HSBC

News Release

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HSBC BANK CANADA
SECOND QUARTER 2021 RESULTS

Building on momentum,
profits up in all three business lines

Linda Seymour, President and Chief Executive Officer of HSBC Bank Canada, said:

“Our results this quarter are the best since the third quarter of 2018 – with an improved economic outlook and the resilience of our customers leading to improved profits across all three business lines. Increased customer activity continues to signal that the people and businesses we serve are working towards a post-pandemic future. As a result, there’s been solid growth in our Wealth and Personal Banking investment funds under management and real estate secured lending, as well as increased loan and deposit growth in Commercial Banking.

“And it’s clear our customers are looking to build back more sustainably, with many seeking our partnership as they set their transition path. As we have been for the last 40 years, we’re here to help them, with an expanding suite of digital services, as well as green and sustainable finance products and the global connections they need.”

Highlights[1]

- **Total operating income** for the quarter was $547m, up $45m or 9.0% and $1,076m for the half-year, up $28m or 2.7%. Net interest income improved for both the quarter and half-year as net interest margins improved. For the quarter, net fee income increased as a result of higher investment funds under management in Wealth and Personal Banking and an increase in credit facility fees as volumes of bankers’ acceptances rose in Commercial Banking. For the half-year, this was coupled with higher advisory fees in Global Banking and Markets, and higher activity in our online brokerage business in Wealth and Personal Banking. These increases were partly offset in the quarter and in the half-year by lower trading income and lower other operating income compared to the prior year’s gain on the extinguishment of repurchased subordinated debentures and lower gains on the disposal of financial investments.
- The **change in expected credit losses** resulted in a release of $40m for the quarter and $56m for the half-year, as forward-looking macro-economic variables improved on performing loans. The release for the half-year was also partly offset by a charge from a non-performing loan in the energy sector. The prior year's charge of $190m for the quarter and $330m for the half-year reflected the impact of the significant deterioration in forward-looking economic guidance on performing loans due to the pandemic, as well as impairments from non-performing loans due to the decline in oil prices.
- **Total operating expenses** increased by $24m or 7.9% for the quarter and $10m or 1.6% for the half-year, as we strategically make investments to grow our business and move to adopt hybrid working, while prudently managing costs.
- As a result, **profit before tax expense** was $259m, up $251m or 3,138% for the quarter and $491m, up $404m or 464%, for the half-year.

Select financial metrics as at 30 June 2021:

- *Total assets:* $114.1bn (31 Dec 2020: $117.3bn)
- *Common equity tier 1 capital ratio:* 14.0% (31 Dec 2020: 13.7%)
- *Tier 1 ratio:* 16.8% (31 Dec 2020: 16.4%)
- *Total capital ratio*[2]*: 19.4%* (31 Dec 2020: 19.0%)
- *Return on average common equity*[2, 3]: 11.9% (30 June 2020: 1.7%)

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

1. *For the quarter and half-year ended 30 June 2021 compared with the same periods in the prior year (unless otherwise stated).*
2. *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 International Financial Reporting Standards ('IFRS'). These are considered non-Generally Accepted Accounting Principles ('non-GAAP') financial measures and are unlikely to be comparable to similar measures presented by other companies. For further information on non-GAAP measures refer to the 'Use of non-GAAP financial measures' section of the Management's Discussion and Analysis ('MD&A') of the unaudited condensed interim consolidated financial statements for the quarter ended 30 June 2021.*
3. *For the half-year ended 30 June 2021 compared with the same period in the prior year.*

Analysis of consolidated financial results for the second quarter ended 30 June 2021[1]

Net interest income for the quarter was $306m, an increase of $57m or 23% compared with the same period in the prior year. This was a result of improved margins due to reduced volumes of interest bearing liabilities and a shift in the asset mix from financial investments to customer loans. Net interest income for the half-year was $588m, an increase of $21m or 3.7%. This increase was driven by the same factors as described in the quarter, partly offset by margin compression in the first quarter compared to the prior year due to central bank rate cuts in 2020.

