive income	**—**	**—**	**(4)**	**—**	**(4)**	**(4)**
– cash flow hedges	**—**	**—**	**—**	**168**	**168**	**168**
– remeasurement of defined benefit plans	**—**	**(10)**	**—**	**—**	**—**	**(10)**
Total comprehensive income for the period	**—**	**61**	**65**	**168**	**233**	**294**
Dividends on common shares	**—**	**(160)**	**—**	**—**	**—**	**(160)**
Dividends on preferred shares	**—**	**(25)**	**—**	**—**	**—**	**(25)**
Issuance of common shares	**500**	**—**	**—**	**—**	**—**	**500**
Shares issued under employee remuneration and share plan	**—**	**1**	**—**	**—**	**—**	**1**
At 30 Jun 2020	**2,825**	**3,622**	**101**	**171**	**272**	**6,719**

			Other reserves			
	Share capital[1]	Retained earnings	Financial assets at FVOCI reserve	Cash flow hedging reserve	Total other reserves	Total equity
	$m	$m	$m	$m	$m	$m
At 1 Jan 2019	2,075	3,619	(93)	(18)	(111)	5,583
Profit for the period	—	288	—	—	—	288
Other comprehensive income/(loss), net of tax	—	(11)	97	63	160	149
– debt instruments at fair value through other comprehensive income	—	—	97	—	97	97
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	—	—
– cash flow hedges	—	—	—	63	63	63
– remeasurement of defined benefit plans	—	(11)	—	—	—	(11)
Total comprehensive income for the period	—	277	97	63	160	437
Deemed contribution	—	13	—	—	—	13
Dividends on common shares	—	(220)	—	—	—	(220)
Dividends on preferred shares	—	(18)	—	—	—	(18)
Shares issued under employee remuneration and share plan	—	1	—	—	—	1
At 30 Jun 2019	2,075	3,672	4	45	49	5,796

1. *Share capital is comprised of common shares $1,725m and preferred shares $1,100m (30 June 2019: common shares $1,225m and preferred shares $850m).*

Certain sections within the Management's Discussion and Analysis, that are marked with an asterisk (*), and the accompanying notes form an integral part of these consolidated financial statements.

1 Basis of preparation and significant accounting policies

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

(a) Compliance with International Financial Reporting Standards

The consolidated financial statements have been prepared in accordance with International Accounting Standard ('IAS') 34 'Interim Financial Reporting' as issued by the International Accounting Standards Board ('IASB') and should be read in conjunction with the Bank's 2019 audited annual consolidated financial statements. The Bank's 2019 audited annual consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') and in consideration of the accounting guidelines as issued by the Office of the Superintendent of Financial Institutions Canada ('OSFI'), as required under Section 308(4) of the Bank Act. Section 308(4) states that except as otherwise specified by OSFI, the financial statements shall be prepared in accordance with IFRS.

(b) Future accounting developments

Future accounting developments have been disclosed in note 1(c) of the 2019 annual consolidated financial statements of the Bank's *Annual Report and Accounts 2019*.

(c) Presentation of information

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

Certain sections within the accompanying Management's Discussion and Analysis, that are marked with an asterisk (*), form an integral part of these consolidated financial statements.

(d) Critical accounting estimates and assumptions

Management believes that our critical accounting estimates and judgments are those that relate to expected credit loss, valuation of financial instruments, income taxes and deferred tax assets and defined benefit obligations. There were no changes in the current period to the critical accounting estimates and judgments applied in 2019, which are stated on pages 24 and 64 of the Annual Report and Accounts 2019. However, the level of estimation uncertainty and judgment for the calculation of ECL has increased since 31 December 2019 as a result of the economic effects of the COVID-19 pandemic as set out in 'Measurement uncertainty and sensitivity analysis of ECL estimates' section on page 21.

(e) Consolidation

The consolidated financial statements comprise the consolidated financial statements of the bank and its subsidiaries as at 30 June 2020. The method adopted by the bank to consolidate its subsidiaries is described in note 2(a) of the 2019 annual consolidated financial statements of the bank's *Annual Report and Accounts 2019*.

(f) Significant accounting policies

There have been no significant changes to the bank's significant accounting policies which are disclosed in Note 2 (a) to (r) of the 2019 annual consolidated financial statements of the bank's *Annual Report and Accounts 2019*.

