The Hongkong and Shanghai Banking Corporation Limited

Banking Disclosure Statement at 31 December 2024
(Unaudited)

HSBC

Contents

Tables

Prefixes contained in the table names, where applicable, represent the reference codes of the standard disclosure templates and tables for the Revised Pillar 3 Framework issued by the Hong Kong Monetary Authority ('HKMA').

Introduction

Purpose

The information contained in this document is for The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group'). It should be read in conjunction with the group's Annual Report and Accounts 2024. The group's Annual Report and Accounts 2024, the Banking Disclosure Statement and the Main Features of Regulatory Capital Instruments and Non-capital LAC Debt Instruments document, taken together, comply with both the Banking (Disclosure) Rules ('BDR') made under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ('LAC Rules') made under section 19(1) of the Financial Institutions (Resolution) Ordinance.

References to 'HSBC', 'the Group' or 'the HSBC Group' within this document mean HSBC Holdings plc together with its subsidiaries. Within this document the Hong Kong Special Administrative Region of the People's Republic of China is referred to as 'Hong Kong'. The abbreviations 'HK$m' and 'HK$bn' represent millions and billions (thousands of millions) of Hong Kong dollars respectively.

These banking disclosures are governed by the group's disclosure policy, which has been approved by the Board of Directors. The disclosure policy sets out the governance, control and assurance requirements for publication of the document. While the disclosure statement is not required to be externally audited, the document has been subject to independent review by the HSBC Global Internal Audit team and has been approved by the Audit Committee as delegated by the Board.

Basis of preparation

Except where indicated otherwise, the financial information contained in this Banking Disclosure Statement has been prepared on a regulatory consolidation basis. The basis of consolidation for regulatory purposes is different from that for accounting purposes. Information regarding subsidiaries that are not included in the consolidation for regulatory purposes is set out in the 'Basis of consolidation' section in this document.

The information in this document and the Loss-absorbing Capacity Disclosures for HSBC Asia Holdings Limited ('HAHO') are not audited and does not constitute statutory accounts.

Certain financial information in this document is extracted from the statutory accounts for the year ended 31 December 2024 which has been delivered to the Registrar of Companies and the HKMA. The auditor expressed an unqualified opinion on those statutory accounts in their report dated 19 February 2025. The Auditor's Report did not include a reference to any matters to which the auditor drew any attention by way of emphasis without qualifying their report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance (Cap.622). The group's Annual Report and Accounts 2024, which include the statutory accounts, can be obtained on request from Communications (Asia), The Hongkong and Shanghai Banking Corporation Limited, 1 Queen's Road Central, Hong Kong, and can be viewed on our website: www.hsbc.com.hk.

Regulatory reporting processes and controls

The quality of regulatory reporting remains a key priority for management and regulators. We are progressing with a multi-year comprehensive programme to strengthen our processes, improve consistency, and enhance controls across regulatory reports, focusing on our prudential regulatory reporting and other priority regulatory reports. This multifaceted programme includes data enhancement, transformation of the reporting systems and an uplift to the control environment over the report production process.

The Banking Disclosure Statement

The group's Banking Disclosure Statement at 31 December 2024 comprises Pillar 3 information required under the framework of the Basel Committee on Banking Supervision ('BCBS'). The disclosures are made in accordance with the BDR and the LAC Rules issued by the HKMA under Basel III, which is effective as of 31 December 2024. According to the BDR and the LAC Rules, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Prior period disclosures can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

We closely monitor and consider future regulatory change and continue to evaluate the impact of regulatory developments upon our disclosures. The Basel III Reforms package has been implemented by the HKMA from 1 January 2025.

The Banking Disclosure Statement includes the majority of the information required under the BDR and the LAC Rules. The Main Features of Regulatory Capital Instruments and Non-capital LAC Debt Instruments are published as a standalone document. The remainder of the disclosure requirements are covered in the group's Annual Report and Accounts 2024. All the group's banking disclosures can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

Disclosure requirements covered in the group's Annual Report and Accounts 2024:	**References:**
– BDR Section 16FJ – LIQA: Liquidity risk management	Pages 52-53
– BDR Section 16J – The group's definition of impaired and forborne and the methods adopted for determining impairments	Note 1.2(i)
– BDR Section 29(5) – Net structural foreign currency exposures	Page 52
– BDR Section 44 – Assets used as security	Note 12
– BDR Section 46 – The general disclosure of the major business activities and product lines	Page 15, Note 2 & Note 30
– BDR Section 52 – Corporate governance	Pages 3-9

Loss-absorbing Capacity Disclosures

HAHO, a wholly-owned subsidiary of HSBC Holdings plc and the intermediate holding company of the group, is designated as the resolution entity for the group, where adequate loss-absorbing capacity ('LAC') has to be available in a form that will be bailed-in at the point of resolution. The group's LAC disclosures are included as part of this Banking Disclosure Statement while the LAC disclosures of HAHO will be included as part of the HSBC Group's disclosures which can be found in the Investors section of the Group's website, www.hsbc.com. The location of HAHO's LAC disclosures can be found in the following table:

Location of HAHO's LAC disclosures in 4Q24:

KM2 – Key metrics of the Asian resolution group
– Table 20.ii of the Group's Pillar 3 Disclosures

TLAC1 – TLAC composition
– Table 21 of the Group's Pillar 3 Disclosures

TLAC3 – HSBC Asia Holdings Limited Creditor Ranking
– Table 25 of the Group's Pillar 3 Disclosures

CCA(A) – Main Features of Regulatory Capital Instruments and Non-Capital LAC Debt Instruments
– A standalone document which can be found in: www.hsbc.com/investors/fixed-income-investors/regulatory-debt-main-features

Key Metrics

Table 1: KM1 – Key prudential ratios

		a	b	c	d	e
		At				
		31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2023
	Regulatory capital (HK$m)[1]					
1	Common Equity Tier 1 ('CET1')	**516,121**	550,343	518,355	512,708	508,604
2	Tier 1	**581,944**	616,083	571,703	566,581	562,454
3	Total capital	**643,455**	683,744	636,561	635,993	631,701
	Risk-weighted assets ('RWAs') (HK$m)[1]					
4	Total RWAs	**3,167,152**	3,294,730	3,280,191	3,276,454	3,212,387
	Risk-based regulatory capital ratios (as a percentage of RWAs)[1]					
5	CET1 ratio (%)	**16.3**	16.7	15.8	15.6	15.8
6	Tier 1 ratio (%)	**18.4**	18.7	17.4	17.3	17.5
7	Total capital ratio (%)	**20.3**	20.8	19.4	19.4	19.7
	Additional CET1 buffer requirements (as a percentage of RWAs)[1]					
8	Capital conservation buffer requirement (%)	**2.50**	2.50	2.50	2.50	2.50
9	Countercyclical capital buffer ('CCyB') requirement (%)[2]	**0.34**	0.58	0.58	0.56	0.56
10	Higher loss absorbency requirements (%) (applicable only to Global systemically important authorised institution ('G-SIBs') or Domestic systemically important authorised institution ('D-SIBs'))	**2.50**	2.50	2.50	2.50	2.50
11	Total authorised institution ('AI')-specific CET1 buffer requirements (%)	**5.34**	5.58	5.58	5.56	5.56
12	CET1 available after meeting the AI's minimum capital requirements (%)	**11.8**	12.2	11.3	11.1	11.3
	Basel III leverage ratio[3]					
13	Total leverage ratio ('LR') exposure measure (HK$m)	**10,038,018**	10,348,254	9,820,509	9,840,623	9,672,960
14	LR (%)	**5.8**	6.0	5.8	5.8	5.8
	Liquidity Coverage Ratio ('LCR')[4]					
15	Total high quality liquid assets ('HQLA') (HK$m)	**2,064,238**	1,993,634	1,906,757	1,945,667	1,938,900
16	Total net cash outflows (HK$m)	**1,274,660**	1,224,497	1,211,691	1,205,406	1,149,294
17	LCR (%)	**162.2**	163.0	157.5	161.6	168.9
	Net Stable Funding Ratio ('NSFR')[5]					
18	Total available stable funding (HK$m)	**5,956,026**	5,952,478	5,746,864	5,629,126	5,747,599
19	Total required stable funding (HK$m)	**3,913,605**	3,928,367	3,832,433	3,747,073	3,685,357
20	NSFR (%)	**152.2**	151.5	150.0	150.2	156.0

1 The regulatory capital, RWAs, risk-based regulatory capital ratios and additional CET1 buffer requirements above are based on or derived from the information as contained in the 'Capital Adequacy Ratio' return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the Banking (Capital) Rules ('BCR') under Basel III.

2 The jurisdictional CCyB of Hong Kong used in the calculation of the CCyB buffer requirement is 0.5% with effect from October 2024 which was reduced from 1.0% at 30 September 2024. The jurisdictional CCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 2.5% at 31 December 2024.

3 The Basel III leverage ratios are disclosed in accordance with the information contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR under Basel III.

4 The LCRs shown are the simple average values of all working days in the reporting periods and are made in accordance with the requirements specified in the 'Liquidity Position' return submitted to the HKMA under rule 11(1) of the Banking (Liquidity) Rules ('BLR') under Basel III.

5 The NSFR disclosures are made in accordance with the information contained in the 'Stable Funding Position' return submitted to the HKMA under the requirements specified in rule 11(1) of the BLR under Basel III.

Risk management

Our risk management framework

We use a comprehensive risk management approach across the organisation and across all risk types, underpinned by our culture and values. This is outlined in our risk management framework, including the key principles and practices that we employ in managing material risks, both financial and non-financial. Non-financial risk in our risk management framework includes, but is not limited to, those risks captured under the BCBS definition for Operational Risk.

The framework fosters continuous monitoring of the risk environment, and promotes risk awareness and sound operational and strategic decision making and escalation process. It also ensures we have a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities, with clear accountabilities.

- Further information on our risk management framework is set out on page 20 of the group's Annual Report and Accounts 2024. The management and mitigation of principal risks facing the group is described in our top and emerging risks on page 22 of the group's Annual Report and Accounts 2024.
- Commentary on hedging strategies and associated processes can be found in the Market risk section on pages 45 to 49 of this document.

Material risks

All material risks are disclosed to provide a comprehensive view of a bank's risk profile. In addition to the disclosure in this document, other information on material risks can be found between pages 23 to 65 of the Annual Report and Accounts 2024. Please see the following sections for further details on each material risk:

- Credit risk (refer to pages 25 to 48 of the Annual Report and Accounts 2024)
- Treasury risk (refer to pages 49 to 53 of the Annual Report and Accounts 2024)
- Market risk (refer to pages 54 to 55 of the Annual Report and Accounts 2024)
- Climate risk (refer to pages 56 to 58 of the Annual Report and Accounts 2024)
- Resilience risk (refer to page 59 of the Annual Report and Accounts 2024)
- Regulatory compliance risk (refer to page 59 of the Annual Report and Accounts 2024)
- Financial crime risk (refer to pages 59 to 60 of the Annual Report and Accounts 2024)
- Model risk (refer to page 60 of the Annual Report and Accounts 2024)
- Insurance manufacturing operations risk (refer to pages 60 to 65 of the Annual Report and Accounts 2024)

Culture

HSBC understands the importance of a strong culture. Our culture refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. It is instrumental in aligning the behaviours of individuals with our attitude to assuming and managing risk, which helps to ensure that our risk profile remains in line with our risk appetite. The fostering of a strong culture is a key responsibility of our senior executives.

Our culture is also reinforced by our approach to remuneration. Individual awards, including those for senior executives, are based on compliance with our values and the achievement of financial and non-financial objectives, which are aligned to our risk appetite and strategy.

Risk governance

The Board has ultimate responsibility for the effective management of risk and approves our risk appetite. It is advised on risk-related matters by the group's Risk Committee.

- The activities of the Risk Committee are set out on page 7 of the Annual Report and Accounts 2024.

Executive accountability for the ongoing monitoring, assessment and management of the enterprise-wide risk environment, and the effectiveness of the risk management framework, resides with the group's Chief Risk Officer ('CRO'), supported by the group's Risk Management Meeting ('RMM').

- Further details on risk governance can be found on page 20 of the group's Annual Report and Accounts 2024.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making. All employees have a role to play in risk management. These roles are defined using the three lines of defence model, which takes into account our business and functional structures.

We use a defined executive risk governance structure to ensure appropriate oversight and accountability for risk, which facilitates the reporting and escalation to the RMM.

- Further information about the group's three lines of defence model and executive risk governance structures is available on pages 20 and 21 of the group's Annual Report and Accounts 2024.

Risk appetite

Risk appetite is a key component of our management of risk. It defines our desired forward-looking risk profile, and informs the strategic and financial planning process. At HSBC, risk appetite is managed through a global risk appetite framework and articulated in a risk appetite statement ('RAS'), which is reviewed and approved by the Board on the advice of the group's Risk Committee, twice a year, to make sure it remains fit for purpose.

Our risk appetite provides an objective baseline to guide strategic decision making, helping to ensure that planned business activities provide an appropriate balance of return for the risk assumed, while remaining within acceptable risk levels. It is also integrated within other risk management tools, such as stress testing, to ensure consistency in risk management.

- Information about our risk management tools and risk appetite is set out on pages 19 and 20 of the group's Annual Report and Accounts 2024.

Global Risk and Compliance function and the group's Risk function

We have a dedicated Global Risk and Compliance function, headed by the Interim Group Chief Risk and Compliance Officer, which is responsible for the Group's risk management framework. This includes establishing global policy, monitoring risk profiles, and providing forward-looking risk identification and management capabilities. Global Risk and Compliance is composed of sub-functions covering both financial and non-financial risks. It is independent from the global businesses in order to provide challenge, appropriate oversight and balance in risk versus return decisions. The Global Risk and Compliance function operates in line with the three lines of defence model and plays an important role in reinforcing our culture and values. It focuses on creating an environment that encourages our people to speak up and do the right thing. Similarly, the group's Risk function, headed by the group's CRO, is independent from the global businesses and responsible for the group's risk management framework.

- For further information, see page 21 of the group's Annual Report and Accounts 2024.

Stress testing

HSBC operates a wide-ranging stress testing programme that supports our risk management and capital planning. It includes execution of stress tests mandated by our regulators and those to meet our own internal requirements. Our stress testing is supported by dedicated teams and infrastructure.

Our stress testing programme assesses our capital and liquidity strength through a rigorous examination of our resilience to external shocks. Both the internal and regulatory driven stress tests help us to understand and mitigate risks, and informs our decisions about capital and liquidity levels. Stress testing provides management with key insights into the impact of severely adverse events on the group and helps provide confidence in the group's financial stability.

The group's stress testing programme is overseen by the group's Risk Committee, and results are reported, where appropriate, to the RMM and Risk Committee.

Further information about stress testing are set out on page 21 of the group's Annual Report and Accounts 2024.

Risk management and internal control systems

The Directors are responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and risk types they are willing to accept in achieving the group's business objectives.

On behalf of the Board, the group's Risk Committee has responsibility for the oversight of risk related matters and the enterprise risks impacting the group and risk governance, whilst the group's Audit Committee has responsibility for oversight of matters relating to financial reporting and internal controls.

The Directors, through the group's Risk Committee and Audit Committee, receive regular updates and confirmation that management has taken, or is taking, the necessary actions to remediate any failings or weaknesses identified through the operation of our framework of controls.

Risk measurement and reporting systems

Our risk measurement and reporting systems are designed to help ensure that risks are comprehensively captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed, and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.

Risk measurement and reporting systems are also subject to a governance framework designed to ensure that their build and implementation are fit for purpose and functioning appropriately. Risk information systems development is a key responsibility of the Global Risk and Compliance function, while the development and operation of risk rating and management systems and processes are ultimately subject to the oversight of the Board.

The ongoing programme to strengthen our regulatory reporting also considers the efficacy of our systems. Potential enhancements identified through this programme will be assessed and, where appropriate, implemented under the governance framework.

We remain committed to investing in the reliability and resilience of our IT systems and critical services, including those provided by third parties, that support all parts of our business. We do so to help protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services that could result in reputational and regulatory consequences. In our approach to defend against these threats, we invest in business and technical controls to help us detect, manage and recover from issues, including data loss, in a timely manner.

Risk measurement and reporting structures deployed at Group level are applied throughout global businesses and major operating subsidiaries through a common operating model for integrated risk management and control. This model sets out the respective responsibilities of Group, global business, region and market level Risk and Compliance functions in respect of risk governance and oversight, approval authorities and lending guidelines, global and local scorecards, management information and reporting, and relations with third parties such as regulators, rating agencies and auditors.

Risk analytics and model governance

Global Risk and Compliance function and the group's Risk function manage a number of analytics disciplines supporting the development and management of models, including those for risk rating, behavioural scoring, economic capital and stress testing, covering different risk types and business segments.

The analytics functions formulate technical responses to industry developments and regulatory policy in the field of risk analytics, develop HSBC's global risk models, and oversee local model development and use around the Group as we work towards our implementation targets for internal ratings-based ('IRB') approaches.

The Global Model Risk Committee ('GMRC') along with the group's Model Risk Committee ('MRC'), are the primary committees responsible for the oversight of Model Risk within HSBC and the group respectively. They serve an important role in providing strategic direction on the management of models and their associated risks to HSBC's and the group's businesses and are an essential element of the governance structure for model risk management. The MRC is supported by Model Oversight Forums ('MOFs') operating within the group which are responsible for model risk management within their functional areas, including Wholesale credit risk, Traded risk, Retail risk, Financial Crime, Global Markets and Wealth and Personal Banking Customer Selection. Similarly, the GMRC is supported by the Global MOF at the global level which is responsible for model risk management within the functional areas.

The MRC meets regularly and reports to RMM. It is chaired by the group CRO and membership includes the group Heads of the Global Businesses, and senior executives from Risk, Finance and Compliance. Through its oversight of the MOFs, it identifies emerging risks for all aspects of the risk rating system, ensuring that model risk is managed within our RAS, and formally advises RMM on any material model-related issues.

Models are also subject to an independent validation process and governance oversight by the Model Risk Management team within Global Risk and Compliance function and the group's Risk function. The team provides robust challenge to the modelling approaches used across the group. It also ensures that the performance of those models is transparent and that any limitations are visible to key stakeholders. The Model Risk Management function is separate from the Risk Analytics functions that are responsible for the development of models.

Global Risk Policy and Standards govern the development, validation, independent review, approval, implementation, performance monitoring of credit risk rating models and any model changes. The development and use of data and models to meet local requirements are the responsibility of global businesses or functions, as well as local entities under the governance of their own management, subject to overall Group policy and oversight.

Regulatory and other expectations continue to evolve with regards to our capability and practice of model risk management. We continue to enhance model risk management practices and invest in developing and embedding these capabilities.

In the 'Our Responsibilities' section of the group's Annual Report and Accounts 2024 on page 21 we outline how roles are defined using the three lines of defence model, which takes into account our business and functional structures.

Model Risk Management works closely with businesses to ensure that models meet risk management, pricing and capital management needs. Assurance work is performed by the model risk governance teams within Model Risk Management, which act as second lines of defence. The teams test whether controls implemented by model users comply with model risk policy and if model risk standards are adequate. The Global Internal Audit function work as part of the third line of defence and is independent from the Global Risk and Compliance function. It provides assurance over the risk management framework for models.

Model information and governance over specific risk types are discussed in further detail in the 'Credit risk', 'Counterparty credit risk exposures', and 'Market risk' sections of this document.

Further information is available on page 60 of the group's Annual Report and Accounts 2024.

Linkage to the Annual Report and Accounts 2024

Basis of consolidation

The basis of consolidation for financial accounting purposes is in accordance with Hong Kong Financial Reporting Standards ('HKFRS'), as described in Note 1 on the financial statements in the group's Annual Report and Accounts 2024.

The basis of consolidation for regulatory purposes is different from that for accounting purposes. Subsidiaries included in the consolidation for regulatory purposes are specified in a notice from the HKMA in accordance with section 3C(1) of the BCR. Subsidiaries not included in consolidation for regulatory purposes are primarily securities and insurance companies. Special purpose entities ('SPEs') for securitisation purposes are excluded where significant credit risk has been transferred to third parties. Exposures to these SPEs are risk weighted as securitisation exposures for regulatory purposes. For further details see Securitisation section on page 43 of this document.