Net fee income for the quarter was $196m, an increase of $18m or 10% compared with the same period in the prior year. This was mainly a result of higher investment funds under management in Wealth and Personal Banking and an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking. Fee income from higher activity in cards also increased in both Wealth and Personal Banking, and Commercial Banking. This was partly offset by an increase in related fee expense as a result of the increased activity. Net fee income for the half-year was $392m, an increase of $36m or 10%. This was mainly a result of an increase in credit facility fees from higher volumes of bankers' acceptances in Commercial Banking, higher advisory fees in Global Banking and Markets, and higher investment funds under management and activity in our online brokerage business in Wealth and Personal Banking. Fee income from higher activity in cards also increased in both Wealth and Personal Banking and Commercial Banking. This was partly offset by an increase in related fee expense due to the increased activity.

Net income from financial instruments held for trading for the quarter was $28m, a decrease of $19m or 40% compared with elevated levels in the second quarter of 2020 due to reduced credit spreads and lower market volatility. Lower net interest income on trading activities due to the lower interest environment also contributed to the decrease for the quarter. These decreases were partly offset by higher trading activities. Net income from financial instruments held for trading was $58m for the half-year, a decrease of $15m or 21%. The decrease was driven by lower net interest income due to the lower interest rate environment and decreased Rates trading activities. This was partly offset by increases mainly driven by reduced market volatility and tightening credit spreads.

Other items of income for the quarter were $17m, a decrease of $11m or 39% compared with the same period in the prior year. Other items of income for the half-year were $38m, a decrease of $14m or 27%. The decrease was a result of the prior year's gain on the extinguishment of repurchased subordinated debentures and lower gains on the disposal of financial investments from re-balancing the bank's liquid asset portfolio.

Change in expected credit losses for the second quarter of 2021 resulted in a release of $40m and $56m for the half-year compared to a charge of $190m and $330m, respectively, for the same period in the prior year as the forward-looking macro-economic variables related to performing loans improved. The release for the half-year was driven by the same factor, partly offset by a charge from a non-performing loan in the energy sector. The charges in 2020 reflected elevated provisions on performing loans due to the impact of the pandemic, coupled with the impairments from non-performing loans due to the decline in oil prices.

Total operating expenses for the quarter were $328m, an increase of $24m or 7.9% compared with the same period in the prior year. Total operating expenses for the half-year were $641m, an increase of $10m or 1.6%. The increase for the quarter and half-year was mainly due to costs associated with preparing for hybrid working arrangements, impairment of certain software assets, strategic investments to grow our business, simplify our processes and making investments in the digital services our customers are asking for. This was partly offset by reduced discretionary costs in response to the current economic environment.

Income tax expense: the effective tax rate for the second quarter of 2021 was 26.8% which is higher than the statutory tax rate of 26.5% due to an increase in tax liabilities. The effective tax rate for the second quarter of 2020 was 38.6% primarily due to a lower pre-tax income relative to the amount of tax expensed.

1. *For the quarter and half-year ended 30 June 2021 compared with the same periods in the prior year (unless otherwise stated).*

Dividends

Dividends declared in the second quarter 2021

During the second quarter 2021, the bank declared regular quarterly dividends of $11m for the second quarter of 2021 on all series of outstanding HSBC Bank Canada Class 1 preferred shares and a first interim dividend of $60m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2021.

Dividends declared in the third quarter 2021

On 27 July 2021, the bank declared regular quarterly dividends for the third quarter of 2021 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 2021 or the first business day thereafter to the shareholder of record on 15 September 2021.

On 27 July 2021, the bank also declared a second interim dividend of $100m on HSBC Bank Canada common shares in respect of the financial year ending 31 December 2021, which will be paid on or before 30 September 2021 to the shareholder of record on 27 July 2021.

As the quarterly dividends on preferred shares for the third quarter of 2021 and the second interim dividend on common shares for 2021 were declared after 30 June 2021, the amounts have not been included in the balance sheet as a liability.