2 Net fee income

Net fee income by global business

	Quarter ended							
	30 Jun 2020				30 Jun 2019			
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**[1]	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking[1]	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Account services	**10**	**2**	**5**	**17**	11	2	5	18
Broking income	**–**	**–**	**3**	**3**	–	–	2	2
Cards	**3**	**–**	**9**	**12**	5	–	11	16
Credit facilities	**62**	**15**	**–**	**77**	58	18	–	76
Funds under management	**–**	**–**	**46**	**46**	–	–	49	49
Imports/exports	**2**	**–**	**–**	**2**	3	–	–	3
Insurance agency commission	**–**	**–**	**2**	**2**	–	–	2	2
Other	**7**	**3**	**1**	**11**	7	3	1	11
Remittances	**7**	**2**	**1**	**10**	6	2	1	9
Underwriting	**–**	**18**	**–**	**18**	1	12	–	13
Fee income	**91**	**40**	**67**	**198**	91	37	71	199
Less: fee expense	**(3)**	**(4)**	**(13)**	**(20)**	(5)	(1)	(19)	(25)
Net fee income	**88**	**36**	**54**	**178**	86	36	52	174

	Half-year ended							
	30 Jun 2020				30 Jun 2019			
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**[1]	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking[1]	Total
	$m	**$m**	**$m**	**$m**	$m	$m	$m	$m
Account services	**20**	**4**	**9**	**33**	21	4	8	33
Broking income	**–**	**–**	**7**	**7**	–	–	4	4
Cards	**8**	**–**	**22**	**30**	10	–	21	31
Credit facilities	**126**	**29**	**–**	**155**	115	32	–	147
Funds under management	**–**	**–**	**94**	**94**	–	–	94	94
Imports/exports	**4**	**–**	**–**	**4**	6	–	–	6
Insurance agency commission	**–**	**–**	**3**	**3**	–	–	3	3
Other	**16**	**7**	**2**	**25**	13	7	3	23
Remittances	**13**	**4**	**2**	**19**	11	4	2	17
Underwriting	**1**	**28**	**–**	**29**	1	19	–	20
Fee income	**188**	**72**	**139**	**399**	177	66	135	378
Less: fee expense	**(7)**	**(6)**	**(30)**	**(43)**	(8)	(4)	(36)	(48)
Net fee income	**181**	**66**	**109**	**356**	169	62	99	330

1. *In the second quarter of 2020, 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 has been renamed to Wealth and Personal Banking. For further details, see note 4 of these interim condensed consolidated financial statements.*

3 Employee compensation and benefits

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

	Quarter ended		Half-year ended	
	30 Jun 2020	30 Jun 2019	**30 Jun 2020**	30 Jun 2019
	$m	$m	**$m**	$m
Defined benefit plans	**6**	5	**11**	11
– pension plans	**4**	3	**8**	8
– non-pension plans	**2**	2	**3**	3
Defined contribution pension plans	**10**	10	**20**	19
Total	**16**	15	**31**	30

A re-measurement of the net defined benefit liability has occurred in accordance with the bank's accounting policy as described on page 72 of the *Annual Report and Accounts 2019*.

4 Segment analysis

The bank's chief operating decision maker is the Chief Executive Officer, supported by the Executive Committee. Operating segments are reported in a manner consistent with the internal reporting provided to the Chief Executive Officer and the Executive Committee. Global businesses are our reportable segments under IFRS 8 'Operating Segments'. The three global businesses are Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking.

Measurement of segmental assets, liabilities, income and expenses is in accordance with the bank's accounting policies. Segmental income and expenses include transfers between segments and these transfers are conducted at arm's length. Shared costs are included in segments on the basis of the actual recharges made. Various estimate and allocation methodologies are used in the preparation of the segment financial information. We allocate expenses directly related to earning income to the segment that earned the related income. Expenses not directly related to earning income, such as overhead expenses, are allocated using appropriate methodologies. Segments' net interest income reflects internal funding charges and credits on the global businesses' assets, liabilities and capital, at market rates, taking into account relevant terms.

Change in reportable segments

Effective from the second quarter of 2020, we have made two changes to reportable segments. Firstly, we reallocated 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 comparative periods have been restated. Secondly, to simplify its matrix organizational structure, HSBC Group merged Retail Banking and Wealth Management and Global Private Banking to create one of the world's largest wealth management businesses, Wealth and Personal Banking. Accordingly, going forward our global business Retail Banking and Wealth Management has been renamed to Wealth and Personal Banking. As HSBC Bank Canada did not have a separate business line for Global Private Banking, there have been no changes in assets or liabilities nor any changes in the income or expenses that were previously attributable to the Retail Banking and Wealth Management business line as a result of the structure change.