Securities and insurance companies are authorised and supervised by regulators, and are subject to supervisory arrangements regarding the maintenance of adequate capital to support business activities comparable to those prescribed for AIs under the BCR and the Banking Ordinance. The capital invested by the group in these subsidiaries is deducted from the capital base, subject to threshold, as determined in accordance with Part 3 of the BCR.

There are no subsidiaries that are included within the regulatory scope of consolidation but not included within the accounting scope of consolidation at 31 December 2024.

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 31 December 2024.

The group operates subsidiaries in a number of countries and territories where capital is governed by local rules, and there may be restrictions on the transfer of regulatory capital and funds between members of the banking group.

The Bank and its banking subsidiaries maintain regulatory reserves to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 31 December 2024, the effect of this regulatory reserve requirement is to reduce the amount of reserves which can be distributed to shareholders by HK$15,736m.

Table 2: List of subsidiaries outside the regulatory scope of consolidation

		At 31 Dec 2024	
		Total assets	Total equity
	Principal activities	HK$m	HK$m
HSBC Broking Futures (Hong Kong) Ltd	**Futures broking**	**324**	**97**
HSBC Broking Services (Asia) Ltd and its subsidiaries	**Broking services**	**7,620**	**3,432**
HSBC Corporate Advisory (Malaysia) Sdn Bhd	**Financial services**	**5**	**4**
HSBC Corporate Finance (Hong Kong) Ltd	**Financial services**	**13**	**12**
HSBC Global Asset Management Holdings (Bahamas) Ltd	**Asset management**	**142**	**142**
HSBC Global Asset Management (Hong Kong) Ltd	**Asset management**	**1,192**	**580**
HSBC Asset Management (Japan) Ltd	**Asset management**	**341**	**162**
HSBC Global Asset Management (Singapore) Ltd	**Asset management**	**1,311**	**888**
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	**Insurance**	**700,037**	**38,810**
HSBC InvestDirect (India) Private Ltd and its subsidiaries	**Financial services**	**2,105**	**939**
HSBC Investment Funds (Hong Kong) Ltd	**Asset management**	**501**	**284**
HSBC Qianhai Securities Ltd	**Securities services**	**2,287**	**1,376**
HSBC Securities (Japan) Co. Ltd	**Broking services**	**250,045**	**969**
HSBC Securities (Singapore) Pte Ltd	**Broking services**	**152**	**87**
HSBC Securities Brokers (Asia) Ltd	**Broking services**	**476**	**453**
Hang Seng Insurance Co. Ltd and its subsidiaries	**Insurance**	**207,491**	**11,144**
Hang Seng Investment Management Ltd	**Asset management**	**341**	**318**
Hang Seng Investment Services Ltd	**Investment services**	**9**	**9**
Hang Seng Qianhai Fund Management Co. Ltd	**Asset management**	**165**	**140**
Hang Seng Securities Ltd	**Broking services**	**2,688**	**941**
HSBC Investment and Insurance Brokerage, Philippines Inc	**Broking services**	**70**	**58**
HSBC Life (Bermuda) Ltd	**Reinsurance**	**750**	**55**
HSBC Philanthropy Foundation Beijing[1]	**Charitable foundation**	**95**	**95**
The Hongkong Bank Foundation[1]	**Charitable foundation**	**474**	**280**
Metrix Portfolio Distribution plc[1,2]	**Securitisation**	**3,384**	**—**
Lion Series 2020-1 Trust[1]	**Securitisation**	**1,286**	**—**
Lion Series 2022-1 Trust[1]	**Securitisation**	**1,861**	**—**
Lion Series 2023-1 Trust[1]	**Securitisation**	**3,097**	**—**

1 These are structured entities consolidated for financial accounting purposes.
2 This is the HSBC conduit used for the synthetic securitisation transaction originated by the Bank in 2024.

The approaches used in calculating the group's regulatory capital and RWAs are in accordance with the BCR under Basel III. The group used the advanced IRB approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme ('CIS') exposures, the group used the look-through approach and mandate-based approach to calculate the RWAs. For securitisation exposures, the group used the securitisation internal ratings-based approach ('SEC-IRBA'), securitisation external ratings-based approach ('SEC-ERBA') or securitisation standardised approach ('SEC-SA') to determine credit risk for its banking book securitisation exposures. For counterparty credit risk ('CCR'), the group used both the standardised (counterparty credit risk) approach ('SA-CCR') and the internal models (counterparty credit risk) ('IMM(CCR)') approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions ('SFTs').

For market risk, the group used an Internal Models Method ('IMM') approach to calculate its general market risk for the risk categories of interest rate and foreign exchange ('FX') (including gold) exposures, and equity exposures. The group also used an IMM approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The group used the standardised (market risk) ('STM') approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) ('STO') approach to calculate its operational risk.

The Basel III Reforms package was implemented in Hong Kong on 1 January 2025, covering credit risk, operational risk, market risk, credit valuation adjustment and the output floor. The approaches outlined above will be updated to align with the new standards.

Balance sheet reconciliation

The following table expands the balance sheet under the regulatory scope of consolidation to show separately the capital components that are reported in the 'Composition of regulatory capital disclosures' template in Table 6. The capital components in this table contain a reference that shows how these amounts are included in Table 6.

Table 3: CC2 – Reconciliation of regulatory capital to balance sheet

	a	b	c
	At 31 Dec 2024		
	Balance sheet as in published financial statements	**Under regulatory scope of consolidation**	Cross-referenced to definition of Capital Components
	HK$m	**HK$m**	
Assets			
Cash and balances at central banks	**211,047**	**210,682**	
Hong Kong Government certificates of indebtedness	**328,454**	**328,454**	
Trading assets	**1,085,321**	**1,084,017**	
– of which significant LAC investments eligible as Additional Tier1 ('AT1') capital issued by financial sector entities	**—**	**18**	1
– of which significant LAC investments eligible as Tier 2 capital issued by financial sector entities	**—**	**30**	2
Derivatives	**505,260**	**505,457**	
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**781,210**	**24,424**	
Reverse repurchase agreements – non-trading	**816,102**	**587,171**	
Loans and advances to banks	**480,740**	**477,044**	
Loans and advances to customers	**3,494,298**	**3,490,693**	
– of which: impairment allowances eligible for inclusion in Tier 2 capital	**—**	**(1,861)**	3
Financial investments	**2,337,844**	**2,292,178**	
Amounts due from Group companies	**175,004**	**378,643**	
– of which: significant LAC investments eligible as Tier 2 capital issued by financial sector entities	**—**	**3,049**	4
Investments in subsidiaries	**—**	**26,677**	
Interests in associates and joint ventures	**178,330**	**174,425**	
– of which: goodwill	**—**	**3,506**	5
– of which: significant LAC investments in financial sector entities exceeding 10% threshold	**—**	**134,235**	6
Goodwill and intangible assets	**41,308**	**36,726**	
– of which: goodwill	**—**	**4,391**	7
– of which: intangible assets	**—**	**32,335**	8
Property, plant and equipment	**120,774**	**113,527**	
Deferred tax assets	**10,307**	**2,173**	
– of which: deferred tax assets net of related tax liabilities	**—**	**2,249**	9
– of which: deferred tax liabilities related to goodwill	**—**	**(72)**	10
– of which: deferred tax liabilities related to intangible assets	**—**	**(4)**	11
Prepayments, accrued income and other assets	**382,941**	**266,133**	
– of which: defined benefit pension fund net assets	**—**	**351**	12
Total assets	**10,948,940**	**9,998,424**	

Table 3: CC2 – Reconciliation of regulatory capital to balance sheet (continued)

	a	b	c
	At 31 Dec 2024		
	Balance sheet as in published financial statements	Under regulatory scope of consolidation	Cross-referenced to definition of Capital Components
	HK$m	HK$m	
Liabilities			
Hong Kong currency notes in circulation	**328,454**	**328,454**	
Repurchase agreements – non-trading	**624,784**	**620,578**	
Deposits by banks	**183,612**	**183,493**	
Customer accounts	**6,564,606**	**6,564,343**	
Trading liabilities	**86,557**	**86,557**	
Derivatives	**473,488**	**474,170**	
– of which: gains and losses due to changes in own credit risk on fair valued liabilities	**—**	**(63)**	13
Financial liabilities designated at fair value	**178,739**	**149,396**	
– of which: gains and losses due to changes in own credit risk on fair valued liabilities	**—**	**(7)**	14
Debt securities in issue	**64,362**	**55,253**	
Retirement benefit liabilities	**805**	**805**	
Amounts due to Group companies	**396,356**	**379,705**	
– of which: qualifying Tier 2 capital instruments	**—**	**29,825**	15
– of which: gains and losses due to changes in own credit risk on fair valued liabilities	**—**	**4,779**	16
Accruals and deferred income, other liabilities and provisions	**339,713**	**272,531**	
Insurance contract liabilities	**799,443**	**—**	
Current tax liabilities	**7,096**	**4,885**	
Deferred tax liabilities	**22,917**	**22,509**	
– of which: deferred tax liabilities related to goodwill	**—**	**4**	17
– of which: deferred tax liabilities related to intangible assets	**—**	**5,102**	18
– of which: deferred tax liabilities related to defined benefit pension fund net assets	**—**	**36**	19
Total liabilities	**10,070,932**	**9,142,679**	
Equity			
Share capital	**180,181**	**180,181**	
– of which: portion eligible for inclusion in CET1 capital	**—**	**178,727**	20
– of which: revaluation reserve capitalisation issue	**—**	**1,454**	21
Other equity instruments	**64,677**	**64,677**	
– of which: qualifying AT1 capital instruments	**—**	**64,677**	22
Other reserves	**102,993**	**95,928**	23
– of which: fair value gains arising from revaluation of land and buildings	**—**	**59,347**	24
– of which: cash flow hedging reserves	**—**	**815**	25
– of which: valuation adjustment	**—**	**192**	26
Retained earnings	**471,198**	**458,584**	27
– of which: regulatory reserve for general banking risks	**—**	**15,736**	28
– of which: regulatory reserve eligible for inclusion in Tier 2 capital	**—**	**2,469**	29
– of which: fair value gains arising from revaluation of land and buildings	**—**	**3,719**	30
– of which: valuation adjustment	**—**	**2,877**	31
Total shareholders' equity	**819,049**	**799,370**	
Non-controlling interests	**58,959**	**56,375**	
– of which: portion allowable in CET1 capital	**—**	**32,708**	32
– of which: portion allowable in AT1 capital	**—**	**1,164**	33
– of which: portion allowable in Tier 2 capital	**—**	**1,401**	34
Total equity	**878,008**	**855,745**	
Total liabilities and equity	**10,948,940**	**9,998,424**	

Table 4: LI1 – Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	a	b	c	d	e	f	g
			Carrying values of items:				
	Carrying values as reported in published financial statements	Carrying values under scope of regulatory consolidation	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to securitisation framework[1]	Subject to market risk framework	Not subject to capital requirements or subject to deduction from capital
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
Assets							
Cash and balances at central banks	**211,047**	**210,682**	**210,682**	**—**	**—**	**—**	**—**
Hong Kong Government certificates of indebtedness	**328,454**	**328,454**	**328,454**	**—**	**—**	**—**	**—**
Trading assets[2]	**1,085,321**	**1,084,017**	**—**	**53,408**	**—**	**1,084,017**	**—**
Derivatives[2]	**505,260**	**505,457**	**—**	**505,457**	**—**	**505,457**	**—**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**781,210**	**24,424**	**21,644**	**2,718**	**—**	**—**	**62**
Reverse repurchase agreements – non-trading	**816,102**	**587,171**	**—**	**587,171**	**—**	**—**	**—**
Loans and advances to banks	**480,740**	**477,044**	**474,771**	**2,273**	**—**	**—**	**—**
Loans and advances to customers	**3,494,298**	**3,490,693**	**3,404,648**	**86**	**79,855**	**—**	**6,104**
Financial investments	**2,337,844**	**2,292,178**	**2,289,128**	**—**	**2,811**	**—**	**239**
Amounts due from Group companies[2]	**175,004**	**378,643**	**99,420**	**275,377**	**—**	**28,651**	**3,735**
Investments in subsidiaries	**—**	**26,677**	**—**	**—**	**—**	**—**	**26,677**
Interests in associates and joint ventures	**178,330**	**174,425**	**65,057**	**—**	**—**	**—**	**109,368**
Goodwill and intangible assets[3]	**41,308**	**36,726**	**—**	**—**	**—**	**—**	**31,620**
Property, plant and equipment	**120,774**	**113,527**	**113,527**	**—**	**—**	**—**	**—**
Deferred tax assets	**10,307**	**2,173**	**—**	**—**	**—**	**—**	**2,173**
Prepayments, accrued income and other assets[3,4]	**382,941**	**266,133**	**187,005**	**78,771**	**—**	**—**	**321**
Total assets at 31 Dec 2024	**10,948,940**	**9,998,424**	**7,194,336**	**1,505,261**	**82,666**	**1,618,125**	**180,299**
Liabilities							
Hong Kong currency notes in circulation	**328,454**	**328,454**	**—**	**—**	**—**	**—**	**328,454**
Repurchase agreements – non-trading	**624,784**	**620,578**	**—**	**620,578**	**—**	**—**	**—**
Deposits by banks	**183,612**	**183,493**	**—**	**—**	**—**	**—**	**183,493**
Customer accounts	**6,564,606**	**6,564,343**	**—**	**—**	**—**	**—**	**6,564,343**
Trading liabilities[2]	**86,557**	**86,557**	**—**	**22,875**	**—**	**86,557**	**—**
Derivatives[2]	**473,488**	**474,170**	**—**	**474,170**	**—**	**474,170**	**—**
Financial liabilities designated at fair value	**178,739**	**149,396**	**—**	**—**	**—**	**137,770**	**11,626**
Debt securities in issue	**64,362**	**55,253**	**—**	**—**	**—**	**—**	**55,253**
Retirement benefit liabilities	**805**	**805**	**—**	**—**	**—**	**—**	**805**
Amounts due to Group companies[2]	**396,356**	**379,705**	**—**	**13,356**	**—**	**175**	**366,339**
Accruals and deferred income, other liabilities and provisions	**339,713**	**272,531**	**—**	**—**	**—**	**—**	**272,531**
Insurance contract liabilities	**799,443**	**—**	**—**	**—**	**—**	**—**	**—**
Current tax liabilities	**7,096**	**4,885**	**—**	**—**	**—**	**—**	**4,885**
Deferred tax liabilities	**22,917**	**22,509**	**—**	**—**	**—**	**—**	**22,509**
Total liabilities at 31 Dec 2024	**10,070,932**	**9,142,679**	**—**	**1,130,979**	**—**	**698,672**	**7,810,238**

1 The amounts shown in the column 'subject to securitisation framework' only include non-trading book positions. Trading book securitisation positions are included in the market risk column.
2 Trading assets/liabilities and derivative contracts, including those amounts due from/to Group companies are subject to more than one regulatory risk category. As a result, the amounts shown in column (b) do not equal the sum of columns (c) to (g).
3 The assets disclosed in column (g) are net of any associated deferred tax liability.
4 The difference in the carrying values reported in the financial statements in column (a) and the scope of regulatory consolidation in column (b) mainly represents (i) differences between the financial and regulatory scope of consolidation, and (ii) the amounts of acceptance and endorsements being included as contingencies in accordance with the BCR, whilst for accounting purposes, acceptances and endorsements are recognised on the balance sheet.

Table 5: LI2 – Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		a	b	c	d	e
			Items subject to:			
		Total	credit risk framework	securitisation framework	counterparty credit risk framework	market risk framework
		HK$m	HK$m	HK$m	HK$m	HK$m
1	Asset carrying value amount under scope of regulatory consolidation (as per template LI1)[1]	**9,818,125**	**7,194,336**	**82,666**	**1,505,261**	**1,618,125**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)[2]	**1,332,441**	**—**	**—**	**1,130,979**	**698,672**
3	**Total net amount under regulatory scope of consolidation**	**8,485,684**	**7,194,336**	**82,666**	**374,282**	**919,453**
4	Off-balance sheet amounts and potential future exposure for counterparty risk	**3,879,279**	**946,510**	**2,808**	**223,975**	**—**
5	Differences in netting rules	**37,065**	**34,590**	**—**	**2,476**	**—**
6	Differences due to financial collateral on standardised approach	**(43,638)**	**(43,638)**	**—**	**—**	**—**
7	Differences due to impairments on IRB approach	**33,367**	**33,367**	**—**	**—**	**—**
8	Differences due to credit risk mitigation	**(158,226)**	**—**	**—**	**(158,226)**	**—**
9	**Exposure amounts considered for regulatory purposes at 31 Dec 2024**	**12,233,531**	**8,165,165**	**85,474**	**442,507**	**919,453**

1 The amount shown in column (a) in Table 5 above is equal to column (b) less column (g) in the Total assets row in Table 4.
2 The amount shown in column (a) in Table 5 above is equal to column (b) less column (g) in the Total liabilities row in Table 4.

Explanation of differences between accounting and regulatory exposure amounts

Off-balance sheet amounts and potential future exposure for counterparty risk

Off-balance sheet ('OBS') amounts subject to credit risk and the securitisation regulatory frameworks include the undrawn portions of committed facilities, various trade finance commitments and guarantees. We apply credit conversion factors ('CCF') to these items and add potential future exposures ('PFE') for CCR.

Differences in netting rules

Under HKFRS, netting is only permitted if a legal right of set-off exists and the cash flows are intended to be settled on a net basis. Under the BCR, however, netting is applied when there is a valid bilateral netting agreement. As a consequence, we recognise greater netting under the BCR, reflecting the close-out provisions that would take effect in the event of counterparty default rather than just those transactions that are settled net in the normal course of business.

Differences due to financial collateral

Exposure value under the standardised approach is calculated after deducting credit risk mitigation ('CRM'), whereas the accounting value is before such deductions.

Differences due to expected credit loss

The carrying value of assets is net of credit risk adjustments. The regulatory exposure value under the IRB approach is before deducting credit risk adjustments.

Differences due to credit risk mitigation

In CCR, differences arise between accounting carrying values and regulatory exposure as a result of the application of CRM and the use of modelled exposures.

Explanation of differences between accounting fair value and regulatory prudent valuation

Fair value is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Some fair value adjustments already reflect valuation uncertainty to some degree. These are market data uncertainty and model uncertainty.

However, it is recognised that a variety of valuation techniques using stressed assumptions, combined with the range of plausible market parameters at a given point in time may still generate unexpected uncertainty beyond fair value.

A series of additional valuation adjustments ('AVAs') are therefore required to reach a specified degree of confidence (the 'Prudent Value') set by regulators that differs both in terms of scope and measurement from HSBC's own quantification for disclosure purposes.

AVAs should consider at the minimum: market price uncertainty; bid-offer (close-out) uncertainty; model risk; concentration; administration costs; unearned credit spreads; and investing and funding costs.

AVAs are not limited to Level 3 exposures, for which a 95% uncertainty range is already computed and disclosed, but must also be calculated for any exposure for which the exit price cannot be determined with a high degree of certainty. Table 56 presents further information on the prudent valuation adjustment.

Capital and RWAs

Regulatory capital disclosures

The following table sets out the detailed composition of the group's regulatory capital using the 'Composition of regulatory capital disclosures' template, as specified by the HKMA.