Business performance in the second quarter ended 30 June 2021[1]

Commercial Banking ('CMB')

Total operating income for the second quarter of 2021 was $254m, an increase of $25m or 11% compared with the second quarter of 2020. Total operating income for the half-year was $493m, a decrease of $2m or 0.4%. CMB has maintained positive momentum in 2021 with loans increasing by $1.7bn in the first six months and strong deposit growth continuing. Loan margins have improved year-on-year and are comparable with pre-pandemic levels of 2019. Non-interest income has also improved. In particular, foreign exchange income has benefited as transaction volumes have recovered. Half-year results were, however, impacted by lower margins on deposits in the first quarter compared to the prior year due to central bank rate cuts in 2020.

Our ambition is to maintain our leadership position as the preferred international financial partner for our clients and to support their plans to transition to a net zero carbon economy. Taking advantage of our international network and with continued investments in our front-end platforms for Global Liquidity and Cash Management (‘GLCM’) and Global Trade and Receivable Finance (‘GTRF’), we are well positioned to support our customers with both their domestic and cross-border banking requirements. We continue to develop a growing suite of green financial instruments and to improve our customers’ digital experiences while ensuring security and resilience and are ready to serve our customers on their path to recovery as the economy reopens.

Profit before income tax for the second quarter of 2021 was $191m, an increase of $205m compared with the second quarter of 2020. Profit before income tax for the half-year was $342m, an increase of $309m or 936%. This was primarily due to a significant decrease in expected credit losses, higher non-interest income and lower operating expenses.

Global Banking and Markets ('GBM')

Total operating income for the second quarter of 2021 was $76m, a decrease of $25m or 25% compared with the second quarter of 2020. Total operating income for the half-year was $157m, a decrease of $20m or 11%. Global Banking had a strong first half with growth in advisory fees and higher lending income as margins remain favourable to the same period last year, offset by the impact of rate reductions on deposit net interest income. Markets revenue was behind prior year as a result of lower sales and trading volumes on foreign exchange, flow rate and credit activities. This was partly offset by favourable movements in certain credit spreads as the market continues to recover from COVID-19.

GBM continues to pursue its well-established strategy to provide tailored, wholesale banking solutions, leveraging HSBC's extensive distribution network to provide products and solutions to meet our global clients' needs.

As the Canadian economy continues to emerge from the pandemic, our Banking and Markets teams continue to work closely with our clients to understand their unique challenges, support them as they look to return to growth and in their plans to transition to a net zero carbon economy.

Profit before income tax for the second quarter of 2021 was $49m, an increase of $22m or 81% compared with the second quarter of 2020. Profit before income tax for the half-year was $107m, an increase of $61m or 133%. This was mainly due to the decreased charge in expected credit losses on performing loans as forward-looking macro-economic guidance improved, along with lower operating expenses due to prudent cost management. This was partly offset by lower operating income.

Wealth and Personal Banking ('WPB')

Total operating income for the second quarter of 2021 was $209m, an increase of $29m or 16% compared with the second quarter of 2020. Total operating income for the half-year was $416m, an increase of $29m or 7.5%. The increases were driven by strong volume growth in total relationship balances[2], record[3] activity in our online brokerage business, improved lending margins and product mix, partly offset by lower deposit margins as a result of central bank rate decreases in 2020. Growth in total relationship balances[2] was led by strong net sales in investment funds under management and record[3] growth in our real estate secured lending.

We grew our overall and international client base as we continue to invest in our distribution channels and market-competitive products. We continue to make it easier for our clients to bank with us and improve client experience through digital enhancements, such as mobile chat and digital account opening for our international clients who have not yet arrived in Canada.

Excluding the first quarter of 2012 which included a one-time gain, we had record[4] profit before income tax expense for the quarter ended 30 June 2021. Profit before income tax for the second quarter of 2021 was $54m, an increase of $40m or 286% compared with the second quarter of 2020. Profit before income tax for the half-year was $91m, an increase of $48m or 112%. This was primarily due to higher operating income and lower expected credit losses, partly offset by higher operating expenses.