Profit for the period

	Quarter ended									
	30 Jun 2020					30 Jun 2019				
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Corporate Centre[1]**	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Net interest income	**131**	**28**	**108**	**(18)**	**249**	156	32	137	(6)	319
Net fee income	**88**	**36**	**54**	**–**	**178**	86	36	52	–	174
Net income from financial instruments held for trading	**6**	**33**	**9**	**(1)**	**47**	9	16	8	–	33
Other income	**4**	**4**	**9**	**11**	**28**	3	2	6	8	19
Total operating income	**229**	**101**	**180**	**(8)**	**502**	254	86	203	2	545
Change in expected credit losses and other credit impairment charges	**(147)**	**(35)**	**(8)**	**–**	**(190)**	(26)	(8)	(6)	–	(40)
Net operating income	**82**	**66**	**172**	**(8)**	**312**	228	78	197	2	505
– external	**103**	**68**	**139**	**2**	**312**	251	82	164	8	505
– inter-segment	**(21)**	**(2)**	**33**	**(10)**	**–**	(23)	(4)	33	(6)	–
Total operating expenses	**(96)**	**(39)**	**(158)**	**(11)**	**(304)**	(104)	(41)	(178)	(14)	(337)
Profit/(loss) before income tax expense	**(14)**	**27**	**14**	**(19)**	**8**	124	37	19	(12)	168

1. *Corporate Centre is not an operating segment of the Bank. The numbers in this column provides a reconciliation between operating segments and the entity results.*

	Half-year ended									
	30 Jun 2020					30 Jun 2019				
	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Corporate Centre**[1]	**Total**	Commercial Banking	Global Banking and Markets	Wealth and Personal Banking	Corporate Centre[1]	Total
	$m	**$m**	**$m**	**$m**	**$m**	$m	$m	$m	$m	$m
Net interest income	**288**	**67**	**240**	**(28)**	**567**	316	65	274	(13)	642
Net fee income	**181**	**66**	**109**	**—**	**356**	169	62	99	—	330
Net income from financial instruments held for trading	**17**	**34**	**20**	**2**	**73**	18	47	16	—	81
Other income	**9**	**10**	**18**	**15**	**52**	6	5	12	14	37
Total operating income	**495**	**177**	**387**	**(11)**	**1,048**	509	179	401	1	1,090
Change in expected credit losses and other credit impairment charges	**(264)**	**(49)**	**(17)**	**—**	**(330)**	(12)	(9)	(7)	—	(28)
Net operating income	**231**	**128**	**370**	**(11)**	**718**	497	170	394	1	1,062
– external	**273**	**127**	**314**	**4**	**718**	535	172	346	9	1,062
– inter-segment	**(42)**	**1**	**56**	**(15)**	**—**	(38)	(2)	48	(8)	—
Total operating expenses	**(198)**	**(82)**	**(327)**	**(24)**	**(631)**	(206)	(82)	(355)	(22)	(665)
Profit/(loss) before income tax expense	**33**	**46**	**43**	**(35)**	**87**	291	88	39	(21)	397

1. *Corporate Centre is not an operating segment of the Bank. The numbers in this column provides a reconciliation between operating segments and the entity results.*

Balance sheet information

	Commercial Banking	**Global Banking and Markets**	**Wealth and Personal Banking**	**Corporate Centre**[1]	**Total**
	$m	**$m**	**$m**	**$m**	**$m**
At 30 Jun 2020					
Loans and advances to customers	**27,301**	**4,581**	**30,381**	**—**	**62,263**
Customers' liability under acceptances	**2,293**	**1,494**	**12**	**—**	**3,799**
Total external assets	**43,058**	**35,024**	**46,052**	**487**	**124,621**
Customer accounts	**24,597**	**7,640**	**39,467**	**—**	**71,704**
Acceptances	**2,310**	**1,498**	**12**	**—**	**3,820**
Total external liabilities	**35,547**	**31,228**	**50,507**	**620**	**117,902**
At 31 Dec 2019					
Loans and advances to customers	28,240	4,178	29,504	—	61,922
Customers' liability under acceptances	1,978	1,510	12	—	3,500
Total external assets	39,594	27,153	39,615	209	106,571
Customer accounts	21,712	6,199	34,978	—	62,889
Acceptances	1,982	1,511	12	—	3,505
Total external liabilities	30,997	24,539	44,490	436	100,462

1. *Corporate Centre is not an operating segment of the Bank. The numbers in this column provides a reconciliation between operating segments and the entity results.*