Table 6: CC1 – Composition of regulatory capital

		a	b
		At 31 Dec 2024	
		Component of regulatory capital	Cross-referenced to Table 3
		HK$m	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
	CET1 capital: instruments and reserves		
1	Directly issued qualifying CET1 capital instruments plus any related share premium	**178,727**	20
2	Retained earnings	**458,584**	27
3	Disclosed reserves	**95,928**	23
5	Minority interests arising from CET1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in CET1 capital of the consolidation group)	**32,708**	32
6	**CET1 capital before regulatory deductions**	**765,947**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	**3,069**	26+31
8	Goodwill (net of associated deferred tax liabilities)	**7,821**	5+7+10-17
9	Other intangible assets (net of associated deferred tax liabilities)	**27,229**	8+11-18
10	Deferred tax assets (net of associated deferred tax liabilities)	**2,249**	9
11	Cash flow hedge reserve	**815**	25
14	Gains and losses due to changes in own credit risk on fair valued liabilities	**(4,709)**	-(13+14+16)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	**315**	12-19
19	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	**134,235**	6
26	National specific regulatory adjustments applied to CET1 capital	**78,802**	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**63,066**	24+30
26b	Regulatory reserve for general banking risks	**15,736**	28
28	**Total regulatory deductions to CET1 capital**	**249,826**	
29	**CET1 capital**	**516,121**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	**64,677**	22
31	– of which: classified as equity under applicable accounting standards	**64,677**	22
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	**1,164**	33
36	**AT1 capital before regulatory deductions**	**65,841**	
	AT1 capital: regulatory deductions		
40	Significant LAC investments in AT1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	**18**	1
43	**Total regulatory deductions to AT1 capital**	**18**	
44	**AT1 capital**	**65,823**	
45	**Tier 1 capital ('T1' = CET1 + AT1)**	**581,944**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	**29,825**	15
48	Tier 2 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in Tier 2 capital of the consolidation group)	**1,401**	34
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**4,330**	29-3
51	**Tier 2 capital before regulatory deductions**	**35,556**	
	Tier 2 capital: regulatory deductions		
55	Significant LAC investments in Tier 2 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation (net of eligible short positions)	**3,079**	2+4
56	National specific regulatory adjustments applied to Tier 2 capital	**(29,034)**	
56a	Add back of cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties) eligible for inclusion in Tier 2 capital	**(29,034)**	(21+24+30)x45%
57	**Total regulatory adjustments to Tier 2 capital**	**(25,955)**	
58	**Tier 2 capital ('T2')**	**61,511**	
59	**Total regulatory capital ('TC' = T1 + T2)**	**643,455**	
60	**Total RWAs**	**3,167,152**	

Table 6: CC1 – Composition of regulatory capital (continued)

		a	b
		At 31 Dec 2024	
		Component of regulatory capital	Cross-referenced to Table 3
		HK$m	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation
	Capital ratios (as a percentage of RWAs)		
61	CET1 capital ratio	**16.3%**	
62	Tier 1 capital ratio	**18.4%**	
63	Total capital ratio	**20.3%**	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	**5.34%**	
65	– of which: capital conservation buffer requirement	**2.50%**	
66	– of which: bank specific countercyclical capital buffer requirement	**0.34%**	
67	– of which: higher loss absorbency requirement	**2.50%**	
68	CET1 (as a percentage of RWAs) available after meeting minimum capital requirements	**11.8%**	
	Amounts below the thresholds for deduction (before risk weighting)		
72	Insignificant LAC investments in CET1, AT1 and Tier 2 capital instruments issued by, and non-capital LAC liabilities of, financial sector entities that are outside the scope of regulatory consolidation	**29,983**	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	**65,036**	
	Applicable caps on the inclusion of provisions in Tier 2 capital		
76	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the basic indicator ('BSC') approach, or the standardise (credit risk) ('STC') approach and SEC-ERBA, SEC-SA and securitisation fall-back approach ('SEC-FBA') (prior to application of cap)	**2,893**	
77	Cap on inclusion of provisions in Tier 2 under the BSC approach, or the STC approach, and SEC-ERBA, SEC-SA and SEC-FBA	**3,303**	
78	Provisions eligible for inclusion in Tier 2 in respect of exposures subject to the IRB approach and SEC-IRBA (prior to application of cap)	**1,455**	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	**13,799**	

Tier 1 capital increased by HK$10.2bn in the second half of 2024 mainly due to an increase in AT1 capital of HK$12.5bn, partly offset by a decrease in CET1 capital of HK$2.2bn. The increase in AT1 capital was driven by new issuances of AT1 capital instruments amounting to HK$19.3bn, partly offset by repayments of HK$7bn.

Notes to the template:

		At 31 Dec 2024	
		Hong Kong basis	**Basel III basis**
		HK$m	**HK$m**
10	Deferred tax assets (net of associated deferred tax liabilities)	**2,249**	**17**

Explanation:
As set out in paragraphs 69 and 87 of the Basel III text issued by the Basel Committee (December 2010), Deferred Tax Assets ('DTAs') of the bank to be realised are to be deducted, whereas DTAs which relate to temporary differences may be given limited recognition in CET1 capital (and hence be excluded from deduction from CET1 capital up to the specified threshold). In Hong Kong, an AI is required to deduct all DTAs in full, irrespective of their origin, from CET1 capital. Therefore, the amount to be deducted as reported in row 10 may be greater than that required under Basel III.

The amount reported under the column 'Basel III basis' in this box represents the amount reported in row 10 (i.e. the amount reported under the 'Hong Kong basis') adjusted by reducing the amount of DTAs to be deducted which relate to temporary differences to the extent not in excess of the 10% threshold set for DTAs arising from temporary differences and the aggregate 15% threshold set for Mortgage Servicing Rights ('MSRs'), DTAs arising from temporary differences and significant investments in CET1 capital instruments issued by financial sector entities (excluding those that are loans, facilities or other credit exposures to connected companies) under Basel III.

Remarks:
The amount of the 10% threshold is calculated based on the amount of CET1 capital determined in accordance with the deduction methods set out in BCR Schedule 4F under Basel III. The 15% threshold is referring to paragraph 88 of the Basel III text issued by the Basel Committee (December 2010) and has no effect to the Hong Kong regime.

Table 7: CCA – Capital instruments

	At 31 Dec 2024	
	Total amount	Amount recognised in regulatory capital
		HK$m
Common Equity Tier 1 ('CET1') capital instruments		
Ordinary shares	**HK$180,181m**	**178,727**
Additional Tier 1 ('AT1') capital instruments		
Fixed rate perpetual subordinated loans, callable from 2025	**US$1,000m**	**7,834**
Fixed rate perpetual subordinated loans, callable from 2025	**US$700m**	**5,467**
Fixed rate perpetual subordinated loans, callable from 2025	**US$500m**	**3,905**
Fixed rate perpetual subordinated loans, callable from 2026	**US$900m**	**7,063**
Fixed rate perpetual subordinated loans, callable from 2027	**US$600m**	**4,685**
Fixed rate perpetual subordinated loans, callable from 2028	**US$1,000m**	**7,850**
Fixed rate perpetual subordinated loans, callable from 2029	**SG$1,500m**	**8,574**
Fixed rate perpetual subordinated loans, callable from 2029	**US$1,350m**	**10,421**
Fixed rate perpetual subordinated loans, callable from 2034	**US$1,150m**	**8,878**
Tier 2 ('T2') capital instruments		
Subordinated loan due 2030, callable from 2025	**US$1,000m**	**7,732**
Subordinated loan due 2030, callable from 2025	**US$180m**	**1,394**
Subordinated loan due 2031, callable from 2026	**US$600m**	**4,615**
Subordinated loan due 2032, callable from 2027	**SG$900m**	**5,330**
Subordinated loan due 2032, callable from 2027	**JPY11,900m**	**595**
Subordinated loan due 2033, callable from 2028	**SG$1,000m**	**5,954**
Subordinated loan due 2033, callable from 2029	**AU$850m**	**4,205**

A description of the main features and the full terms and conditions of the group's capital instruments can be found in the Regulatory Disclosures section of our website, www.hsbc.com.hk.

Countercyclical capital buffer ratio

The CCyB is calculated as the weighted average of the applicable CCyB ratios in effect in the jurisdictions in which banks have private sector credit exposures. The group uses country of business as the basis of geographical allocation for the majority of its credit risk and risk country for market risk, which is defined by considering the country of incorporation, location of guarantor, headquarter domicile, distribution of revenue and booking country.

Table 8: CCyB1 – Geographical distribution of credit exposures used in countercyclical capital buffer

		a	c	d	e
		At 31 Dec 2024			
	Geographical breakdown by Jurisdiction ('J')	Applicable JCCyB ratio in effect %	RWAs used in computation of CCyB ratio HK$m	AI-specific CCyB ratio %	CCyB amount HK$m
1	Hong Kong[1]	**0.50**	**991,568**		
3	Australia	**1.00**	**123,967**		
4	Belgium	**1.00**	**184**		
5	Bulgaria	**2.00**	**1**		
6	Chile	**0.50**	**1,739**		
7	Cyprus	**1.00**	**861**		
8	Czech Republic	**1.25**	**4**		
9	Denmark	**2.50**	**378**		
10	France	**1.00**	**1,216**		
11	Germany	**0.75**	**2,898**		
12	Hungary	**0.50**	**1,511**		
14	Ireland	**1.50**	**2,963**		
16	Luxembourg	**0.50**	**3,259**		
17	Netherlands	**2.00**	**6,651**		
18	Norway	**2.50**	**82**		
19	Romania	**1.00**	**17**		
20	South Korea	**1.00**	**18,730**		
21	Sweden	**2.00**	**479**		
22	United Kingdom	**2.00**	**18,934**		
	Sum[2]		**1,175,442**		
	Total[3]		**2,095,057**	**0.34**	**10,642**

1 The jurisdictional countercyclical capital buffer ('JCCyB') of Hong Kong used in the calculation of the CCyB buffer requirement is 0.5% with effect from October 2024 which was reduced from 1.0% at 30 September 2024. The JCCyB of other countries used in the calculation of the CCyB requirement ranged from 0% to 2.5% at 31 December 2024.

2 This represents the sum of RWAs for the private sector credit exposures in jurisdictions with a non-zero countercyclical buffer rate.

3 The total RWAs used in the computation of the CCyB ratio in column (c) represents the total RWAs for the private sector credit exposures in all jurisdictions to which the group is exposed, including jurisdictions with no countercyclical buffer rate or with a countercyclical buffer rate set at zero. The CCyB amount in column (e) represents the group's total RWAs in row 4 of Table 1 of this document multiplied by the group specific CCyB ratio in column (d).

Total RWAs used in the computation of CCyB ratio decreased by HK$162.7bn in the second half of 2024, mainly due to a reduction in the JCCyB rate for Hong Kong from 1.0% at 30 June 2024 to 0.5% at 31 December 2024, coupled with foreign currency translation impact in relation to exposures in China.

Leverage ratio

The following table shows the leverage ratio, Tier 1 capital and total exposure measure as contained in the 'Leverage Ratio' return submitted to the HKMA under the requirements specified in Part 1C of the BCR under Basel III.

Table 9: LR2 – Leverage ratio

		a	b
		31 Dec 2024	30 Sep 2024
		HK$m	HK$m
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding those arising from derivative contracts and securities financing transactions ('SFTs'), but including collateral)	**8,303,014**	8,596,385
2	Less: Asset amounts deducted in determining Tier 1 capital	**(256,007)**	(260,425)
3	**Total on-balance sheet exposures (excluding derivative contracts and SFTs)**	**8,047,007**	8,335,960
	Exposures arising from derivative contracts		
4	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	**157,512**	111,444
5	Add-on amounts for potential future exposure ('PFE') associated with all derivative contracts	**336,394**	382,209
7	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	**(102,665)**	(106,165)
8	Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	**(27,209)**	(20,165)
9	Adjusted effective notional amount of written credit-related derivative contracts	**158,842**	185,544
10	Less: Adjusted effective notional offsets and add-on deductions for written credit-related derivative contracts	**(139,696)**	(165,350)
11	**Total exposures arising from derivative contracts**	**383,178**	387,517
	Exposures arising from SFTs		
12	Gross SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**923,500**	948,315
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**(32,113)**	(45,633)
14	CCR exposure for SFT assets	**25,529**	36,067
16	**Total exposures arising from SFTs**	**916,916**	938,749
	Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	**3,876,589**	3,853,445
18	Less: Adjustments for conversion to credit equivalent amounts	**(3,148,438)**	(3,122,130)
19	Off-balance sheet items	**728,151**	731,315
	Capital and total exposures		
20	**Tier 1 capital**	**581,944**	616,083
20a	Total exposures before adjustments for specific and collective provisions	**10,075,252**	10,393,541
20b	Adjustments for specific and collective provisions	**(37,234)**	(45,287)
21	**Total exposures after adjustments for specific and collective provisions**	**10,038,018**	10,348,254
	Leverage ratio		
22	Leverage ratio (%)[1]	**5.8**	6.0

1 Leverage ratio is the ratio of Tier 1 capital to the total exposures after adjustments for specific and collective provisions.

The leverage ratio was 5.8% at 31 December 2024, which decreased from 6.0% at 30 September 2024 primarily due to lower Tier 1 capital, partly offset by a decrease in exposures. Total exposures declined by HK$310.2bn in the fourth quarter of 2024, primarily driven by reductions in central bank loans, loans to customers, and settlement accounts of HK$265.5bn.

Table 10: LR1 – Summary comparison of accounting assets against leverage ratio exposure measure

		a
		Value under the LR framework
		31 Dec 2024
	Item	**HK$m**
1	Total consolidated assets as per published financial statements	**10,948,940**
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(896,000)**
2a	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	**(6,104)**
4	Adjustments for derivative contracts	**(122,279)**
5	Adjustment for SFTs (i.e. repos and similar secured lending)	**25,529**
6	Adjustment for off-balance sheet ('OBS') items (i.e. conversion to credit equivalent amounts of OBS exposures)	**728,151**
6a	Adjustments for prudent valuation adjustments ('PVA') and specific and collective provisions that are allowed to be excluded from exposure measure	**(4,310)**
7	Other adjustments	**(635,909)**
8	**Leverage ratio exposure measure**	**10,038,018**

Other adjustments mainly represent the Hong Kong Government certificates of indebtedness and assets deducted in determining Tier 1 capital. These are excluded in deriving the LR exposure measure in accordance with the HKMA requirements specified in Part 1C of the BCR under Basel III.

Overview of RWAs and the minimum capital requirements

Table 11: OV1 – Overview of RWAs

		a	b	c
		RWAs[1]	RWAs[1]	**Minimum[2] capital requirements**
		31 Dec 2024	30 Sep 2024	**31 Dec 2024**
		HK$m	HK$m	**HK$m**
1	**Credit risk for non-securitisation exposures**	**2,126,448**	2,240,159	**179,189**
2	– of which: STC approach	**236,295**	237,289	**18,904**
4	– of which: supervisory slotting criteria approach	**108,736**	118,880	**9,221**
5	– of which: advanced IRB approach	**1,781,417**	1,883,990	**151,064**
6	**Counterparty default risk and default fund contributions**	**99,590**	93,218	**8,367**
7	– of which: SA-CCR approach	**42,603**	41,700	**3,579**
8	– of which: IMM (CCR) approach	**36,075**	29,973	**3,055**
9	– of which: Others	**20,912**	21,545	**1,733**
10	**Credit valuation adjustment ('CVA') Risk**	**42,896**	57,114	**3,432**
11	**Equity positions in banking book under the simple risk weight method and the internal models method**	**27,670**	28,670	**2,346**
12	**Collective investment scheme ('CIS') exposures – look-through approach ('LTA')**	**1,388**	1,685	**118**
13	**CIS exposures – mandate-based approach ('MBA')**	**297**	—	**25**
15	**Settlement risk**	**936**	62	**79**
16	**Securitisation exposures in banking book**	**17,280**	12,265	**1,383**
17	– of which: SEC-IRBA	**3,586**	201	**287**
18	– of which: SEC-ERBA including internal assessment approach ('IAA')	**4,700**	3,820	**376**
19	– of which: SEC-SA	**8,994**	8,244	**720**
20	**Market risk**	**149,913**	163,669	**11,996**
21	– of which: STM approach	**1,617**	1,569	**132**
22	– of which: IMM approach	**148,296**	162,100	**11,864**
24	**Operational risk**	**443,567**	426,483	**35,485**
25	**Amounts below the thresholds for deduction (subject to 250% risk weight ('RW'))**	**162,643**	170,913	**13,792**
26a	**Deduction to RWAs**	**35,486**	36,490	**2,839**
26c	– of which: portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	**35,486**	36,490	**2,839**
27	**Total**	**3,037,142**	3,157,748	**253,373**

1 RWAs in this table are presented before the application of the 1.06 scaling factor, where applicable.
2 Minimum capital requirements represent the Pillar 1 capital charge at 8% of the RWAs after application of the 1.06 scaling factor, where applicable.

Credit risk for non-securitisation exposures

RWAs decreased by HK$113.7bn in the fourth quarter of 2024. Excluding the decrease from foreign currency translation of HK$47.0bn, the decrease of HK$66.7bn was mostly driven by:

– a decrease due to the removal of the risk-weight floor for Hong Kong residential mortgage exposures of HK$64.1bn;
– exposures securitised during the quarter amounting to HK$9.9bn; partly offset by
– deterioration in asset quality of HK$21.4bn, mainly in corporate lending due to customer risk rating migrations.

Operational risk

RWAs increased by HK$17.1bn in the fourth quarter of 2024, mainly contributed by the increase in net interest income in Hong Kong and Singapore. Under Basel III, Operational risk RWAs are calculated by applying capital charge factors to the average gross income of individual business lines in the last three years.

RWA flow statements

RWA flow statement for credit risk

Table 12: CR8 – RWA flow statement of credit risk exposures under IRB approach

		a
		HK$m
1	**RWAs as at 30 Sep 2024**	**2,002,870**
2	Asset size	**(10,898)**
3	Asset quality	**21,356**
4	Model updates	**9,961**
5	Methodology and policy	**(92,539)**
7	Foreign exchange movements	**(40,597)**
9	**RWAs as at 31 Dec 2024**	**1,890,153**

1 Credit risk in this table represents the credit risk for non-securitisation exposures excluding CCR.

RWAs for credit risk exposures under the IRB approach decreased by HK$112.7bn in the fourth quarter of 2024. Excluding the decrease from foreign currency translation of HK$40.6bn, the decrease of HK$72.1bn was mostly driven by:

– a decrease due to the removal of the risk-weight floor for Hong Kong residential mortgage exposures of HK$64.1bn;
– exposures securitised during the quarter amounting to HK$9.9bn; partly offset by
– deterioration in asset quality of HK$21.4bn, mainly in corporate lending due to customer risk rating migrations.

RWA flow statement for counterparty credit risk

Table 13: CCR7 – RWA flow statement of default risk exposures under IMM (CCR) approach

		a
		HK$m
1	**RWAs as at 30 Sep 2024**	**29,973**
2	Asset size	**7,184**
3	Credit quality of counterparties	**(1,081)**
7	Foreign exchange movements	**(1)**
9	**RWAs as at 31 Dec 2024**	**36,075**

RWA flow statement for market risk

Table 14: MR2 – RWA flow statement of market risk exposures under IMM approach

		a	b	c	e	f
		Value at Risk ('VaR')	**Stressed VaR**	**Incremental Risk Charge ('IRC')**	**Other**	**Total RWAs**
		HK$m	**HK$m**	**HK$m**	**HK$m**	**HK$m**
1	**RWAs as at 30 Sep 2024**	**20,781**	**64,538**	**38,984**	**37,797**	**162,100**
2	Movement in risk levels	**(3,440)**	**(2,315)**	**(7,874)**	**(173)**	**(13,802)**
6	Foreign exchange movements	**—**	**—**	**(1)**	**(1)**	**(2)**
8	**RWAs as at 31 Dec 2024**	**17,341**	**62,223**	**31,109**	**37,623**	**148,296**

Loss-absorbing Capacity

Table 15: KM2(A) – Key metrics – LAC requirements for material subsidiaries

		a	b	c	d	e
		At				
		31 Dec 2024	30 Sep 2024	30 Jun 2024	31 Mar 2024	31 Dec 2023
At LAC consolidation group level						
1	Internal loss-absorbing capacity available (HK$m)	**863,977**	921,965	866,205	867,205	864,931
2	Risk-weighted amount under the LAC Rules (HK$m)	**3,167,152**	3,294,730	3,280,191	3,276,454	3,212,387
3	Internal LAC risk-weighted ratio (%)	**27.3**	28.0	26.4	26.5	26.9
4	Exposure measure under the LAC Rules (HK$m)	**10,034,883**	10,345,105	9,817,376	9,837,444	9,669,807
5	Internal LAC leverage ratio (%)	**8.6**	8.9	8.8	8.8	8.9
6a	Does the subordination exemption in the antepenultimate paragraph of Section 11 of the Financial Stability Board ('FSB') Total Loss-absorbing Capacity ('TLAC') Term Sheet apply?[1]	**Not applicable**	Not applicable	Not applicable	Not applicable	Not applicable
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?[1]	**Not applicable**	Not applicable	Not applicable	Not applicable	Not applicable
6c	If the capped subordination exemption applies, the amount of funding issued that ranks pari passu with excluded liabilities and that is recognised as external loss-absorbing capacity, divided by funding issued that ranks pari passu with excluded liabilities and that would be recognised as external loss-absorbing capacity if no cap was applied (%)[1]	**Not applicable**	Not applicable	Not applicable	Not applicable	Not applicable

1 The subordination exemption in the antepenultimate and penultimate paragraphs of Section 11 of the FSB TLAC Term Sheet do not apply in Hong Kong under the LAC Rules.