Corporate Centre

Profit before income tax for the second quarter of 2021 was a loss of $35m, a decrease in profit before income tax of $16m compared with the second quarter of 2020. Profit before income tax for the half-year was a loss of $49m, a decrease in profit before income tax of $14m compared with the same period in the prior year. This was primarily the result of an increase in operating expenses from cost initiatives to support future growth and move to adopt hybrid working, as well as lower operating income as a result of prior year's gain on the extinguishment of repurchased subordinated debentures, partly offset by a decrease in liquidity costs improving net interest income.

1. *For the quarter and half-year ended 30 June 2021 compared with the same periods in the prior year (unless otherwise stated).*
2. *Total relationship balances includes lending, deposits and wealth balances.*
3. *Record for six months since inception of WPB (previously RBWM) as a single global business in 2011.*
4. *Record for three months since inception of WPB (previously RBWM) as a single global business in 2011.*

(Figures in $m, except where otherwise stated)

Financial performance and position

	Quarter ended		Half-year ended	
	30 Jun 2021	30 Jun 2020	**30 Jun 2021**	30 Jun 2020
Financial performance for the period				
Total operating income	**547**	502	**1,076**	1,048
Profit before income tax expense	**259**	8	**491**	87
Profit attributable to the common shareholder	**179**	(8)	**337**	46
Change in expected credit losses and other credit impairment charges - release/(charge)	**40**	(190)	**56**	(330)
Operating expenses	**(328)**	(304)	**(641)**	(631)
Basic and diluted earnings per common share ($)	**0.32**	(0.01)	**0.61**	0.09
Financial measures %[1]				
Return on average common shareholder's equity	**12.6**	(0.6)	**11.9**	1.7
Return on average risk-weighted assets[2]	**2.6**	0.1	**2.5**	0.4
Cost efficiency ratio	**60.0**	60.6	**59.6**	60.2
Operating leverage ratio	**1.1**	1.9	**1.1**	1.3
Net interest margin	**1.24**	0.93	**1.18**	1.12
Change in expected credit losses to average gross loans and advances and acceptances[3]	**n/a**	1.13	**n/a**	0.99
Change in expected credit losses on stage 3 loans and advances and acceptances to average gross loans and advances and acceptances	**0.02**	0.32	**0.07**	0.27
Total stage 3 allowance for expected credit losses to gross stage 3 loans and advances and acceptances	**38.5**	43.6	**38.5**	43.6
Net write-offs as a percentage of average loans and advances and acceptances	**0.12**	0.10	**0.09**	0.11

Financial and capital measures

	At	
	30 Jun 2021	31 Dec 2020
Financial position at period end		
Total assets	**114,063**	117,347
Loans and advances to customers	**65,075**	61,002
Customer accounts	**70,184**	71,950
Ratio of customer advances to customer accounts (%)[1]	**92.7**	84.8
Common shareholder's equity	**5,752**	5,782
Capital measures[2]		
Common equity tier 1 capital ratio (%)	**14.0**	13.7
Tier 1 ratio (%)	**16.8**	16.4
Total capital ratio (%)	**19.4**	19.0
Leverage ratio (%)	**6.1**	6.0
Risk-weighted assets ($m)	**39,265**	40,014
Liquidity coverage ratio (%)[4]	**145**	188

1. *In measuring our performance, the financial measures that we use include those which have been derived from our reported results. However, these are not presented within the consolidated financial statements and are not defined under International Financial Reporting Standards ('IFRS'). These are considered non-Generally Accepted Accounting Principles ('non-GAAP') financial measures and are unlikely to be comparable to similar measures presented by other companies. For further information on non-GAAP measures refer to the 'Use of non-GAAP financial measures' section of the Management's Discussion and Analysis ('MD&A') of the unaudited condensed interim consolidated financial statements for the quarter ended 30 June 2021.*
2. *The bank assesses capital adequacy against standards established in guidelines issued by Office of the Superintendent of Financial Institutions Canada ('OSFI') in accordance with the Basel III capital adequacy framework.*
3. *n/a is shown where the bank is in a net release position resulting in a negative ratio.*
4. *The liquidity coverage ratio ('LCR') in this table has been calculated using averages of the three month-end figures in the quarter.*