5 Trading assets

		At	
	Footnote	**30 Jun 2020** **$m**	31 Dec 2019 $m
Debt securities			
– Canadian and Provincial Government bonds	*1*	**1,995**	3,496
– treasury and other eligible bills		**956**	464
– other debt securities		**180**	362
At the end of the period		**3,131**	4,322
Trading assets			
– not subject to repledge or resale by counterparties		**1,991**	2,170
– which may be repledged or resold by counterparties		**1,140**	2,152
At the end of the period		**3,131**	4,322

1. *Including government guaranteed bonds.*

6 Derivatives

For a detailed description of the type, use of derivatives and accounting policies, refer to note 2 and note 12 of the bank's *Annual Report and Accounts 2019*.

Notional contract amounts and fair values of derivatives by product contract type held

	Notional contract amount[1]		Fair value – Assets			Fair value – Liabilities		
	Held for trading	Hedge accounting	Held for trading	Hedge accounting	Total	Held for trading	Hedge accounting	Total
	$m	$m	$m	$m	$m	$m	$m	$m
Foreign exchange	**162,694**	**64**	**2,140**	**–**	**2,140**	**2,126**	**4**	**2,130**
Interest rate	**429,890**	**21,124**	**4,185**	**306**	**4,491**	**4,167**	**577**	**4,744**
Commodity	**439**	**–**	**4**	**–**	**4**	**4**	**–**	**4**
At 30 Jun 2020	**593,023**	**21,188**	**6,329**	**306**	**6,635**	**6,297**	**581**	**6,878**
Foreign exchange	148,681	958	1,562	—	1,562	1,529	58	1,587
Interest rate	393,562	26,860	1,588	117	1,705	1,620	224	1,844
Commodity	10	—	—	—	—	—	—	—
At 31 Dec 2019	542,253	27,818	3,150	117	3,267	3,149	282	3,431

1. *The notional contract amounts of derivatives held for trading purposes and derivatives designated in hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.*

Derivatives in hedge accounting relationships

Fair value hedging instrument by hedged risk

	At					
	30 Jun 2020			31 Dec 2019		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Interest rate	**12,233**	**50**	**577**	14,452	72	180
Total	**12,233**	**50**	**577**	14,452	72	180

Cash flow hedging instrument by hedged risk

	At					
	30 Jun 2020			31 Dec 2019		
		Carrying amount			Carrying amount	
	Notional amount	Assets	Liabilities	Notional amount	Assets	Liabilities
	$m	$m	$m	$m	$m	$m
Foreign currency	**64**	**–**	**4**	958	—	58
Interest rate	**8,891**	**256**	**–**	12,408	44	44
Total	**8,955**	**256**	**4**	13,366	44	102

7 Financial investments

Carrying amount of financial investments

		At	
		30 Jun 2020	31 Dec 2019
	Footnote	**$m**	$m
Debt securities		**21,314**	23,625
– Canadian and Provincial Government bonds	1	**13,258**	14,577
– international Government bonds	1	**2,562**	3,326
– other debt securities issued by banks and other financial institutions		**3,869**	4,105
– treasury and other eligible bills		**1,625**	1,617
Equity securities		**7**	20
At the end of the period		**21,321**	23,645
Financial investments		**21,321**	23,645
– not subject to repledge or resale by counterparties		**21,275**	20,083
– which may be repledged or resold by counterparties		**46**	3,562

1. *Includes government guaranteed bonds.*

8 Other assets

	At	
	30 Jun 2020	31 Dec 2019
	$m	$m
Accounts receivable and other	**855**	350
Settlement accounts	**951**	710
Cash collateral	**972**	510
Other	**8**	10
At the end of the period	**2,786**	1,580

9 Trading liabilities

	At	
	30 Jun 2020	31 Dec 2019
	$m	$m
Net short positions in securities	**2,477**	2,296
At the end of the period	**2,477**	2,296

10 Debt securities in issue

	At	
	30 Jun 2020	31 Dec 2019
	$m	$m
Bonds and medium term notes	**10,580**	11,091
Covered bonds	**4,665**	2,266
Money market instruments	**6,384**	1,237
At the end of the period	**21,629**	14,594

Term to maturity

	At	
	30 Jun 2020	31 Dec 2019
	$m	$m
Less than 1 year	**9,465**	4,018
1-5 years	**11,934**	10,452
5-10 years	**230**	124
At the end of the period	**21,629**	14,594

Beginning this quarter, we participated in the Insured Mortgage Purchase Program ('IMPP'), launched by the Government of Canada as part of their response to COVID-19. Under the IMPP, we assessed whether substantially all of the risks and rewards of the loans have been transferred, in order to determine if the mortgages qualify for derecognition. Since we continue to be exposed to substantially all of the risks and rewards of ownership associated with these securitized mortgages, they do not qualify for derecognition. We continue to recognize the loans and recognize the related cash proceeds as secured financing. At 30 June 2020, the total amount of the mortgages transferred and outstanding was $497m and $496m of the associated liability was recorded as debt security in issue on our consolidated balance sheet.