At 31 December 2024, the internal LAC risk-weighted ratio decreased to 27.3% from 28.0% at 30 September 2024, mainly due to lower internal LAC available.

Internal LAC available decreased by HK$58.0bn in the fourth quarter of 2024, arising from a decrease of HK$40.3bn in regulatory capital elements and HK$17.7bn in non-regulatory capital elements.

The decrease in regulatory capital was mainly due to:

- a decrease of HK$20.7bn from unfavourable foreign currency translation differences;
- a decrease of HK$6.6bn from regulatory profits, net of dividends;
- a decrease of HK$5.4bn in fair value through other comprehensive income reserve;
- a decrease of HK$3.9bn in collective provisions and regulatory reserve for general banking risks eligible to include in Tier 2 capital; and
- a decrease of HK$2.1bn in allowable non-controlling interests.

The decrease in non-regulatory capital elements was driven by the redemption of LAC capital instrument of HK$9.7bn and decrease in carrying value of LAC instruments of HK$8.0bn.

Table 16: TLAC1(A) – TLAC composition

		a
		At 31 Dec 2024
	Regulatory capital elements of internal loss-absorbing capacity and adjustments (HK$m)	
1	Common Equity Tier 1 ('CET1') capital	**516,121**
2	Additional tier 1 ('AT1') capital before LAC adjustments	**65,823**
5	**AT1 capital eligible under the LAC Rules**	**65,823**
6	Tier 2 ('T2') capital before LAC adjustments	**61,511**
10	**T2 capital eligible under the LAC Rules**	**61,511**
11	**Internal loss-absorbing capacity arising from regulatory capital**	**643,455**
	Non-regulatory capital elements of internal loss-absorbing capacity (HK$m)	
12	Internal non-capital LAC debt instruments issued directly or indirectly to, and held indirectly or indirectly by, the resolution entity or non-HK resolution entity in the material subsidiary's resolution group	**220,577**
17	**Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments**	**220,577**
	Non-regulatory capital elements of internal loss-absorbing capacity: adjustments (HK$m)	
18	**Internal loss-absorbing capacity before deductions**	**864,032**
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	**55**
22	**Internal loss-absorbing capacity after deductions**	**863,977**
	Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes (HK$m)	
23	Risk-weighted amount under the LAC Rules	**3,167,152**
24	Exposure measure under the LAC Rules	**10,034,883**
	Internal LAC ratios and buffers	
25	Internal LAC risk-weighted ratio	**27.3%**
26	Internal LAC leverage ratio	**8.6%**
27	CET1 capital (as a percentage of RWAs under the BCR) available after meeting the LAC consolidation group's minimum capital and LAC requirements	**9.3%**
28	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer requirements plus higher loss absorbency requirement, expressed as a percentage of RWAs under the BCR)	**5.34%**
29	– of which: capital conservation buffer requirement	**2.50%**
30	– of which: institution-specific countercyclical capital buffer requirement	**0.34%**
31	– of which: higher loss absorbency requirement	**2.50%**

Table 17: TLAC2 – The Hongkong and Shanghai Banking Corporation Limited creditor ranking

		Creditor ranking (HK$m)				
		1	**2**	**3**	**4**	**Sum of 1 to 4**
		(most junior)			**(most senior)**	
1	Is the resolution entity or a non-HK resolution entity the creditor/investor? (yes or no)	**Yes**	**Yes**	**Yes**	**Yes**	
2	Description of creditor ranking	**Ordinary shares**	**AT1 instruments**	**T2 instruments**	**LAC loans**	
3	Total capital and liabilities net of credit risk mitigation ('CRM')	**180,181**	**64,461**	**29,329**	**226,852**	**500,823**
5	Total capital and liabilities less excluded liabilities	**180,181**	**64,461**	**29,329**	**226,852**	**500,823**
6	– of row 5 that are eligible as internal loss-absorbing capacity	**180,181**	**64,461**	**29,329**	**226,852**	**500,823**
7	– of row 6 with 1 year ≤ residual maturity < 2 years	**—**	**—**	**—**	**31,985**	**31,985**
8	– of row 6 with 2 years ≤ residual maturity < 5 years	**—**	**—**	**—**	**113,295**	**113,295**
9	– of row 6 with 5 years ≤ residual maturity < 10 years	**—**	**—**	**29,329**	**41,460**	**70,789**
10	– of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	**—**	**—**	**—**	**40,112**	**40,112**
11	– of row 6 that are perpetual securities	**180,181**	**64,461**	**—**	**—**	**244,642**

Credit risk

Overview and responsibilities

Credit risk represents our largest regulatory capital requirement. The principal objectives of our credit risk management sub-function are:

- to maintain a strong culture of responsible lending and a robust credit risk policy and control framework across HSBC;
- to both partner and challenge our global businesses in defining, implementing and continually re-evaluating our credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

The credit risk sub-functions within Wholesale Credit Risk Management, and Wealth and Personal Banking Risk are the constituent parts of the group's Risk functions that support the group's CRO in overseeing credit risks. Their major duties comprise undertaking independent review of large and high-risk credit proposals, overseeing large exposure policy and reporting on our wholesale and retail credit risk management disciplines. They also own our credit policy and credit system programmes, oversee portfolio management and report on risk matters to senior executive management and to regulators.

These credit risk sub-functions work closely with other parts of the group's Risk function; for example, with Operational Risk on the internal control framework and with Risk Strategy on the risk appetite process. In addition, they work jointly with Risk Strategy and Finance on stress testing.

The credit responsibilities of the group's Risk function are described on page 25 of the group's Annual Report and Accounts 2024.

Within the group, the credit risk sub-functions comprise a network of credit risk management offices reporting within their respective local wholesale and retail credit risk sub-functions, which in turn report to their relevant risk sub-functions at Group level. They fulfil an essential role as independent risk control units distinct from global business line management in providing objective scrutiny of risk rating assessments, credit proposals for approval and other risk matters.

Our credit risk procedures operate through a hierarchy of personal credit limit approval authorities. Operating company chief executives, acting under authorities delegated by their boards and Group standards, are accountable for credit risk and other risks in their business. In turn, chief executives delegate authority to operating company CROs and management teams on an individual basis. Each operating company is responsible for the quality and performance of its credit portfolios in accordance with Group standards. Above these thresholds of delegated personal credit limited approval authorities, approval must be sought from the group's and, as appropriate, the global credit risk sub-function.

Credit risk management

Our exposures to credit risk arise from a wide range of customer types and products, and the risk rating systems in place to measure and monitor these risks are correspondingly diverse. Senior management receives reports on our credit risk exposures, including expected credit losses, total exposures and RWAs, as well as updates on specific portfolios that are considered to have heightened credit risk.

Credit risk exposures are generally measured and managed in portfolios of either customer types or product categories. Risk rating systems are designed to assess the probability of default ('PD') and loss given default ('LGD') associated with, distinct customers who are typically managed as individual relationships or, in the case of retail business exposures, on a product portfolio basis.

Risk rating systems for retail exposures are generally quantitative in nature, applying techniques such as behavioural analysis across product portfolios comprising large numbers of homogeneous transactions.

Rating systems for individually managed relationships typically use customer financial statements and market data analysis, but also qualitative elements and a final judgemental overlay to reflect any relevant risk drivers not captured in the rating system.

See ‘Credit risk under internal ratings-based approach' on page 27.

A fundamental principle of our policy and approach is that analytical risk rating systems and scorecards are valuable management tools that are fully embedded within the credit risk management framework, ensuring compliance with the regulatory use test requirements.

The credit process for wholesale lending requires a review of the internal rating at least annually and for retail lending revolving facilities, an annual review is undertaken. Review may be more frequent as required by circumstances such as the emergence of adverse risk factors.

We seek to continually improve the quality of our risk management. IT systems that process credit risk data continue to be enhanced to deliver both comprehensive management information in support of business strategy and solutions to evolving regulatory reporting requirements.

Like other facets of risk management, analytical risk rating systems are not static. They are subject to review and modification in light of the changing economic environment, changing regulatory requirements and any deficiencies identified through internal and external regulatory review. Structured processes and metrics are in place to capture relevant data and feed this into continuous model improvement. See ‘Model performance’ on page 37 for more information.

Post Model Adjustments ('PMAs') are held to ensure that capital requirements are not under-stated due to non-compliance of risk rating systems or model limitations. PMAs will be held until new models are approved by the HKMA or model limitations have been remediated. Consent from the HKMA must be obtained before any PMA is implemented for HKMA reporting. PMAs are reviewed periodically and updated where required.

Credit risk models governance

All new or materially changed IRB capital models require pre-approval from the HKMA, as set out in more detail on page 27. Throughout HSBC, IRB capital models fall directly under the remit of the respective MOFs, operating in line with HSBC’s model risk policy, and under the oversight of the Group Model Risk Committee.

Global Risk Policy and Standards govern the development, validation, independent review, approval, implementation and performance monitoring of credit risk rating models. Independent reviews of credit risk models are performed by the Independent Model Review team within the Model Risk Management function which is separate from the Risk Analytics functions that are responsible for the development of models.

Compliance with Group standards is subject to examination by risk oversight and review from within the Risk function itself, and by Global Internal Audit.

Dilution risk

Dilution risk is the risk that an amount receivable is reduced through cash or non-cash credit to the obligor, and arises mainly from factoring and invoice discounting transactions.

Where there is recourse to the seller, we treat these transactions as loans secured by the collateral of the debts purchased and do not report dilution risk for them. For our non-recourse portfolio we obtain an indemnity from the seller that indemnifies us against this risk.

Moreover, factoring transactions involve lending at a discount to the face-value of the receivables, which provides protection against dilution risk.

Credit quality of assets

Credit quality of exposures

Tables 18 to 22 present information on the credit quality of exposures by exposure category, geographical location, industry and residual maturity, and changes in defaulted loans and debt securities on a regulatory consolidation basis. For further details on the credit quality of IRB and STC exposures, refer to Tables 34 to 36 and 38 respectively.

The loans covered in these tables are generally referred to as any on-balance sheet exposures included as credit risk for non-securitisation exposures, covering exposures to customers, banks, sovereigns and others. Cash items and non-financial assets are excluded.

Table 18: CR1 – Credit quality of exposures

		a	b	c	d	e	f	g
		Gross carrying amounts of			of which: Expected Credit Loss ('ECL') accounting provisions[1] for credit losses on STC approach exposures		of which: ECL accounting provisions for credit losses on IRB approach exposures	
		Defaulted exposures	Non-defaulted exposures	Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions		Net values (a+b-c)
		HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
1	Loans	**99,443**	**4,217,827**	**35,885**	**2,664**	**1,080**	**32,141**	**4,281,385**
2	Debt securities	**—**	**2,278,994**	**135**	**—**	**13**	**122**	**2,278,859**
3	Off-balance sheet exposures	**3,844**	**3,866,535**	**1,131**	**21**	**86**	**1,024**	**3,869,248**
4	**Total at 31 Dec 2024**	**103,287**	**10,363,356**	**37,151**	**2,685**	**1,179**	**33,287**	**10,429,492**

1 The categorisation of ECL accounting provisions into the regulatory categories of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. According to the completion instructions, the ECL accounting provisions classified into Stage 1 and Stage 2 are treated as collective provisions, while those classified under Stage 3 are treated as specific provisions. Provisions made for purchased or originated credit-impaired financial assets, under which any changes in lifetime ECL will be recognised in the profit or loss account as an impairment gain or loss, are treated as specific provisions.

Table 19: CR2 – Changes in defaulted loans and debt securities

		a
		HK$m
1	Defaulted loans and debt securities at 30 Jun 2024	**94,365**
2	Loans and debt securities that have defaulted since 30 Jun 2024	**24,657**
3	Returned to non-defaulted status	**(1,263)**
4	Amounts written off	**(13,189)**
5	Other changes[1]	**(5,127)**
6	**Defaulted loans and debt securities at 31 Dec 2024**	**99,443**

1 Other changes include repayment and FX movements.

Table 20: CRB1 – Exposures by geographical location

	Gross carrying amounts at 31 Dec 2024 HK$m
Hong Kong[1]	**5,914,016**
Mainland China[1]	**1,146,539**
Others[2]	**3,406,088**
Total	**10,466,643**

1 The geographical locations shown in this table above represent the location of the principal operations of the subsidiary and by the location of the branch responsible for advancing the funds.
2 Any segment which constitutes less than 10% of total gross carrying amounts is disclosed on an aggregated basis under the category 'others'.

Table 21: CRB2 – Exposures by industry

	Gross carrying amounts at 31 Dec 2024 HK$m
Property development and investment	**726,015**
Financial concerns	**1,761,165**
Individuals	**2,719,747**
Trade Finance	**959,046**
Others[1]	**4,300,670**
Total	**10,466,643**

1 Disclosures have been enhanced such that segments which constitute both less than 10% of total gross carrying amounts and 10% of total RWA are reported on an aggregated basis under the category 'others'.

Table 22: CRB3 – Exposures by residual maturity

	Gross carrying amounts at 31 Dec 2024 HK$m
Less than 1 year	**5,104,603**
Between 1 and 5 years	**2,714,661**
More than 5 years	**2,588,348**
Undated	**59,031**
Total	**10,466,643**

Credit-impaired exposures, past-due unimpaired exposures and forborne exposures

Tables 23 to 26 analyse credit-impaired exposures, impairment allowances, past-due unimpaired exposures and forborne exposures on a regulatory consolidation basis. Our approach for determining impairment allowances, definitions for accounting purposes of 'credit impaired', 'forborne' and the definition of default for regulatory capital are explained in Note 1.2(i) on the group's Annual Report and Accounts 2024. The analysis of gross impaired loans and advances, and impairment allowances by major industry sectors based on categories and definitions used by the HSBC Group, is as follows:

Table 23: CRB4 – Credit-impaired exposures and impairment allowances and write-offs by industry

	Total gross loans and advances to customers[1] HK$m	Gross credit-impaired loans and advances HK$m	Specific provisions[2] HK$m	Collective provisions[2] HK$m	Net new impairment allowances HK$m	Advances written-off in a year HK$m
At 31 Dec 2024						
Residential mortgages	**1,196,882**	**6,124**	**(298)**	**(131)**	**5**	**33**
Real estate and construction	**470,730**	**55,828**	**(9,952)**	**(4,051)**	**5,311**	**11,171**
Wholesale and retail trade	**349,187**	**12,699**	**(6,358)**	**(539)**	**1,764**	**1,551**
Manufacturing	**354,892**	**3,974**	**(2,495)**	**(580)**	**222**	**1,060**
Others[3]	**1,154,656**	**19,944**	**(5,686)**	**(5,564)**	**4,751**	**3,783**
Total	**3,526,347**	**98,569**	**(24,789)**	**(10,865)**	**12,053**	**17,598**

The geographical information shown below has been classified by the location of the principal operations of the subsidiary and by the location of the branch responsible for advancing the funds.

Table 24: CRB5 – Credit-impaired exposures and impairment allowances and write-offs by geographical location

	Total gross loans and advances to customers[1] HK$m	Gross credit-impaired loans and advances HK$m	Overdue loans and advances HK$m	Specific provisions[2] HK$m	Collective provisions[2] HK$m	Net new impairment allowances HK$m	Advances written-off in a year HK$m
At 31 Dec 2024							
Hong Kong	**2,138,718**	**81,377**	**13,144**	**(19,094)**	**(7,920)**	**10,145**	**13,035**
Mainland China	**348,130**	**3,493**	**713**	**(1,071)**	**(1,110)**	**799**	**1,801**
Others[3]	**1,039,499**	**13,699**	**17,618**	**(4,624)**	**(1,835)**	**1,109**	**2,762**
Total	**3,526,347**	**98,569**	**31,475**	**(24,789)**	**(10,865)**	**12,053**	**17,598**

1 The amounts shown in column 'Total gross loans and advances to customers' represent loans and advances to customers gross of provisions in the financial statements under regulatory consolidation scope.
2 The classification of specific and collective provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under Table 18 of this document.
3 Any segment which constitutes less than 10% of total gross loans and advances to customers is disclosed on an aggregated basis under the category 'others'.

Past-due unimpaired exposures are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities. Exposures past due for more than 90 days are considered credit impaired.

Table 25: CRB6 – Ageing analysis of accounting past-due unimpaired exposures

	Up to 29 days HK$m	30-59 days HK$m	60-89 days HK$m	Total HK$m
At 31 Dec 2024				
Loans and advances to customers held at amortised cost	**27,760**	**2,004**	**1,711**	**31,475**
– personal	**14,063**	**1,855**	**1,419**	**17,337**
– corporate and commercial	**8,879**	**149**	**292**	**9,320**
– non-bank financial institutions	**4,818**	**—**	**—**	**4,818**
Total	**27,760**	**2,004**	**1,711**	**31,475**

Table 26: CRB7 – Breakdown of forborne loans between credit impaired and not credit impaired

	31 Dec 2024 HK$m
Not credit impaired	**8,339**
Credit impaired	**28,711**
Total	**37,050**

Loans and advances to customers

Tables 27 to 29 analyse loans and advances to customers by geographical locations, by industries and by which are overdue and rescheduled on an accounting consolidation basis. The accounting consolidation basis is different from the regulatory consolidation basis as explained in the 'Basis of consolidation' section of this document.

The following analysis of loans and advances to customers by geographical areas is in accordance with the location of counterparties, after recognised risk transfer.

Table 27: Loans and advances to customers by geographical locations

	Hong Kong HK$m	Rest of Asia-Pacific HK$m	Other HK$m	Total HK$m
At 31 Dec 2024				
Gross loans and advances to customers	**1,882,193**	**1,432,598**	**215,167**	**3,529,958**
Gross credit-impaired loans and advances to customers	**79,422**	**18,245**	**903**	**98,570**

Tables 28 and 29 analyse the group's loans and advances to customers based on the categories used by the HKMA in the 'Quarterly Analysis of Loans and Advances and Provisions – MA(BS)2A' return.

Table 28: Loans and advances to customers by industry

	At 31 Dec 2024	
	Gross advances	Collateral and other security
	HK$m	HK$m
Industrial, commercial and financial	**748,016**	**410,071**
– property development	**87,084**	**39,934**
– property investment	**237,678**	**207,397**
– financial concerns	**81,730**	**38,920**
– stockbrokers	**3,274**	**1,667**
– wholesale and retail trade	**71,939**	**31,432**
– manufacturing	**49,490**	**10,522**
– transport and transport equipment	**50,965**	**30,934**
– recreational activities	**682**	**270**
– information technology	**40,285**	**855**
– others	**124,889**	**48,140**
Individuals	**1,011,544**	**887,132**
– advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**77,662**	**76,233**
– advances for the purchase of other residential properties	**740,633**	**736,307**
– credit card advances	**77,747**	**—**
– others	**115,502**	**74,592**
Gross loans and advances to customers for use in Hong Kong	**1,759,560**	**1,297,203**
Trade Finance	**153,090**	**24,192**
Gross loans and advances to customers for use outside Hong Kong	**1,617,308**	**620,314**
Gross loans and advances to customers	**3,529,958**	**1,941,709**

The categories of advances, and the relevant definitions, used by the HKMA differ from those used for internal purposes by the group as disclosed in Note 10 on the group's Annual Report and Accounts 2024.

Collateral includes any tangible security that has a determinable fair market value and is readily marketable. This includes (but is not limited to) cash and deposits, stocks and bonds, mortgages over properties and charges over other fixed assets, such as plant and equipment. Where collateral values are greater than gross advances, only the amount of collateral up to the gross advance has been included.

Rescheduled loans and advances to customers are those loans and advances that have been restructured or renegotiated because of deterioration in the financial position of the borrower, or because of the inability of the borrower to meet the original repayment schedule.

Rescheduled loans and advances to customers are stated net of any loans and advances that have subsequently become overdue for more than three months and which are included in overdue loans and advances to customers.