(Figures in $m, except per share amounts)	Quarter ended		Half-year ended	
	30 Jun 2021	30 Jun 2020	**30 Jun 2021**	30 Jun 2020
Interest income	**446**	530	**897**	1,198
Interest expense	**(140)**	(281)	**(309)**	(631)
Net interest income	**306**	249	**588**	567
Fee income	**221**	198	**446**	399
Fee expense	**(25)**	(20)	**(54)**	(43)
Net fee income	**196**	178	**392**	356
Net income from financial instruments held for trading	**28**	47	**58**	73
Changes in fair value of other financial instruments mandatorily measured at fair value through profit and loss	**3**	—	**3**	—
Gains less losses from financial investments	**7**	14	**22**	30
Other operating income	**7**	14	**13**	22
Total operating income	**547**	502	**1,076**	1,048
Change in expected credit losses and other credit impairment charges - release/(charge)	**40**	(190)	**56**	(330)
Net operating income	**587**	312	**1,132**	718
Employee compensation and benefits	**(152)**	(145)	**(311)**	(314)
General and administrative expenses	**(127)**	(132)	**(255)**	(262)
Depreciation and impairment of property, plant and equipment	**(30)**	(17)	**(47)**	(37)
Amortization and impairment of intangible assets	**(19)**	(10)	**(28)**	(18)
Total operating expenses	**(328)**	(304)	**(641)**	(631)
Profit before income tax expense	**259**	8	**491**	87
Income tax expense	**(69)**	(3)	**(132)**	(16)
Profit for the period	**190**	5	**359**	71
Profit attributable to the common shareholder	**179**	(8)	**337**	46
Profit attributable to the preferred shareholder	**11**	13	**22**	25
Profit attributable to shareholder	**190**	5	**359**	71
Average number of common shares outstanding (000's)	**548,668**	548,668	**548,668**	524,217
Basic and diluted earnings per common share ($)	**0.32**	(0.01)	**0.61**	0.09

(Figures in $m)	At 30 Jun 2021	31 Dec 2020
ASSETS		
Cash and balances at central banks	**13,404**	15,750
Items in the course of collection from other banks	**13**	13
Trading assets	**4,561**	1,719
Other financial assets mandatorily measured at fair value through profit or loss	**15**	9
Derivatives	**3,445**	5,447
Loans and advances to banks	**1,188**	1,270
Loans and advances to customers	**65,075**	61,002
Reverse repurchase agreements – non-trading	**5,958**	5,996
Financial investments	**13,802**	19,879
Other assets	**2,489**	1,430
Prepayments and accrued income	**178**	196
Customers' liability under acceptances	**3,343**	4,043
Current tax assets	**65**	28
Property, plant and equipment	**240**	277
Goodwill and intangible assets	**165**	167
Deferred tax assets	**122**	121
Total assets	**114,063**	117,347
LIABILITIES AND EQUITY		
Liabilities		
Deposits by banks	**1,648**	1,139
Customer accounts	**70,184**	71,950
Repurchase agreements – non-trading	**4,658**	3,227
Items in the course of transmission to other banks	**266**	181
Trading liabilities	**3,730**	1,831
Derivatives	**3,575**	5,647
Debt securities in issue	**13,824**	17,387
Other liabilities	**4,248**	3,097
Acceptances	**3,352**	4,062
Accruals and deferred income	**364**	523
Retirement benefit liabilities	**292**	310
Subordinated liabilities	**1,011**	1,011
Provisions	**59**	81
Current tax liabilities	**—**	19
Total liabilities	**107,211**	110,465
Equity		
Common shares	**1,725**	1,725
Preferred shares	**1,100**	1,100
Other reserves	**126**	249
Retained earnings	**3,901**	3,808
Total shareholder's equity	**6,852**	6,882
Total liabilities and equity	**114,063**	117,347