11 Other liabilities

		At	
		30 Jun 2020	31 Dec 2019
	Footnote	**$m**	$m
Mortgages sold with recourse		**1,680**	1,715
Lease liabilities		**267**	258
Accounts payable		**316**	256
Settlement accounts		**954**	915
Cash collateral		**76**	211
Loans payable	1	**340**	—
Other		**9**	18
Share based payment related liability		**5**	11
At the end of the period		**3,647**	3,384

1. *During the year, the bank entered into a borrowing agreement with the HSBC Group which is a related party transaction. Further details on related party transactions can be found in note 29 of our Annual Report and Accounts 2019.*

12 Fair values of financial instruments

The accounting policies, control framework and hierarchy used to determine fair values at 30 June 2020 are consistent with those applied for the *Annual Report and Accounts 2019*.

Financial instruments carried at fair value and bases of valuation

		Valuation techniques		
	Quoted market price Level 1	**Using observable inputs Level 2**	**With significant unobservable inputs Level 3**	**Total**
	$m	**$m**	**$m**	**$m**
Recurring fair value measurements				
At 30 Jun 2020				
Assets				
Trading assets	**3,011**	**120**	**—**	**3,131**
Other financial assets mandatorily measured at fair value through profit or loss	**—**	**7**	**—**	**7**
Derivatives	**—**	**6,634**	**1**	**6,635**
Financial investments	**21,314**	**7**	**—**	**21,321**
Liabilities				
Trading liabilities	**2,305**	**172**	**—**	**2,477**
Derivatives	**—**	**6,877**	**1**	**6,878**
At 31 Dec 2019				
Assets				
Trading assets	4,257	65	—	4,322
Other financial assets mandatorily measured at fair value through profit or loss	—	5	—	5
Derivatives	—	3,267	—	3,267
Financial investments	23,612	33	—	23,645
Liabilities				
Trading liabilities	2,286	10	—	2,296
Derivatives	—	3,431	—	3,431

Transfers between Level 1 and Level 2 fair values

	Assets		Liabilities
	Trading assets	Financial investments	Trading liabilities
	$m	$m	$m
Quarter ended 30 Jun 2020			
Transfer from Level 1 to Level 2	**5**	**—**	**42**
Transfer from Level 2 to Level 1	**—**	**—**	**—**
Quarter ended 30 Jun 2019			
Transfer from Level 1 to Level 2	7	400	2
Transfer from Level 2 to Level 1	16	42	—

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

Fair values of financial instruments not carried at fair value

The bases for measuring the fair values of financial instruments not carried at fair value are explained on pages 97 and 98 of the *Annual Report and Accounts 2019*.

Fair values of financial instruments not carried at fair value

		At			
		30 Jun 2020		31 Dec 2019	
		Carrying amount	**Fair value**	Carrying amount	Fair value
	Footnote	**$m**	**$m**	$m	$m
Assets					
Loans and advances to customers	*1*	**62,263**	**62,644**	61,922	61,917
Liabilities					
Customer accounts		**71,704**	**72,031**	62,889	63,166
Debt securities in issue		**21,629**	**22,007**	14,594	14,722
Subordinated liabilities		**1,011**	**1,024**	1,033	1,030

1. Loans and advances to customers specifically relating to Canada: carrying amount $58,454m and fair value $58,811m.

Other financial instruments not carried at fair value are typically short term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

13 Legal proceedings and regulatory matters

The bank is subject to a number of legal proceedings and regulatory matters arising in the normal course of our business. The bank does not expect the outcome of any of these proceedings, in aggregate, to have a material effect on its consolidated balance sheet or its consolidated income statement.

14 Events after the reporting period

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.

There have been no other material events after the reporting period which would require disclosure or adjustment to the 30 June 2020 interim condensed consolidated financial statements.

These accounts were approved by the Board of Directors on 24 July 2020 and authorized for issue.

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