Table 29: Overdue and rescheduled loans and advances to customers

	Hong Kong		Rest of Asia-Pacific		Total	
	HK$m	%[1]	HK$m	%[1]	HK$m	%[1]
At 31 Dec 2024						
Gross amounts which have been overdue with respect to either principal or interest for:						
– more than three months but not more than six months	**6,353**	**0.3**	**1,807**	**0.1**	**8,160**	**0.2**
– more than six months but not more than one year	**14,360**	**0.7**	**2,180**	**0.2**	**16,540**	**0.5**
– more than one year	**23,196**	**1.1**	**4,620**	**0.3**	**27,816**	**0.7**
Total	**43,909**	**2.1**	**8,607**	**0.6**	**52,516**	**1.4**
Specific provisions made in respect of amounts overdue[2]	**(13,940)**		**(3,721)**		**(17,661)**	
Fair value of collateral held in respect of amounts overdue	**21,099**		**6,080**		**27,179**	
Rescheduled loans and advances to customers	**13,998**	**0.7**	**4,569**	**0.3**	**18,567**	**0.5**

1 Percentages shown are of gross loans and advances to customers.
2 The classification of specific provisions follows the treatment specified in the completion instructions of the HKMA Capital Adequacy Ratio – MA(BS)3 return. Details can be found in footnote 1 under Table 18 of this document.

Off-balance sheet exposures other than derivative transactions

The following table gives the nominal contract amounts and RWAs of contingent liabilities and commitments. The information is consistent with that in the 'Capital Adequacy Ratio' return submitted to the HKMA by the group. The return is prepared on a regulatory consolidation basis as specified by the HKMA under the requirements of section 3C(1) of the BCR under Basel III.

For accounting purposes, acceptances and endorsements are recognised on the balance sheet in 'Other assets'. For the purpose of the BCR under Basel III, acceptances and endorsements are included in the capital adequacy calculation as if they were contingencies.

Table 30: Off-balance sheet exposures other than derivative transactions

	31 Dec 2024 HK$m
Contract amounts	
Direct credit substitutes	**60,859**
Transaction-related contingencies	**348,174**
Trade-related contingencies	**111,466**
Forward asset purchases	**2,315**
Commitments that are unconditionally cancellable without prior notice	**2,965,624**
Commitments which have an original maturity of not more than one year	**85,104**
Commitments which have an original maturity of more than one year	**299,436**
Total	**3,872,978**
Risk-weighted amounts	**342,332**

Credit risk under internal ratings-based approach

The internal ratings system and its risk components

Model governance

Throughout HSBC, models are governed under the remit of the GMRC and MRC, operating in line with HSBC's model risk policy. The MRC is responsible to authorize MOFs, where required, to operate under its remit and are responsible for model risk management within their areas. All new or materially changed IRB capital models require pre-approval from regulators and such models are under the oversight of Group and Regional Wholesale MOFs ('WMOF') and Retail MOFs ('RMOF').

WMOFs and RMOFs have the responsibilities to review and understand the model portfolio and model risk profile, and to ensure that the portfolio and model approval decisions remain within any applicable risk limits. All senior managers (or delegates) approving credit risk models which fall within the scope of an MOF are required to notify the relevant MOF to ensure oversight responsibility is retained.

Global Model Risk Policy and Procedures govern the development, validation, independent review, approval, implementation and performance monitoring of credit risk rating models. Independent reviews of credit risk models are performed by the Independent Model Review team within the Model Risk Management function which is separate from the Risk Analytics functions that are responsible for the development of models.

Compliance with Group standards is subject to examination by risk oversight and review from within the Risk function itself, and by Global Internal Audit.

Nature of exposures within each IRB class

The group used the advanced IRB approach for the majority of its business under the approval granted by the HKMA. This includes the following major classes of non-securitisation exposures:

- Corporate exposures, including exposures to global and local large corporates, middle-market corporates and non-bank financial institutions ('NBFI').
- Sovereign exposures, including exposures to central governments, central monetary institutions, multilateral development banks and relevant international organisations.
- Bank exposures, including exposures to banks and regulated securities firms.
- Retail exposures, including residential mortgages, qualifying revolving retail exposures ('QRRE') and other retail exposures.
- Equity exposures.
- Other exposures, including cash items and other assets.

At 31 December 2024, the portions of exposure at default ('EAD') and RWAs within the group covered by the IRB approach are summarised in the following table. The remaining portions not covered by the IRB approach are under the STC approach.

Table 31: CRE1 – Percentage of total EAD and RWAs covered by IRB approach

Portfolio	Percentage of total EAD under IRB approach	Percentage of total RWAs under IRB approach
Corporate exposures (include SMEs and other corporates and specialised lending[1])	**95%**	**91%**
Sovereign exposures	**99%**	**100%**
Bank exposures (including securities firms)	**99%**	**98%**
Residential mortgage loans	**92%**	**76%**
Other retail exposures	**86%**	**61%**
Equity exposures	**100%**	**100%**
Other exposures	**100%**	**100%**

1 Specialised lending exposures adopt regulatory slotting approach under the IRB framework.

The above table covers credit risk for non-securitisation exposures excluding CCR. For CCR, the percentage of total RWAs covered by IRB models is 64% for sovereign exposures, 92% for bank exposures and 83% for corporate exposures.

Application of IRB parameters

The group's credit risk rating framework incorporates the PD of a borrower and the loss severity, expressed in terms of EAD and loss given default ('LGD'). These measures are used to calculate both expected loss ('EL') and capital requirements, subject to any floors required by the HKMA. They are also used in conjunction with other inputs to inform rating assessments for the purpose of credit approval and many other risk management decisions. The narrative explanations that follow relate to the advanced IRB approaches, that is, advanced IRB for distinct customers and retail IRB for the portfolio-managed retail business.

Details on the measurement and monitoring of risk rating systems can be found in the 'Credit risk management' section on page 22 of this document.

Wholesale business

PD for wholesale customer segments (central governments and central banks (sovereigns), institutions, corporates) are derived from a customer risk rating ('CRR') scale of 23 grades. Of these, 21 are non-default grades representing varying degrees of strength of financial condition and two are default grades. Each CRR has a PD range associated with it as well as a mid-point PD.

The score generated by a credit risk rating model for the obligor is mapped to the corresponding CRR. The process through which this, or a judgmentally amended CRR, is then recommended to and reviewed by a credit approver takes into account all additional information relevant to the risk rating determination, including external ratings where available. The approved CRR is mapped to a PD value range of which the 'mid-point' is used in the regulatory capital

calculation. PD models are developed where the risk profile of corporate borrowers is specific to a country and sector. For illustration purposes, the CRR is also mapped to external ratings of Standard and Poor's Ratings Services ('S&P'), though we also benchmark against other agencies' ratings in an equivalent manner.

LGD and EAD estimation for the wholesale business is subject to a Group framework of basic principles. EAD is estimated to a 12-month forward time horizon and represents the current exposure, plus an estimate for future increases in exposure and the realisation of contingent exposures post-default. LGD is based on the effects of facility and collateral structure on outcomes post-default. This includes factors such as the type of client, the facility seniority, the type and value of collateral, past recovery experience and priority under law. It is expressed as a percentage of EAD.

The group used the Supervisory Slotting Criteria approach in rating its specialised lending exposures. Under this approach, ratings are determined by considering both the borrower and the transaction risk characteristics.

Retail business

The wide range of application and behavioural information used in the management of retail portfolios has been supplemented with models to derive the measures of PD, EAD and LGD required for the Basel framework. For management information and reporting purposes, retail portfolios are segmented according to location and analytically derived PD bands facilitating comparability across the group's retail customer segments, business lines and product types.

PD models are developed using statistical estimation generally based on a minimum of five years of historical data. The modelling approach is typically a hybrid approach, which includes elements of Through-The-Cycle and Point-in-Time ('PiT') approaches.

EAD models are also generally developed using at least five years of historical observations and typically adopt one of two approaches:

– For closed-end products without the facility for additional drawdowns, EAD is estimated as the outstanding balance of accounts at the time of observation; or
– EAD for products with the facility for additional drawdowns is estimated as the outstanding balance of accounts at the time of observation plus a CCF applied to the undrawn portion of the facility.

LGD estimates have more variation, particularly in respect of the time period that is used to quantify economic downturn assumptions.

Table 32: CRE2 – Wholesale IRB credit risk models

Regulatory asset classes measured	Component	Number of significant models	Model description and methodology	Number of years loss data	Regulatory Floors
Sovereign/Multilateral development banks	PD	1	A shadow rating approach that includes macroeconomic and political factors, constrained with expert judgement.	>10	No
	LGD	1	An unsecured model built on assessment of structural factors that influence the country's long-term economic performance. For senior unsecured LGD, a floor of 45% is applied.	>10	45%[1]
	EAD	1	A cross-classification model that uses both internal data and expert judgement, as well as information on similar exposure types from other asset classes.	>10	EAD must be at least equal to the current utilisation of the balance at account level
Bank/Securities firms	PD	2	Statistical models that combine quantitative analysis on financial information with expert inputs and macroeconomic factors.	>10	0.03%
	LGD	1	A quantitative model that produces both downturn and expected LGD. Several securities types are included in the model to recognise collateral in the LGD calculation. For senior unsecured LGD, a floor of 45% is applied.	>10	45%[2]
	EAD	1	A quantitative model that assigns CCF taking into account product types and committed/uncommitted indicator to calculate EAD using current utilisation and available headroom.	>10	EAD must be at least equal to the current utilisation of the balance at account level
Other Corporate/SMEs[3]	PD	12	The corporate models use financial information, macroeconomic information and market-driven data, and is complemented by a qualitative assessment. The NBFI models which are the predominantly statistical models that combine quantitative analysis on financial information with expert inputs. The Global Private Banking & Wealth Lombard model is a market-oriented model that relies upon historical financial price information and levels of collateralisation at product level to determine PD estimates.	>=10	0.03%
	LGD	2	Regional statistical model covering all corporates, developed using historical loss/recovery data and various data inputs, including collateral information, facility seniority and customer geography. The Global Private Banking & Wealth Lombard model is a market-oriented model that relies upon historical financial price information and levels of collateralisation at product level to determine LGD estimates.	>10	No
	EAD	1	Regional statistical model covering all corporates, developed using historical utilisation information and various data inputs, including product type and nature of commitment.	>10	EAD must be at least equal to the current utilisation of the balance at account level

1 LGD floor exemption for mainland China and Hong Kong.
2 LGD floor exemption for intra-group entities.
3 Excludes specialised lending exposures subject to supervisory slotting approach.

Table 33: CRE3 – Material retail IRB credit risk models

Retail Portfolio	Component	Number of significant models	Model description and methodology	Number of years loss data	Regulatory Floors
Hong Kong – HSBC Residential Mortgages (Residential mortgage exposures)	PD	1	Statistical model built on internal behavioural data and bureau information, and calibrated to a long-run default rate.	>10	0.03%
	LGD	1	Component based model considering estimate of loss components during stressed macro-economic period. For LGD purposes the time lapse between default event and the closure of the exposure is 24 months.	>10	10%
	EAD	1	Rule-based calculation based on current balance and estimated incurred interest which continues to be a conservative estimate for EAD.	>10	EAD must at least be equal to current balance
Hong Kong – HSBC Credit Cards (QRRE and Other retail exposures to individuals)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate by segment.	>10	0.03%
	LGD	1	Statistical model based on forecasting the amount of expected future losses with downturn adjustment. For LGD purposes the time lapse between default event and the closure of the exposure is 18 months.	>10	
	EAD	1	EAD derived by different segments. Statistical models which derive credit conversion factor to determine the undrawn portion of the facility to be added to the outstanding balance of accounts at the time of observation.	>10	EAD must at least be equal to current balance
Hong Kong – HSBC Personal Loans (QRRE and Other retail exposures to individuals)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate.	> 10	0.03%
	LGD	1	Statistical model based on forecasting the amount of expected future losses. Downturn LGD derived using data from the period with highest default rate. For LGD purposes the time lapse between default event and the closure of the exposure is 24 months.	> 10	
	EAD	1	Statistical model which derives a credit conversion factor to determine the proportion of undrawn limit to be added to the balance at observation.	> 10	EAD must at least be equal to current balance
Hong Kong – HSBC Overdraft (QRRE and Other retail exposures to individuals)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate by segment.	> 10	0.03%
	LGD	1	Statistical model based on forecasting the amount of ELs. Downturn LGD derived using data from the period with highest observed default rate. For LGD purposes the time lapse between default event and the closure of the exposure is 24 months.	> 10	
	EAD	1	Statistical model which derives a credit limit utilisation which is used to determine the EAD.	> 10	EAD must at least be equal to current balance
Hong Kong – Hang Seng Personal Residential Mortgages (Residential mortgage exposures)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate.	>10	0.03%
	LGD	3	One component based model and two historical average models based on estimate of loss incurred over a recovery period derived from historical data with downturn LGD based on the worst observed default rate. For LGD purposes the time lapse between default event and the closure of the exposure is 24 months.	>10	10%
	EAD	1	Rule-based calculation based on current balance and estimated incurred interest which continues to be a conservative estimate for EAD.	>10	EAD must at least be equal to current balance

Table 33: CRE3 – Material retail IRB credit risk models (continued)

Retail Portfolio	Component	Number of significant models	Model description and methodology	Number of years loss data	Regulatory Floors
Hong Kong – Hang Seng Credit Cards (QRRE and Other retail exposures to individuals)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate by segment.	>10	0.03%
	LGD	1	Statistical model based on forecasting the amount of expected future losses with downturn adjustment. For LGD purposes the time lapse between default event and the closure of the exposure is 24 months.	>10	
	EAD	1	Statistical model which derives a credit limit utilisation by segment which is used to determine the EAD.	>10	EAD must at least be equal to current balance
Hong Kong – Hang Seng Personal Loans (Other retail exposures to individuals)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate by segment.	> 10	0.03%
	LGD	1	Statistical model based on forecasting the amount of expected future losses with downturn adjustment. For LGD purposes the time lapse between default event and the closure of the exposure is 24 months.	> 10	
	EAD	1	Rule-based calculation based on current balance and estimated incurred interest which continues to be a conservative estimate for EAD.	> 10	EAD must at least be equal to current balance
Other Asia-Pacific countries – Residential Mortgage (Residential mortgage exposures)	PD	8	Statistical model built on internal behavioural data and calibrated to a long-run default rate by segment.	> 10	0.03%
	LGD	6	Statistical model based on forecasting the amount of expected future losses, or statistical model or historical average model based on estimate of loss incurred over a recovery period derived from historical data, with downturn adjustment. For LGD purposes the time lapses between default event and the closure of the exposure are 24 to 30 months.	> 10	10%
	EAD	8	Rule-based calculation based on current balance, total approved loan amount and limit, or derives a credit conversion factor to determine the proportion of the undrawn limit to be added to the balance at observation, which continue to be a conservative estimate for EAD.	> 10	EAD must at least be equal to current balance

Table 34.1: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Wholesale)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure HK$m	Off-balance sheet exposures pre-CCF HK$m	Average CCF %	EAD post-CRM and post-CCF HK$m	Average PD %	Number of obligors	Average LGD %	Average maturity[1] years	RWAs HK$m	RWA density %	EL HK$m	Provisions HK$m
Portfolio (i) – Sovereign												
0.00 to < 0.15	**2,465,603**	**2,038**	**22.6**	**2,466,064**	**0.02**	**689**	**36.9**	**1.96**	**171,469**	**7**	**158**	
0.15 to < 0.25	**8,305**	**—**	**—**	**8,305**	**0.22**	**29**	**45.0**	**0.97**	**2,632**	**32**	**8**	
0.25 to < 0.50	**5,771**	**—**	**—**	**5,771**	**0.37**	**14**	**45.0**	**1.45**	**2,826**	**49**	**10**	
0.50 to < 0.75	**1,244**	**—**	**—**	**1,244**	**0.63**	**5**	**45.0**	**1.00**	**733**	**59**	**4**	
0.75 to < 2.50	**—**	**—**	**—**	**—**	**1.20**	**1**	**45.0**	**1.00**	**—**	**79**	**—**	
2.50 to < 10.00	**9,103**	**1,884**	**85.2**	**10,708**	**3.62**	**14**	**45.0**	**1.21**	**12,718**	**119**	**174**	
10.00 to <100.00	**2,525**	**—**	**—**	**2,525**	**15.44**	**8**	**45.0**	**1.00**	**5,027**	**199**	**175**	
100.00 (Default)	**1,103**	**—**	**—**	**1,103**	**100.00**	**7**	**11.0**	**3.97**	**1,364**	**124**	**14**	
Sub-total at 31 Dec 2024	**2,493,654**	**3,922**	**52.7**	**2,495,720**	**0.09**	**767**	**37.0**	**1.95**	**196,769**	**8**	**543**	**1,640**
Portfolio (ii) – Bank												
0.00 to < 0.15	**510,249**	**74,609**	**40.7**	**540,576**	**0.05**	**17,880**	**40.6**	**1.22**	**73,624**	**14**	**102**	
0.15 to < 0.25	**9,274**	**5,138**	**39.2**	**11,286**	**0.22**	**1,161**	**47.6**	**1.09**	**4,696**	**42**	**12**	
0.25 to < 0.50	**2,129**	**2,485**	**34.6**	**2,987**	**0.37**	**182**	**42.5**	**0.85**	**1,554**	**52**	**5**	
0.50 to < 0.75	**11,362**	**2,087**	**34.3**	**12,077**	**0.63**	**272**	**39.5**	**0.82**	**7,470**	**62**	**30**	
0.75 to < 2.50	**1,177**	**724**	**44.7**	**1,500**	**1.00**	**124**	**34.0**	**0.96**	**942**	**63**	**5**	
2.50 to < 10.00	**4**	**218**	**91.5**	**204**	**3.11**	**35**	**25.8**	**0.98**	**157**	**77**	**2**	
10.00 to <100.00	**132**	**13**	**20.0**	**135**	**16.24**	**29**	**38.7**	**1.79**	**269**	**200**	**9**	
100.00 (Default)	**111**	**—**	**—**	**111**	**100.00**	**1**	**64.7**	**1.00**	**2**	**2**	**78**	
Sub-total at 31 Dec 2024	**534,438**	**85,274**	**40.4**	**568,876**	**0.09**	**19,684**	**40.7**	**1.20**	**88,714**	**16**	**243**	**909**
Portfolio (iii) – Corporate – SMEs												
0.00 to < 0.15	**18,562**	**30,939**	**27.2**	**26,707**	**0.08**	**818**	**45.2**	**1.66**	**4,818**	**18**	**10**	
0.15 to < 0.25	**7,045**	**14,719**	**26.6**	**10,955**	**0.22**	**845**	**43.7**	**1.67**	**3,497**	**32**	**11**	
0.25 to < 0.50	**10,844**	**20,889**	**23.9**	**15,827**	**0.37**	**973**	**39.9**	**1.71**	**6,276**	**40**	**23**	
0.50 to < 0.75	**19,800**	**15,059**	**25.4**	**23,702**	**0.63**	**982**	**35.3**	**1.98**	**11,424**	**48**	**53**	
0.75 to < 2.50	**73,163**	**53,260**	**26.1**	**87,062**	**1.49**	**3,632**	**33.1**	**1.82**	**54,550**	**63**	**423**	
2.50 to < 10.00	**28,400**	**14,327**	**22.5**	**31,620**	**4.77**	**1,030**	**32.6**	**1.76**	**24,987**	**79**	**481**	
10.00 to <100.00	**2,304**	**1,110**	**24.9**	**2,580**	**18.84**	**136**	**39.6**	**1.86**	**4,333**	**168**	**174**	
100.00 (Default)	**13,689**	**309**	**26.2**	**13,770**	**100.00**	**129**	**32.5**	**1.15**	**30,260**	**220**	**2,779**	
Sub-total at 31 Dec 2024	**173,807**	**150,612**	**25.6**	**212,223**	**8.16**	**8,545**	**35.9**	**1.75**	**140,145**	**66**	**3,954**	**4,671**
Portfolio (iv) – Corporate – other												
0.00 to < 0.15	**653,602**	**914,137**	**27.5**	**897,929**	**0.08**	**23,251**	**46.5**	**1.47**	**179,293**	**20**	**334**	
0.15 to < 0.25	**143,798**	**285,742**	**27.7**	**222,984**	**0.22**	**5,011**	**48.8**	**1.66**	**94,939**	**43**	**239**	
0.25 to < 0.50	**131,427**	**238,429**	**24.2**	**189,181**	**0.37**	**4,223**	**45.7**	**1.45**	**95,450**	**50**	**319**	
0.50 to < 0.75	**121,491**	**196,768**	**22.6**	**165,796**	**0.63**	**4,196**	**45.3**	**1.39**	**108,018**	**65**	**474**	
0.75 to < 2.50	**278,130**	**369,607**	**22.2**	**359,104**	**1.35**	**8,311**	**40.9**	**1.29**	**286,071**	**80**	**1,953**	
2.50 to < 10.00	**76,360**	**80,294**	**19.9**	**92,365**	**4.25**	**2,466**	**35.3**	**1.25**	**91,973**	**100**	**1,384**	
10.00 to <100.00	**17,726**	**3,960**	**32.3**	**19,006**	**23.74**	**321**	**36.4**	**1.64**	**31,663**	**167**	**1,937**	
100.00 (Default)	**48,461**	**2,623**	**21.8**	**49,032**	**100.00**	**756**	**37.2**	**1.09**	**90,521**	**185**	**16,745**	
Sub-total at 31 Dec 2024	**1,470,995**	**2,091,560**	**25.5**	**1,995,397**	**3.27**	**48,535**	**44.7**	**1.43**	**977,928**	**49**	**23,385**	**31,680**