(Figures in $m)	Quarter ended		Half-year ended	
	30 Jun 2021	30 Jun 2020	**30 Jun 2021**	30 Jun 2020
Commercial Banking				
Net interest income	**142**	131	**269**	288
Non-interest income	**112**	98	**224**	207
Total operating income	**254**	229	**493**	495
Change in expected credit losses charges - release/(charge)	**28**	(147)	**36**	(264)
Net operating income	**282**	82	**529**	231
Total operating expenses	**(91)**	(96)	**(187)**	(198)
Profit/(loss) before income tax expense	**191**	(14)	**342**	33
Global Banking and Markets				
Net interest income	**30**	28	**57**	67
Non-interest income	**46**	73	**100**	110
Total operating income	**76**	101	**157**	177
Change in expected credit losses charges - release/(charge)	**5**	(35)	**16**	(49)
Net operating income	**81**	66	**173**	128
Total operating expenses	**(32)**	(39)	**(66)**	(82)
Profit before income tax expense	**49**	27	**107**	46
Wealth and Personal Banking				
Net interest income	**134**	108	**262**	240
Non-interest income	**75**	72	**154**	147
Total operating income	**209**	180	**416**	387
Change in expected credit losses charges - release/(charge)	**7**	(8)	**4**	(17)
Net operating income	**216**	172	**420**	370
Total operating expenses	**(162)**	(158)	**(329)**	(327)
Profit before income tax expense	**54**	14	**91**	43
Corporate Centre				
Net interest income	**—**	(18)	**—**	(28)
Non-interest income	**8**	10	**10**	17
Net operating income/(loss)	**8**	(8)	**10**	(11)
Total operating expenses	**(43)**	(11)	**(59)**	(24)
Profit/(loss) before income tax expense	**(35)**	(19)	**(49)**	(35)

About HSBC Bank Canada

HSBC Bank Canada, a subsidiary of HSBC Holdings plc, is the leading international bank in the country. We help companies and individuals across Canada to do business and manage their finances here and internationally through three global business lines: Commercial Banking, Global Banking and Markets, and Wealth and Personal Banking.

HSBC Holdings plc is headquartered in London, UK and serves customers worldwide from offices in 64 countries and territories in Europe, Asia, North America, Latin America, and Middle East and North Africa. With assets of US$2,976bn at 30 June 2021, it is one of the world's largest banking and financial services organizations.

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

Media enquiries:	**Sharon Wilks**	**416-868-3878**	**sharon_wilks@hsbc.ca**
	Caroline Creighton	**416-868-8282**	**caroline.x.creighton@hsbc.ca**
Investor relations enquiries:			**investor_relations@hsbc.ca**

Caution regarding forward-looking statements

This document contains forward-looking information, including statements regarding the business and anticipated actions of the bank. These statements can be identified by the fact that they do not pertain strictly to historical or current facts. Forward-looking statements often include words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words and terms of similar substance in connection with discussions of future operating or financial performance. By their very nature, these statements require us to make a number of assumptions and are subject to a number of inherent risks and uncertainties that may cause actual results to differ materially from those contemplated by the forward-looking statements. We caution you to not place undue reliance on these statements as a number of risk factors could cause our actual results to differ materially from the expectations expressed in such forward-looking statements. The 'Risk management' section in the Management's Discussion and Analysis in our Annual Report and Accounts 2020 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, capital management, liquidity and funding risk, market risk, resilience risks, regulatory compliance risk, financial crime risk, model risk and pension risk. Additional factors that may cause our actual results to differ materially from the expectations expressed in such forward-looking statements include: general economic and market conditions, fiscal and monetary policies, changes in laws, regulations and approach to supervision, level of competition and disruptive technology, cyber threat and unauthorized access to systems, changes to our credit rating, climate change risk, interbank offered rate ('IBOR') transition and other risks such as changes in accounting standards, changes in tax rates, tax law and policy, and its interpretation of tax authorities, risk of fraud by employees or others, unauthorized transactions by employees and human error. Our success in delivering our strategic priorities and proactively managing the regulatory environment depends on the development and retention of our leadership and high-performing employees. The ability to continue to attract, develop and retain competent individuals in an employment market impacted by the COVID-19 pandemic proves challenging. We are monitoring people risks with attention to employee mental health and well-being, particularly in the face of the pandemic. 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, pandemics, environmental disasters and terrorist acts. Refer to the 'Factors that may affect future results' section of the Management's Discussion and Analysis in our Annual Report and Accounts 2020 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.