Table 34.2: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Retail)

	a	b	c	d	e	f	g	h	i	j	k	l
PD scale	Original on-balance sheet gross exposure HK$m	Off-balance sheet exposures pre-CCF HK$m	Average CCF %	EAD post-CRM and post-CCF HK$m	Average PD %	Number of obligors	Average LGD %	Average maturity[1] years	RWAs HK$m	RWA density %	EL HK$m	Provisions HK$m
Portfolio (v) – Retail – QRRE												
0.00 to < 0.15	**37,066**	**476,591**	**42.6**	**263,964**	**0.06**	**4,374,876**	**100.5**	**—**	**9,808**	**4**	**153**	
0.15 to < 0.25	**3,500**	**18,537**	**60.2**	**16,180**	**0.23**	**254,249**	**99.5**	**—**	**1,782**	**11**	**34**	
0.25 to < 0.50	**9,460**	**33,237**	**55.8**	**31,540**	**0.40**	**379,678**	**97.0**	**—**	**5,435**	**17**	**112**	
0.50 to < 0.75	**6,512**	**7,934**	**57.6**	**11,094**	**0.58**	**92,162**	**97.3**	**—**	**2,968**	**27**	**63**	
0.75 to < 2.50	**19,078**	**33,501**	**38.0**	**36,794**	**1.36**	**371,814**	**94.0**	**—**	**16,397**	**45**	**424**	
2.50 to < 10.00	**11,410**	**6,246**	**46.4**	**19,637**	**4.38**	**127,797**	**86.8**	**—**	**16,422**	**84**	**607**	
10.00 to < 100.00	**4,374**	**1,302**	**42.2**	**7,561**	**21.26**	**43,900**	**83.9**	**—**	**10,841**	**143**	**1,102**	
100.00 (Default)	**291**	**76**	**1.5**	**360**	**100.00**	**3,185**	**96.9**	**—**	**533**	**148**	**257**	
Sub-total at 31 Dec 2024	**91,691**	**577,424**	**43.9**	**387,130**	**0.96**	**5,647,661**	**98.4**	**—**	**64,186**	**17**	**2,752**	**3,097**
Portfolio (vi) – Retail – Residential mortgage exposures												
0.00 to < 0.15	**637,433**	**33,291**	**53.0**	**655,070**	**0.07**	**224,634**	**21.3**	**—**	**27,007**	**4**	**100**	
0.15 to < 0.25	**195,464**	**11,536**	**88.8**	**205,708**	**0.21**	**114,857**	**21.0**	**—**	**20,771**	**10**	**90**	
0.25 to < 0.50	**119,062**	**2,082**	**55.7**	**120,221**	**0.43**	**43,528**	**15.0**	**—**	**16,049**	**13**	**78**	
0.50 to < 0.75	**35,284**	**631**	**117.2**	**36,023**	**0.55**	**17,383**	**23.1**	**—**	**6,767**	**19**	**44**	
0.75 to < 2.50	**82,183**	**956**	**101.2**	**83,150**	**1.25**	**38,085**	**19.4**	**—**	**24,843**	**30**	**203**	
2.50 to < 10.00	**23,601**	**262**	**109.2**	**23,887**	**5.20**	**12,400**	**19.4**	**—**	**17,551**	**73**	**255**	
10.00 to < 100.00	**6,529**	**43**	**143.5**	**6,591**	**22.54**	**4,365**	**22.1**	**—**	**8,296**	**126**	**327**	
100.00 (Default)	**5,768**	**59**	**—**	**5,768**	**100.00**	**4,653**	**15.0**	**—**	**9,443**	**164**	**231**	
Sub-total at 31 Dec 2024	**1,105,324**	**48,860**	**63.6**	**1,136,418**	**0.98**	**459,905**	**20.4**	**—**	**130,727**	**12**	**1,328**	**766**
Portfolio (vii) – Retail – small business retail exposures												
0.00 to < 0.15	**2,447**	**10**	**100.0**	**2,458**	**0.07**	**1,200**	**13.5**	**—**	**70**	**3**	**—**	
0.15 to < 0.25	**450**	**2**	**100.0**	**452**	**0.19**	**126**	**22.0**	**—**	**39**	**9**	**—**	
0.25 to < 0.50	**719**	**—**	**—**	**719**	**0.36**	**164**	**49.3**	**—**	**211**	**29**	**1**	
0.50 to < 0.75	**368**	**1**	**100.0**	**369**	**0.54**	**147**	**10.6**	**—**	**29**	**8**	**—**	
0.75 to < 2.50	**415**	**1**	**100.0**	**416**	**1.11**	**98**	**38.7**	**—**	**167**	**40**	**2**	
2.50 to < 10.00	**394**	**—**	**100.0**	**394**	**6.10**	**162**	**11.7**	**—**	**72**	**18**	**3**	
10.00 to < 100.00	**61**	**—**	**100.0**	**61**	**45.96**	**27**	**16.2**	**—**	**26**	**43**	**5**	
100.00 (Default)	**39**	**—**	**—**	**39**	**100.00**	**8**	**17.7**	**—**	**65**	**166**	**2**	
Sub-total at 31 Dec 2024	**4,893**	**14**	**100.0**	**4,908**	**2.10**	**1,932**	**21.4**	**—**	**679**	**14**	**13**	**12**
Portfolio (viii) – Other retail exposures to individuals												
0.00 to < 0.15	**3,782**	**28,231**	**31.2**	**13,201**	**0.08**	**66,894**	**23.5**	**—**	**454**	**3**	**—**	
0.15 to < 0.25	**2,617**	**20,920**	**34.5**	**9,841**	**0.21**	**51,742**	**11.3**	**—**	**458**	**5**	**2**	
0.25 to < 0.50	**12,204**	**13,348**	**38.4**	**17,340**	**0.35**	**79,015**	**61.6**	**—**	**6,563**	**38**	**36**	
0.50 to < 0.75	**4,958**	**4,700**	**44.8**	**7,049**	**0.67**	**22,038**	**35.5**	**—**	**2,245**	**32**	**15**	
0.75 to < 2.50	**8,662**	**1,658**	**47.6**	**9,404**	**1.44**	**33,655**	**78.7**	**—**	**9,237**	**98**	**107**	
2.50 to < 10.00	**5,567**	**2,422**	**43.0**	**6,606**	**3.75**	**24,827**	**51.3**	**—**	**5,443**	**82**	**148**	
10.00 to < 100.00	**889**	**33**	**87.8**	**913**	**19.22**	**6,384**	**87.7**	**—**	**1,737**	**190**	**160**	
100.00 (Default)	**181**	**22**	**16.5**	**190**	**100.00**	**1,277**	**70.1**	**—**	**372**	**196**	**106**	
Sub-total at 31 Dec 2024	**38,860**	**71,334**	**35.2**	**64,544**	**1.37**	**285,832**	**45.1**	**—**	**26,509**	**41**	**574**	**540**

Table 34.3: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Total)

	a	b	c	d	e	f	g	h	i	j	k	l
	Original on-balance sheet gross exposure	Off-balance sheet exposures pre-CCF	Average CCF	EAD post-CRM and post-CCF	Average PD	Number of obligors	Average LGD	Average maturity[1]	RWAs	RWA density	EL	Provisions[2]
	HK$m	HK$m	%	HK$m	%		%	years	HK$m	%	HK$m	HK$m
Total (sum of all portfolios) at 31 Dec 2024	**5,913,662**	**3,029,000**	**30.3**	**6,865,216**	**1.47**	**6,472,861**	**40.3**	**1.67**	**1,625,657**	**24**	**32,792**	**43,315**

1 The average maturity is relevant to wholesale portfolios only.
2 Provisions in this table represent the eligible provisions as defined under Division 1, Part 6 of the BCR under Basel III which include the regulatory reserves for general banking risks and the impairment allowances reported under IRB approach.

RWAs decreased by HK$135.9bn in the second half of 2024, mainly from the removal of the cap on capital benefit from using the parental support framework of HK$108.4bn, and a reduction of HK$64.1bn as a result of the removal of the risk-weight floor for Hong Kong residential mortgage exposures. These were partly offset by deterioration in asset quality of HK39.1bn, mainly in corporate lending due to customer risk rating migrations.

The decrease in weighted average PD from 1.67% at 30 June 2024 to 1.47% at 31 December 2024 was mainly driven by write-offs of default exposures.

The increase in CCF from 28.4% at 30 June 2024 to 30.3% at 31 December 2024 was mainly due to retail model updates for the credit card, overdraft and personal loan portfolios in Hong Kong.

RWA density decreased from 26.7% in June 2024 to 23.7% in December 2024 mainly due to the removal of the cap on capital benefit from using the parental support framework, and the removal of the risk-weight floor for Hong Kong residential mortgage exposures.

Table 35: CR10 – Specialised Lending under supervisory slotting criteria approach – High volatility commercial real estate ('HVCRE')

		a	b	c	d	e	f
Supervisory Rating Grade	**Remaining maturity**	**On-balance sheet exposure amount**	**Off-balance sheet exposure amount**	**Supervisory risk weight ('SRW')**	**EAD amount**	**RWAs**	**EL amount**
		HK$m	HK$m	%	HK$m	HK$m	HK$m
Strong	Equal to or more than 2.5 years	**7**	**—**	**95**	**7**	**6**	**—**
Good	Equal to or more than 2.5 years	**22**	**—**	**120**	**22**	**27**	**—**
Default		**1,107**	**—**	**—**	**1,107**	**—**	**554**
Total at 31 Dec 2024		**1,136**	**—**		**1,136**	**33**	**554**

Table 36: CR10 – Specialised Lending under supervisory slotting criteria approach – Other than HVCRE

		a	b	c	d(i)	d(iv)	d(v)	e	f
					EAD amount				
Supervisory Rating Grade	**Remaining Maturity**	**On-balance sheet exposure amount**	**Off-balance sheet exposure amount**	**SRW**	**Project Finance ('PF')**	**Income Producing Real Estate ('IPRE')**	**Total**	**RWAs**	**EL amount**
		HK$m	HK$m	%	HK$m	HK$m	HK$m	HK$m	HK$m
Strong^	Less than 2.5 years	**30,268**	**7,098**	**50**	**1,688**	**30,597**	**32,285**	**16,142**	**—**
Strong	Less than 2.5 years	**5,680**	**1,974**	**70**	**2,215**	**4,181**	**6,396**	**4,477**	**26**
Strong^	Equal to or more than 2.5 years	**7,034**	**1,978**	**50**	**7,741**	**—**	**7,741**	**3,871**	**—**
Strong	Equal to or more than 2.5 years	**25,637**	**188**	**70**	**8,661**	**17,085**	**25,746**	**18,022**	**103**
Good^	Less than 2.5 years	**19,147**	**2,866**	**70**	**2,169**	**17,839**	**20,008**	**14,006**	**80**
Good	Less than 2.5 years	**4,804**	**1,496**	**90**	**—**	**5,252**	**5,252**	**4,727**	**42**
Good^	Equal to or more than 2.5 years	**4,828**	**2,400**	**70**	**5,745**	**—**	**5,745**	**4,021**	**23**
Good	Equal to or more than 2.5 years	**15,813**	**601**	**90**	**—**	**16,010**	**16,010**	**14,409**	**128**
Satisfactory		**18,324**	**1,155**	**115**	**1,167**	**17,475**	**18,642**	**21,438**	**522**
Weak		**3,034**	**4**	**250**	**—**	**3,036**	**3,036**	**7,590**	**243**
Default		**22,326**	**394**	**—**	**140**	**22,306**	**22,446**	**—**	**11,223**
Total at 31 Dec 2024		**156,895**	**20,154**		**29,526**	**133,781**	**163,307**	**108,703**	**12,390**

^ Use of preferential risk weights.

Table 37: CR10 – Equity exposures under the simple risk weight method

	a	c	d	e
	On-balance sheet exposure amount	**SRW**	**EAD amount**	**RWAs**
	HK$m	**%**	**HK$m**	**HK$m**
Categories				
Publicly traded equity exposures	**224**	**300**	**224**	**672**
All other equity exposures	**6,749**	**400**	**6,749**	**26,998**
Total at 31 Dec 2024	**6,973**		**6,973**	**27,670**

Credit risk under standardised approach

Use of external credit ratings under the standardised approach for credit risk

The STC approach is applied where exposures do not qualify for use of an IRB approach and/or where an exemption from IRB has been granted. The STC approach requires banks to use risk assessments prepared by External Credit Assessment Institutions ('ECAI') to determine the risk weightings applied to rated counterparties.

ECAI risk assessments are used within the group as part of the determination of risk weightings for the following classes of exposure:

- public sector entity ('PSE') exposures; and
- bank or corporate exposures (those without an internal CRR).

The group used external credit ratings from the following ECAIs:

- Fitch Ratings ('Fitch');
- Moody's Investors Service ('Moody's'); and
- S&P.

The group determines ECAI issuer ratings or ECAI issue-specific ratings in the banking book in a process consistent with Part 4 of the BCR under Basel III.

All other exposure classes are assigned risk weightings as prescribed in the HKMA's BCR under Basel III.

Table 38: CR5 – Credit risk exposures by asset classes and by risk weights – for STC approach

		a	c	d	e	f	g	h	j
	Risk Weight	**0%**	**20%**	**35%**	**50%**	**75%**	**100%**	**150%**	**Total credit risk exposures amount (post-CCF and post-CRM)**
	Exposure class	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**
1	Sovereign exposures	**32,440**	**272**	**–**	**50**	**–**	**–**	**–**	**32,762**
2	PSE exposures	**89,457**	**48,835**	**–**	**351**	**–**	**8,455**	**47**	**147,145**
2a	– of which: domestic PSEs	**–**	**27,868**	**–**	**–**	**–**	**–**	**–**	**27,868**
2b	– of which: foreign PSEs	**89,457**	**20,967**	**–**	**351**	**–**	**8,455**	**47**	**119,277**
4	Bank exposures	**–**	**2,010**	**–**	**3,066**	**–**	**–**	**1**	**5,077**
5	Securities firm exposures	**–**	**–**	**–**	**3**	**–**	**–**	**–**	**3**
6	Corporate exposures	**–**	**14,486**	**–**	**5,036**	**–**	**106,750**	**593**	**126,865**
10	Regulatory retail exposures	**–**	**–**	**–**	**–**	**59,558**	**–**	**–**	**59,558**
11	Residential mortgage loans	**–**	**–**	**74,432**	**–**	**12,347**	**5,303**	**–**	**92,082**
12	Other exposures which are not past due exposures	**–**	**–**	**–**	**–**	**–**	**11,281**	**–**	**11,281**
13	Past due exposures	**53**	**–**	**–**	**–**	**–**	**1,172**	**3,345**	**4,570**
15	**Total at 31 Dec 2024**	**121,950**	**65,603**	**74,432**	**8,506**	**71,905**	**132,961**	**3,986**	**479,343**

Credit risk mitigation

Our approach to granting credit facilities is on the basis of capacity to repay, rather than placing primary reliance on CRMs. Depending on a customer's standing and the type of product, unsecured facilities may be provided.

Mitigation of credit risk is a key aspect of effective risk management and takes many forms. Our general policy is to promote the use of CRM, justified by commercial prudence and capital efficiency. Detailed policies cover the acceptability, structuring and terms relating to the availability of CRM such as in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

Collateral

The most common method of mitigating credit risk is to take a charge over collateral. In our retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is usually taken to help secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors. Loans to private banking clients may be made against a pledge of eligible marketable securities, cash or real estate. Facilities to SMEs are commonly granted against guarantees given by their owners and/or directors.

For CRM in the form of immovable property, the key determinant of concentration is geography. Use of immovable property mitigants for risk management purpose is predominant.

Financial collateral

In the institutional sector, trading facilities are supported by charges over financial instruments, such as cash, debt securities and equities. Financial collateral in the form of marketable securities is used in much of the Group's derivatives activities and in SFTs, such as repos, reverse repos, securities lending and borrowing. Netting is used extensively and is a prominent feature of market standard documentation.

In the banking book, we provide customers with working capital management products. In some cases, these products combine loans and advances to customers with customer accounts over which we have right of offset, which comply with the regulatory requirements for on-balance sheet netting.

Under on-balance sheet netting agreements, the customer accounts are treated as though they are covered by cash collateral and the effects of this collateral are incorporated in our model estimates. For risk management purposes, the net amounts of such exposures are subject to limits and the relevant customer agreements are subject to review to ensure the legal right of offset remains appropriate.

Other forms of credit risk mitigation

Our Global Banking and Markets and Securities Services businesses use CRM to manage the credit risk of their portfolios, with the goal of reducing concentrations in individual names, sectors or portfolios. The techniques in use include credit default swap ('CDS') purchases, structured credit notes and securitisation structures. Buying credit protection creates credit exposure against the protection provider, which is monitored as part of the overall credit exposure to them. Where applicable, the transaction is entered into directly with a central clearing house counterparty; otherwise our exposure to CDS protection providers is diversified among mainly banking counterparties with strong credit ratings.

In our corporate lending, we also take guarantees from banks, corporates and export credit agencies ('ECA'). Corporates would normally provide guarantees as part of a parent and subsidiary or common parent relationship and would span a number of credit grades. The ECAs will normally be investment grade.

Policy and procedures

Policies and procedures cover the end to end credit lending process including the governance of the protection of our position from the commencement of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. The frequency of valuation increases with the volatility of the collateral. For market trading activities such as collateralised over-the-counter ('OTC') derivatives and SFTs, we typically carry out daily valuations. In the residential mortgage business, Group policy prescribes revaluation of the portfolio at intervals of up to three years, or more frequently as the need arises; for example, where market conditions are subject to significant change, and for non-performing loans on a regular basis (at least annually). Residential property collateral values are determined through a combination of professional appraisals, house price indices or statistical analysis.

For CRE, where the facility exceeds regulatory threshold requirements, Group policy requires an independent review of the valuation at least every three years, or more frequently as the need arises. Revaluations are sought where, for example, material concerns arise in relation to the performance of the collateral. CRE revaluation also occurs commonly in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation.

Recognition of risk mitigation under the IRB approach

Within an IRB approach, risk mitigants are considered in two broad categories:

- those which reduce the intrinsic PD of an obligor and therefore operate as determinants of PD; and
- those which affect the estimated recoverability of obligations and require adjustment of LGD or, in certain limited circumstances, EAD.

The first category typically includes full parental guarantees where one obligor within a group guarantees another. In these circumstances, the PD of the parent guarantor is used to adjust or substitute the PD of the guaranteed obligor. PD estimates may be subject to a 'sovereign ceiling', constraining the risk ratings assigned to obligors in countries of higher risk, and where only partial parental support exists. In certain jurisdictions, certain types of third-party guarantee are recognised by substituting the obligor's PD with that of the guarantor.

In the second category, LGD estimates are affected by a wider range of collateral, including cash, charges over real estate property, fixed assets, trade goods, receivables and floating charges such as mortgage debentures. Unfunded mitigants, such as third-party guarantees, are also considered in LGD estimates where there is evidence that they reduce loss expectation.

The main types of guarantors are banks, other financial institutions and corporates. The creditworthiness of providers of unfunded CRM is taken into consideration as part of the guarantor's risk profile. Internal limits for such contingent exposure are approved in the same way as direct exposures.

EAD and LGD values are calculated using regulatory approved models, where available. Regulatory values are used for those portfolios on a standardised approach as agreed with the HKMA under the IRB exemption or for those portfolios which are dependent upon model development pipeline with the consent of the HKMA. For retail portfolios, funded and unfunded credit protection is typically reflected in the LGD risk parameter based on a modelled impact using historical data.

A range of collateral recognition approaches are applied to IRB capital treatments:

- Unfunded protection, including credit derivatives and guarantees, may be recognised through PD or LGD under the advanced IRB approach.
- Eligible financial collateral under the advanced IRB approach is recognised in LGD models.
- For all other types of collateral, including real estate, the LGD for exposures under the advanced IRB approach is calculated by models.

Recognition of risk mitigation under the standardised approach

Where CRM is available in the form of an eligible guarantee, non-financial collateral or a credit derivative, the exposure is divided into covered and uncovered portions. The covered portion is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses in credit derivatives, where appropriate) to the amount of the protection provided and attracts the RW of the protection provider. The uncovered portion attracts the RW of the obligor.

The value of exposure fully or partially covered by eligible financial collateral is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments (including those for currency mismatch) which are determined by the specific type of collateral (and its credit quality, in the case of eligible debt securities) and its liquidation period. The adjusted exposure value is subject to the risk rating of the obligor.

Table 39: CR3 – Overview of recognised credit risk mitigation

		a	b1	b	d
		Exposures unsecured: carrying amount	**Exposures to be secured**	**Exposures secured by recognised collateral**	**Exposures secured by recognised guarantees**
		HK$m	**HK$m**	**HK$m**	**HK$m**
1	Loans	**2,115,410**	**2,165,975**	**1,826,131**	**339,844**
2	Debt securities	**2,248,710**	**30,149**	**—**	**30,149**
3	**Total at 31 Dec 2024**	**4,364,120**	**2,196,124**	**1,826,131**	**369,993**
4	– of which: defaulted	**34,194**	**40,864**	**38,853**	**2,011**

Unsecured exposures increased by HK$253.0bn in the second half of 2024 mainly arising from higher sovereign exposures. Secured exposures decreased by HK$85.3bn in the second half of 2024 primarily due to a decrease from lending in Hong Kong.

Table 40: CR7 – Effects on RWAs of recognised credit derivative contracts used as recognised credit risk mitigation – for IRB approach

		a	b
		Pre-credit derivatives RWAs	**Actual RWAs**
		HK$m	**HK$m**
1	Corporate – Specialised lending under supervisory slotting criteria approach (project finance)	**19,210**	**19,210**
4	Corporate – Specialised lending under supervisory slotting criteria approach (income-producing real estate)	**89,493**	**89,493**
5	Corporate – Specialised lending (high-volatility commercial real estate)	**33**	**33**
6	Corporate – Small-and-medium sized corporates ('SMEs')	**140,145**	**140,145**
7	Corporate – Other corporates	**977,928**	**977,928**
8	Sovereigns	**189,551**	**189,551**
10	Multilateral development banks	**7,218**	**7,218**
11	Bank exposures – Banks	**75,613**	**75,613**
12	Bank exposures – Securities firms	**13,101**	**13,101**
14	Retail – Small business retail exposures	**679**	**679**
15	Retail – Residential mortgages to individuals	**127,548**	**127,548**
16	Retail – Residential mortgages to property-holding shell companies	**3,179**	**3,179**
17	Retail – Qualifying revolving retail exposures ('QRRE')	**64,186**	**64,186**
18	Retail – Other retail exposures to individuals	**26,509**	**26,509**
19	Equity – Equity exposures under market-based approach (simple risk weight method)	**27,670**	**27,670**
25	Equity – Equity exposures associated with equity investments in funds (CIS exposures)	**1,685**	**1,685**
26	Other – Cash items	**3,611**	**3,611**
27	Other – Other items	**153,085**	**153,085**
28	**Total (under the IRB calculation approaches) at 31 Dec 2024**	**1,920,444**	**1,920,444**

Table 41: CR4 – Credit risk exposures and effects of recognised credit risk mitigation – for STC approach

		a	b	c	d	e	f
		Exposures pre-CCF and pre-CRM		**Exposures post-CCF and post-CRM**		**RWAs and RWA density**	
		On-balance sheet amount	**Off-balance sheet amount**	**On-balance sheet amount**	**Off-balance sheet amount**	**RWAs**	**RWA density**
		HK$m	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**%**
	Exposure classes						
1	Sovereign exposures	**2**	**—**	**31,700**	**1,062**	**80**	**—**
2	PSE exposures	**180,667**	**12,643**	**143,099**	**4,046**	**18,468**	**13**
2a	– of which: domestic PSEs	**26,233**	**3,599**	**26,236**	**1,632**	**5,574**	**20**
2b	– of which: foreign PSEs	**154,434**	**9,044**	**116,863**	**2,414**	**12,894**	**11**
4	Bank exposures	**3,042**	**3,677**	**4,859**	**218**	**1,936**	**38**
5	Securities firm exposures	**3**	**626**	**3**	**—**	**1**	**47**
6	Corporate exposures	**138,066**	**223,957**	**116,531**	**10,334**	**113,055**	**89**
10	Regulatory retail exposures	**61,482**	**545,350**	**59,317**	**241**	**44,669**	**75**
11	Residential mortgage loans	**91,160**	**9,689**	**91,082**	**1,000**	**40,615**	**44**
12	Other exposures which are not past due exposures	**24,533**	**22,606**	**10,838**	**443**	**11,281**	**100**
13	Past due exposures	**4,405**	**361**	**4,405**	**165**	**6,190**	**135**
15	**Total at 31 Dec 2024**	**503,360**	**818,909**	**461,834**	**17,509**	**236,295**	**49**

Model performance

The disclosure covers wholesale and retail models which have been approved by regulators. It compares the PD estimated by our IRB models against actual default experience and shows our IRB models are generally conservative.

Table 42: CR9 – Back-testing of PD per portfolio

b	c(i)	c(ii)	c(iii)	d	e	f		g	h	i
						Number of obligors[2,3]			of which:	
PD range	External rating equivalent (S&P)	External rating equivalent (Moody's)	External rating equivalent (Fitch)	Weighted average PD %[1]	Arithmetic average PD by obligors %[1]	Beginning of the year	End of the year	Defaulted obligors in the year	new defaulted obligors in the year	Average historical annual default rate %
Sovereigns										
0.00 to <0.15	AAA to BBB	Aaa to Baa2	AAA to BBB	0.02	0.03	38	44	—	—	—
0.15 to <0.25	BBB-	Baa3	BBB-	0.22	0.22	4	3	—	—	—
0.25 to <0.50	BBB-	Baa3	BBB-	0.37	0.37	1	2	—	—	—
0.50 to <0.75	BB+ to BB	Ba1 to Ba2	BB+ to BB	0.63	0.63	1	1	—	—	—
0.75 to <2.50	BB- to B+	Ba3 to B2	BB- to B-	0.87	0.87	1	—	—	—	—
2.5 to <10.00	B to B-	B2 to Caa1	CCC+ to CCC	4.85	5.42	3	3	—	—	6.67
10.00 to <100.00	B- to C	Caa1 to C	CCC to C	19.00	19.00	1	2	—	—	20.00
Banks										
0.00 to <0.15	AAA to A-	Aaa to Baa1	AAA to BBB+	0.04	0.07	367	383	—	—	—
0.15 to <0.25	BBB+	Baa2	BBB	0.22	0.22	60	60	—	—	—
0.25 to <0.50	BBB	Baa3	BBB-	0.37	0.37	46	30	—	—	—
0.50 to <0.75	BBB-	Baa3	BBB-	0.63	0.63	33	34	—	—	—
0.75 to <2.50	BB+ to BB-	Ba1 to B1	BB+ to B+	1.19	1.41	37	22	—	—	—
2.5 to <10.00	B+ to B-	B2 to Caa1	B to CCC+	3.54	3.48	8	4	—	—	1.43
10.00 to <100.00	CCC+ to C	Caa1 to C	CCC to C	18.61	16.60	5	8	—	—	—
Corporate – SMEs										
0.00 to <0.15	AAA to A-	Aaa to Baa1	AAA to BBB+	0.10	0.11	611	397	1	—	0.03
0.15 to <0.25	BBB+	Baa2	BBB	0.22	0.22	652	659	—	—	0.05
0.25 to <0.50	BBB	Baa3	BBB-	0.37	0.37	904	833	1	—	0.09
0.50 to <0.75	BBB-	Baa3	BBB-	0.63	0.63	844	822	8	—	0.30
0.75 to <2.50	BB+ to BB-	Ba1 to B1	BB+ to B+	1.37	1.47	3,322	3,169	36	—	0.64
2.5 to <10.00	B+ to B-	B2 to Caa1	B to CCC+	4.11	4.14	925	902	35	—	2.32
10.00 to <100.00	CCC+ to C	Caa1 to C	CCC to C	22.31	20.07	115	88	15	—	15.44
Corporate – other[4]										
0.00 to <0.15	AAA to A-	Aaa to Baa1	AAA to BBB+	0.08	0.09	5,173	5,210	—	—	—
0.15 to <0.25	BBB+	Baa2	BBB	0.22	0.22	2,216	2,302	1	—	0.07
0.25 to <0.50	BBB	Baa3	BBB-	0.37	0.37	2,416	2,322	6	—	0.25
0.50 to <0.75	BBB-	Baa3	BBB-	0.63	0.63	2,107	2,216	7	—	0.19
0.75 to <2.50	BB+ to BB-	Ba1 to B1	BB+ to B+	1.45	1.43	5,146	4,990	50	—	0.69
2.5 to <10.00	B+ to B-	B2 to Caa1	B to CCC+	4.58	4.14	1,512	1,617	12	—	1.45
10.00 to <100.00	CCC+ to C	Caa1 to C	CCC to C	17.37	20.80	205	200	38	—	15.78

1 The weighted average PD% and the arithmetic average PD% by obligors are based on the position at the beginning of the year.
2 The number of obligors represents the obligor rated by key wholesale IRB models directly.
3 The number of obligors for corporates is being reported at counterparty level, while the number of obligors for banks and multilateral development banks is being reported at entity level. Sovereigns are reported at country level based on local currency and foreign currency ratings.
4 Specialised lending exposures are excluded.

Table 42: CR9 – Back-testing of PD per portfolio (continued)

b	d	e	f		g	h	i
			Number of obligors[2]				
PD range	Weighted average PD %[1]	Arithmetic average PD % by obligors[1]	Beginning of the year	End of the year	Defaulted obligors in the year	of which: new defaulted obligors in the year	Average historical annual default rate %
Retail – QRRE							
0.00 to < 0.15	**0.06**	**0.06**	**4,828,326**	**4,950,621**	**3,197**	**42**	**0.05**
0.15 to < 0.25	**0.23**	**0.23**	**263,269**	**265,782**	**463**	**5**	**0.15**
0.25 to < 0.50	**0.40**	**0.40**	**408,797**	**400,934**	**1,442**	**47**	**0.29**
0.50 to < 0.75	**0.58**	**0.59**	**99,804**	**94,962**	**609**	**52**	**0.47**
0.75 to < 2.50	**1.36**	**1.32**	**506,813**	**537,240**	**4,458**	**232**	**0.71**
2.50 to < 10.00	**4.50**	**4.37**	**151,674**	**160,659**	**5,338**	**67**	**2.98**
10.00 to < 100.00	**23.26**	**26.10**	**46,386**	**48,758**	**7,245**	**6**	**13.23**
Retail – Residential mortgage exposures							
0.00 to < 0.15	**0.07**	**0.07**	**241,235**	**239,484**	**218**	**33**	**0.05**
0.15 to < 0.25	**0.20**	**0.19**	**117,568**	**120,300**	**397**	**30**	**0.24**
0.25 to < 0.50	**0.43**	**0.43**	**46,945**	**47,822**	**298**	**2**	**0.34**
0.50 to < 0.75	**0.55**	**0.59**	**21,138**	**18,155**	**85**	**—**	**0.47**
0.75 to < 2.50	**1.22**	**1.23**	**39,754**	**40,413**	**251**	**3**	**0.52**
2.50 to < 10.00	**5.11**	**5.28**	**13,426**	**13,083**	**451**	**5**	**2.87**
10.00 to < 100.00	**22.94**	**22.25**	**4,743**	**4,533**	**444**	**—**	**8.84**
Retail – small business retail exposures							
0.00 to < 0.15	**0.07**	**0.07**	**1,484**	**1,411**	**—**	**—**	**—**
0.15 to < 0.25	**0.19**	**0.19**	**116**	**151**	**—**	**—**	**—**
0.25 to < 0.50	**0.35**	**0.35**	**194**	**243**	**—**	**—**	**—**
0.50 to < 0.75	**0.55**	**0.55**	**204**	**178**	**—**	**—**	**—**
0.75 to < 2.50	**1.20**	**1.19**	**134**	**136**	**1**	**—**	**0.34**
2.50 to < 10.00	**5.54**	**5.47**	**179**	**188**	**7**	**—**	**1.93**
10.00 to < 100.00	**24.02**	**24.02**	**29**	**31**	**2**	**—**	**1.38**
Other retail exposures to individuals							
0.00 to < 0.15	**0.08**	**0.08**	**37,127**	**35,721**	**30**	**1**	**0.06**
0.15 to < 0.25	**0.20**	**0.20**	**26,780**	**26,131**	**20**	**—**	**0.07**
0.25 to < 0.50	**0.34**	**0.34**	**63,449**	**61,253**	**124**	**14**	**0.16**
0.50 to < 0.75	**0.65**	**0.64**	**15,416**	**15,965**	**71**	**6**	**0.42**
0.75 to < 2.50	**1.38**	**1.48**	**33,017**	**31,560**	**349**	**59**	**0.98**
2.50 to < 10.00	**3.60**	**4.28**	**21,961**	**22,450**	**670**	**85**	**2.69**
10.00 to < 100.00	**19.21**	**20.79**	**5,708**	**6,521**	**703**	**13**	**10.45**

1 The weighted average PD% and the arithmetic average PD% by obligors are based on the position at the beginning of the year.
2 The number of obligors is based on account level information for all IRB portfolios except for the Hong Kong overdraft portfolio, which is presented at an aggregated level by consolidating savings and current account information.

Counterparty credit risk exposures

Counterparty credit risk management

Counterparty credit risk ('CCR') arises for derivatives (including long settlement transactions) and SFTs. It is calculated in both the trading and banking books, and is the risk that a counterparty may default before final settlement, for cases where there is a bilateral risk of loss.

Under the SA-CCR approach, the EAD is calculated as the sum of Replacement Cost and PFE multiplied by an alpha factor of 1.4. We use this approach for all derivative and long settlement transactions not covered by our IMM (CCR) permission. Under the IMM (CCR) approach, EAD is calculated by multiplying the Effective Expected Positive Exposure ('EEPE') with a multiplier 'alpha'. The two alpha factors for standardised and internal model method are distinct.

Alpha, for IMM(CCR), is currently set at 1.45 and accounts for several portfolio features that increase EL above that indicated by EEPE in the event of default, such as:

- co-variance of exposures;
- correlation between exposures and default;
- level of volatility/correlation that might coincide with a downturn;
- concentration risk; and
- model risk.

The EEPE is derived from simulation, pricing and aggregation under the internal models approved by the HKMA. The IMM (CCR) model is subject to ongoing model validation including monthly model performance monitoring.

From a risk management perspective, products not covered by IMM(CCR) are subject to regulatory asset class add-ons. Products covered and not covered under IMM (CCR) are subject to daily monitoring of credit limit utilisation.

Limits for CCR exposures, including to CCPs are assigned within the overall credit risk management process. The credit risk sub-function assigns a limit against each counterparty to cover exposure that may arise as a result of a counterparty default. The magnitude of this limit will depend on the overall risk appetite, type of derivatives and type of SFT trading undertaken with a counterparty.

Models and methodologies used in the calculation of CCR are overseen and monitored by the Regional Traded Risk Model Oversight Forum. Models are subject to ongoing monitoring and validation. Additionally, they are subject to independent review at inception and on an ongoing basis.

Credit valuation adjustment

CVAs represent the risk of mark-to-market losses on the expected counterparty risk to OTC derivatives and SFTs that are subject to fair-value accounting. Certain exposures to qualifying central counterparties are exempt from CVA.

Collateral arrangements

Our policy is to revalue all traded transactions and associated collateral positions on a daily basis. An independent collateral management sub-function manages the collateral process, including pledging collateral, receiving collateral, investigating disputes and following up on non-receipts.

Collateral types are controlled under a policy to ensure price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes. A valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement. A very high proportion of collateral held as variation margin under credit support annex ('CSAs') agreements is composed of either cash or liquid government securities.

For further details of gross fair value exposure and the offset due to legally enforceable netting and collateral see page 118 of the group's Annual Report and Accounts 2024.

Central counterparties

While exchange traded derivatives have been cleared through CCPs for many years, recent regulatory initiatives designed to reduce systemic risk in the banking system are directing increasing volumes of OTC derivatives to also be cleared through CCPs.

To manage the significant concentration of risk in CCPs that results from this, we have developed a risk appetite framework to manage risk accordingly, at the level of individual CCPs and globally. A dedicated CCP risk team has been established in the Group to manage the interface with CCPs and undertake in-depth due diligence of the unique risks associated with these organisations.

Wrong-way risk

Wrong-way risk occurs when a counterparty's exposures are adversely correlated with its credit quality.

There are two types of wrong-way risk:

- general wrong-way risk occurs when the probability of counterparty default is positively correlated with general risk factors, such as where a counterparty is resident and/or incorporated in a higher-risk country and seeks to sell a non-domestic currency in exchange for its home currency; and
- specific wrong-way risk occurs in self-referencing transactions. These are transactions in which exposure is driven by capital or financing instruments issued by the counterparty and occurs where exposure from HSBC's perspective materially increases as the value of the counterparty's capital or financing instruments referenced in the contract decreases. It is HSBC policy that specific wrong-way transactions are approved on a case-by-case basis.

We use a range of tools to monitor and control wrong-way risk, including requiring the business to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

The regional Traded Risk sub-functions are responsible for the control and monitoring process within an overarching Group framework including a limit framework.

Credit rating downgrade

A credit rating downgrade clause in a Master Agreement or a credit rating downgrade threshold clause in a CSA is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

At 31 December 2024, the value of the additional collateral pertaining to International Swaps and Derivatives Association CSA downgrade thresholds that we would potentially need to post with counterparties in the event of a one-notch downgrade of our rating was HK$389m and for a two-notch downgrade was HK$466m.

Table 43: CCR1 – Analysis of counterparty default risk exposures (other than those to CCPs) by approaches

		a	b	c	d	e	f
		Replacement cost ('RC')	PFE	EEPE	Alpha (α) used for computing default risk exposure	Default risk exposure after CRM	RWAs
		HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
1	SA-CCR approach (for derivative contracts)	**30,332**	**79,691**		**1.4**	**154,032**	**42,603**
2	IMM (CCR) approach			**74,457**	**1.45**	**107,962**	**36,075**
4	Comprehensive approach (for SFTs)					**128,867**	**18,805**
6	**Total at 31 Dec 2024**						**97,483**

Table 44: CCR2 – CVA capital charge

		a	b
		EAD post CRM	RWAs
		HK$m	HK$m
	Netting sets for which CVA capital charge is calculated by the advanced CVA method	**107,962**	**10,031**
1	(i) VaR (after application of multiplication factor if applicable)		**2,072**
2	(ii) Stressed VaR (after application of multiplication factor if applicable)		**7,959**
3	Netting sets for which CVA capital charge is calculated by the standardised CVA method	**152,125**	**32,865**
4	**Total at 31 Dec 2024**	**260,087**	**42,896**

Table 45: CCR6 – Credit-related derivatives contracts

	a	b
At 31 Dec 2024	**Protection bought** HK$m	**Protection sold** HK$m
Notional amounts		
Single-name credit default swaps	**86,150**	**76,321**
Index credit default swaps	**83,327**	**77,831**
Total return swaps	**41,945**	**6,445**
Total notional amounts	**211,422**	**160,597**
Fair values		
Positive fair value (asset)	**948**	**1,880**
Negative fair value (liability)	**(2,299)**	**(115)**

The decrease in notional amount of protection bought of HK$57.2bn in the second half of 2024 was primarily from credit default swaps and total return swaps due to a lower client demand for bought protection.

Table 46: CCR5 – Composition of collateral for counterparty default risk exposures (including those for contracts or transactions cleared through CCPs)

	a	b	c	d	e	f
	Derivative contracts				**SFTs**	
	Fair value of recognised collateral received		**Fair value of posted collateral**		**Fair value of recognised collateral received**	**Fair value of posted collateral**
	Segregated HK$m	**Unsegregated** HK$m	**Segregated** HK$m	**Unsegregated** HK$m	HK$m	HK$m
Cash – domestic currency	**—**	**13,705**	**—**	**10,712**	**37,607**	**47,008**
Cash – other currencies	**—**	**173,508**	**2,903**	**187,914**	**597,437**	**935,978**
Domestic sovereign debt	**—**	**—**	**—**	**—**	**10,134**	**46,619**
Other sovereign debt	**401**	**29,364**	**11,851**	**42,081**	**724,698**	**729,330**
Government agency debt	**—**	**1,162**	**—**	**1,991**	**—**	**—**
Corporate bonds	**141**	**12,244**	**23,507**	**1,429**	**265,242**	**66,650**
Equity securities	**—**	**3,972**	**—**	**—**	**140,290**	**97,570**
Other collateral	**—**	**19,133**	**—**	**3,075**	**—**	**—**
Total at 31 Dec 2024	**542**	**253,088**	**38,261**	**247,202**	**1,775,408**	**1,923,155**

Received and posted collateral for SFTs decreased by HK$138.4bn and HK$65.2bn respectively in the second half of 2024, due to lower demand for repurchase transactions with sovereign and corporate counterparties.

Table 47: CCR8 – Exposures to CCPs

		a	b
		Exposure after CRM HK$m	RWAs HK$m
At 31 Dec 2024			
1	**Exposures of the AI as clearing member or clearing client to qualifying CCPs (total)**		**1,806**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10)	**36,967**	**987**
3	– of which: (i) OTC derivative transactions	**16,947**	**587**
4	– of which: (ii) exchange-traded derivative contracts	**20,020**	**400**
7	Segregated initial margin	**16,592**	
8	Unsegregated initial margin	**11,475**	**235**
9	Funded default fund contributions	**2,948**	**584**
10	Unfunded default fund contributions	**7,566**	**—**
11	**Exposures of the AI as clearing member or clearing client to non-qualifying CCPs (total)**		**301**
18	Unsegregated initial margin	**250**	**250**
19	Funded default fund contributions	**1**	**17**
20	Unfunded default fund contributions	**3**	**34**

Counterparty default risk under internal ratings-based approach

Table 48: CCR4 – Counterparty default risk exposures (other than those to CCPs) by portfolio and PD range – for IRB approach

	a	b	c	d	e	f	g
PD scale	**EAD post-CRM HK$m**	**Average PD %**	**Number of obligors**	**Average LGD %**	**Average maturity years**	**RWAs HK$m**	**RWA density %**
Portfolio (i) – Sovereign							
0.00 to < 0.15	**15,944**	**0.02**	**50**	**45.2**	**0.33**	**685**	**4**
0.15 to < 0.25	**235**	**0.22**	**1**	**45.0**	**1.00**	**100**	**43**
0.25 to < 0.50	**—**	**—**	**—**	**—**	**—**	**—**	**—**
0.50 to < 0.75	**—**	**—**	**—**	**—**	**—**	**—**	**—**
0.75 to < 2.50	**—**	**2.25**	**1**	**48.0**	**1.00**	**—**	**132**
2.50 to < 10.00	**—**	**—**	**—**	**—**	**—**	**—**	**—**
10.00 to < 100.00	**—**	**—**	**—**	**—**	**—**	**—**	**—**
100.00 (Default)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Sub-total at 31 Dec 2024	**16,179**	**0.02**	**52**	**45.2**	**0.34**	**785**	**5**
Portfolio (ii) – Bank							
0.00 to < 0.15	**241,731**	**0.06**	**2,103**	**36.3**	**1.18**	**31,415**	**13**
0.15 to < 0.25	**7,726**	**0.22**	**224**	**48.2**	**0.49**	**2,736**	**35**
0.25 to < 0.50	**2,050**	**0.37**	**42**	**45.6**	**1.00**	**1,151**	**56**
0.50 to < 0.75	**2,676**	**0.63**	**51**	**45.5**	**1.01**	**2,065**	**77**
0.75 to < 2.50	**2,017**	**0.95**	**48**	**45.3**	**0.89**	**1,762**	**87**
2.50 to < 10.00	**41**	**5.10**	**4**	**46.7**	**1.00**	**67**	**165**
10.00 to < 100.00	**1**	**19.00**	**2**	**77.5**	**1.00**	**3**	**379**
100.00 (Default)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Sub-total at 31 Dec 2024	**256,242**	**0.07**	**2,474**	**36.9**	**1.15**	**39,199**	**15**
Portfolio (iii) – Corporate							
0.00 to < 0.15	**57,756**	**0.07**	**2,778**	**47.5**	**1.56**	**15,030**	**26**
0.15 to < 0.25	**10,581**	**0.22**	**677**	**51.7**	**1.19**	**5,455**	**52**
0.25 to < 0.50	**8,109**	**0.37**	**450**	**51.3**	**0.91**	**5,186**	**64**
0.50 to < 0.75	**6,118**	**0.63**	**414**	**50.7**	**1.08**	**5,334**	**87**
0.75 to < 2.50	**8,468**	**1.30**	**853**	**46.6**	**1.23**	**9,006**	**106**
2.50 to < 10.00	**2,260**	**4.33**	**189**	**37.6**	**1.56**	**3,044**	**135**
10.00 to < 100.00	**340**	**97.78**	**9**	**80.7**	**1.00**	**9**	**3**
100.00 (Default)	**45**	**100.00**	**3**	**52.2**	**1.45**	**—**	**—**
Sub-total at 31 Dec 2024	**93,677**	**0.76**	**5,373**	**48.3**	**1.40**	**43,064**	**46**
Total (sum of all portfolios) at 31 Dec 2024	**366,098**	**0.25**	**7,899**	**40.2**	**1.18**	**83,048**	**23**

RWA density increased from 20% at 30 June 2024 to 23% at 31 December 2024, mainly due to an increase in average PD for CCR exposures within the corporate portfolio.

Average PD% increased from 0.15% at 30 June 2024 to 0.25% at 31 December 2024 mainly due to customer risk rating migrations.

Counterparty default risk under standardised approach

Table 49: CCR3 – Counterparty default risk exposures (other than those to CCPs) by asset classes and by risk weights – for STC approach

		a	c	d	e	f	g	i
	Risk Weight	**0%** **HK$m**	**20%** **HK$m**	**50%** **HK$m**	**75%** **HK$m**	**100%** **HK$m**	**150%** **HK$m**	**Total default risk exposure after CRM** **HK$m**
	Exposure class							
1	Sovereign exposures	**—**	**2,178**	**—**	**—**	**—**	**—**	**2,178**
2	PSE exposures	**987**	**1,191**	**229**	**—**	**964**	**—**	**3,371**
2a	– of which: domestic PSEs	**—**	**992**	**—**	**—**	**—**	**—**	**992**
2b	– of which: foreign PSEs	**987**	**199**	**229**	**—**	**964**	**—**	**2,379**
4	Bank exposures	**—**	**6,863**	**721**	**—**	**7**	**—**	**7,591**
5	Securities firm exposures	**—**	**—**	**172**	**—**	**1,659**	**—**	**1,831**
6	Corporate exposures	**—**	**404**	**1**	**—**	**8,570**	**—**	**8,975**
8	Regulatory retail exposures	**—**	**—**	**—**	**490**	**—**	**—**	**490**
12	**Total at 31 Dec 2024**	**987**	**10,636**	**1,123**	**490**	**11,200**	**—**	**24,436**

Securitisation

Securitisation strategy

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

Securitisation activity

Our roles in the securitisation process can include the following:

- Originator: where we originate the assets being securitised, either directly or indirectly;
- Sponsor: where we establish and manage a securitisation programme that purchases exposures from third parties; and
- Investor: where we invest in a securitisation transaction directly or provide derivatives or liquidity facilities to a securitisation.

The group as originator

We use special purpose entities ('SPEs') to securitise customer loans and advances and other debt that we have originated in order to diversify our sources of funding for asset origination and for capital efficiency purposes. In such cases, we transfer the loans and advances to the SPEs for cash, and the SPEs issue debt securities to investors to fund the cash purchases.

In addition, we use SPEs to mitigate the capital absorbed by some of the customer loans and advances we have originated. Financial guarantees are utilised to transfer the credit risk associated with these customer loans and advances to an SPE, employing an approach commonly known as synthetic securitisation, whereby the SPE provides protection for the group.

The group as sponsor

There were no outstanding underlying exposures in securitisation transactions where the group acted as a sponsor.

The group as investor

We have exposure to third-party securitisations across a wide range of sectors in the form of investments, liquidity facilities and as a derivative counterparty.

Monitoring of securitisation positions

Securitisation positions are managed by a dedicated team in the Group that uses a combination of market standard systems and third-party data providers to monitor performance data and manage market and credit risks.

In the case of re-securitisation positions, similar processes are conducted in respect of the underlying securitisations.

Liquidity risk of securitised assets is consistently managed as part of the group's liquidity and funding risk management framework and further details are provided on pages 52 to 53 of the group's Annual Report and Accounts 2024.

Valuation of securitisation positions

The process of valuing our investments in securitisation exposures primarily focuses on quotations from third parties, observed trade levels and calibrated valuations from market standard models.

Our hedging and CRM strategy, with regards to retained securitisation and re-securitisation exposures, is to continually review our positions.

Securitisation accounting treatment

For accounting purposes, we consolidate structured entities (including SPEs) when the substance of the relationship indicates that we control them; that is, we are exposed, or have rights, to variable returns from our involvement with the structured entity and have the ability to affect those returns through our power over the entity.

Full details of these assessments and our accounting policy on structured entities may be found in Note 34 on the group's Financial Statements in the Annual Report and Accounts 2024.

We reassess the need to consolidate whenever there is a change in the substance of the relationship between the group and a structured entity.

The group enters into transactions in the normal course of business by which it transfers financial assets to structured entities. Depending on the circumstances, these transfers may either result in these financial assets being fully or partly derecognised, or continuing to be recognised in their entirety.

Full derecognition occurs when we transfer our contractual right to receive cash flows from the financial assets, or assume an obligation to pass on the cash flows from the assets, and transfer substantially all the risks and rewards of ownership. Only in the event that derecognition is achieved are sales and any resultant gains recognised in the financial statements.

Partial derecognition occurs when we sell or otherwise transfer financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred and control is retained. These financial assets are recognised on the balance sheet to the extent of our continuing involvement and an associated liability is also recognised. The net carrying amount of the financial asset and associated liability will be based on the measurement basis of the financial asset, either the amortised cost or the fair value of the rights and obligations retained by the entity.

Securitisation regulatory treatment

For regulatory purposes, any reduction in RWAs that would be achieved by our own originated securitisations must satisfy section 229 (1) of the BCR under Basel III. If achieved, the associated SPEs and underlying assets transferred to SPEs are not consolidated but exposures to them, including derivatives or liquidity facilities, are risk-weighted as securitisation positions.

For our securitised banking book positions, we use either the SEC-IRBA, SEC-ERBA or SEC-SA to calculate the credit risk for our securitisation exposures. Securitisation positions in the trading book are under the standardised (market risk) approach, which calculates the market risk capital charge for specific risk interest rate exposures.

The group used S&P, Moody's and Fitch as the ECAIs for securitisation exposures with credit risk calculated under the SEC-ERBA approach.

Analysis of securitisation exposures

The group's involvement in securitisation activities is as follows:

- as an investor, the group's securitisation activities mainly consisted of changes to the existing portfolio mix in the normal course of business;
- as an originator, the group's securitised residential mortgages in the banking book of existing SPEs reduced by HK$5,698m. A new synthetic securitisation of corporate loans amounting to HK$19,500m was also executed during the second half of 2024.

Table 50: SEC1 – Securitisation exposures in banking book

		a	b	c	g	h	i
		Acting as originator (excluding sponsor)			Acting as investor		
		Traditional HK$m	Synthetic HK$m	Sub-total HK$m	Traditional HK$m	Synthetic HK$m	Sub-total HK$m
At 31 Dec 2024							
1	**Retail (total) – of which:**	**31,273**	**—**	**31,273**	**65,753**	**—**	**65,753**
2	residential mortgage	**31,273**	**—**	**31,273**	**22,628**	**—**	**22,628**
3	credit card	**—**	**—**	**—**	**3,892**	**—**	**3,892**
4	other retail exposures	**—**	**—**	**—**	**39,233**	**—**	**39,233**
6	**Wholesale (total) – of which:**	**—**	**19,500**	**19,500**	**—**	**—**	**—**
7	loans to corporates	**—**	**19,500**	**19,500**	**—**	**—**	**—**

Table 51: SEC2 – Securitisation exposures in trading book

		g	i
		Acting as investor	
		Traditional HK$m	Sub-total HK$m
At 31 Dec 2024			
1	**Retail (total) – of which:**	**7,590**	**7,590**
2	residential mortgage	**5,711**	**5,711**
3	credit card	**67**	**67**
4	other retail exposures	**1,812**	**1,812**

Table 52: SEC4 – Securitisation exposures in banking book and associated capital requirements – where AI acts as investor

		a	b	c	d	g	h	k	l	o	p
		Exposure values (by RW bands)				Exposure values (by regulatory approach)		RWAs (by regulatory approach)		Capital charges after cap	
		≤20% RW HK$m	>20% to 50% RW HK$m	>50% to 100% RW HK$m	>100% to <1250% RW HK$m	SEC-ERBA (including IAA) HK$m	SEC-SA HK$m	SEC-ERBA (including IAA) HK$m	SEC-SA HK$m	SEC-ERBA (including IAA) HK$m	SEC-SA HK$m
At 31 Dec 2024											
1	**Total exposures**	**53,492**	**10,162**	**2,099**	**—**	**27,201**	**38,552**	**4,700**	**8,994**	**376**	**720**
2	**Traditional securitisation**	**53,492**	**10,162**	**2,099**	**—**	**27,201**	**38,552**	**4,700**	**8,994**	**376**	**720**
3	– of which: securitisation	**53,492**	**10,162**	**2,099**	**—**	**27,201**	**38,552**	**4,700**	**8,994**	**376**	**720**
4	– of which: retail	**53,492**	**10,162**	**2,099**	**—**	**27,201**	**38,552**	**4,700**	**8,994**	**376**	**720**

Market risk

Overview of market risk

Market risk is the risk of an adverse financial impact on trading activities arising from changes in market parameters such as interest rates, FX rates, asset prices, volatilities, correlations and credit spreads.

Exposure to market risk

Exposure to market risk arises from both trading portfolios and banking portfolios:

- Trading portfolios: these comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.
- Banking portfolios: these comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income, debt instruments measured at amortised cost, and exposures arising from our insurance operations. These portfolios also include non-trading book foreign exchange ('NTBFX') exposures, where risk may arise from changes in the accounting value of assets and liabilities held outside of the trading book, due to movements in FX rates. NTBFX exposures originate primarily from structural FX exposures, transactional FX exposures and limited residual FX exposures arising from timing differences or for other reasons.

Where appropriate, we apply similar risk management policies and measurement techniques to both trading and banking portfolios. Our objective is to manage and control market risk exposures to optimise return on risk while maintaining a market risk profile consistent with our established risk appetite.

Market risk governance

The majority of the trading VaR, stressed VaR ('SVaR') and IRC of the group resides in Markets and Securities Services. Markets and Securities Services manages market risk, within overall risk limits set by the group CRO and approved by the Board.

For a discussion on market risk governance and structure, refer to page 54 of the group's Annual Report and Accounts 2024.

Market risk under standardised approach

Table 53: MR1 – Market risk under STM approach

		a
		RWAs
		HK$m
	Outright product exposures	
2	Equity exposures (general and specific risk)	**1,065**
4	Commodity exposures	**8**
8	**Securitisation exposures**	**544**
9	**Total at 31 Dec 2024**	**1,617**

Market risk measures

Monitoring and limiting market risk exposures

We use a range of tools to monitor and limit market risk exposures, including sensitivity analysis, VaR and stress testing.

Sensitivity analysis

We use sensitivity measures to monitor the market risk positions within each asset class and risk type. Granular sensitivity limits are set for each trading desk taking into consideration market liquidity, customer demand and capital constraints, amongst other factors.

Value at risk

VaR is a technique that estimates the potential mark-to-market losses on derivatives, securities and money market positions in the trading and banking portfolios 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 an integral part of our market risk management framework and is calculated for a scope of trading and banking positions which is wider than the set of trading positions which are capitalised under a VaR treatment.

Our models are predominantly based on historical simulation and VaR is calculated at a 99% confidence level for a one-day holding period.

Our VaR model uses historical series of market rates and prices, implicitly taking into account inter-relationships between different markets and rates such as interest rates and FX rates.

The primary categories of risk factors driving market risk are summarised below:

Risk factor	Description
FX	Risk arising from changes in FX rates and volatilities.
Interest rate	Risk arising from changes in the level of interest rates that may impact prices of interest rate sensitive assets such as interest rate swaps.
Equity	Risk arising from changes in equity prices, volatilities and dividend yields.
Commodity	Risk arising from changes in commodity prices.
Credit	Risk arising from changes in the level of credit spreads that may impact prices of credit spread sensitive assets.

Our model uses a mixed approach when applying changes in market rates and prices:

- For equity, credit and FX risk factors, VaR scenarios are calculated on a relative return basis.
- For interest rates, a mixed approach is used. The scenarios applied to volatilities are on a relative return basis, whereas the scenarios applied to interest rate curves are calculated using a hybrid of absolute and relative returns. This approach enables the VaR to smoothly adapt to either low or high interest rate environments and to support negative rates.

Our models aggregate general and specific risks and allow for diversification across them. We use the past two years as the historical data set in our VaR model and the scenarios are updated at least on a weekly basis. These scenarios are then applied to the

market baselines and positions on a daily basis. The model incorporates the effect of option features on the underlying exposures.

The valuation approach used in our model varies:

– Desks trading non-linear instruments mainly use a full revaluation approach; and
– Desks trading only linear instruments, such as bonds and swaps, mainly use a sensitivity based approach.

The nature of the VaR model means that an increase in observed market volatility will lead to an increase in VaR even without any changes in the underlying positions.

VaR model limitations

Although a valuable guide to risk, VaR is used with awareness of its limitations, for example:

– The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to sufficiently reflect a change in the market regime.
– The use of a 1-day holding period for risk management purposes of the trading book assumes that this short period is sufficient to hedge or liquidate all positions.
– The use of a 99% confidence level, by definition does not take into account losses that might occur beyond this level of confidence.
– VaR is calculated on the basis of exposures outstanding at close of business and therefore does not necessarily reflect intra-day exposures.

Risk not in VaR framework

The risks not in VaR ('RNIV') framework captures risks from exposures in the trading book that are not captured well by the VaR model. Our VaR model is designed to capture significant basis risk, such as CDS versus bond, asset swap spreads and cross-currency basis. Other basis risks that are not completely covered in VaR, such as CCP swap basis risks, are complemented by our RNIV calculations and are integrated into our capital framework.

Risk factors are reviewed on a regular basis and are either incorporated directly in the VaR model, where possible, or quantified through the VaR-based RNIV approach or a stress test approach within the RNIV framework. While VaR-based RNIVs are calculated by using historical scenarios, stress-type RNIVs are estimated on the basis of stress scenarios whose severity is calibrated to be in line with the capital adequacy requirements. The outcome of the VaR-based RNIV approach is included in the overall VaR calculation for risk management purposes but excluded from the VaR measures used for regulatory back-testing. In addition, SVaR also captures risk factors considered in the VaR-based RNIV approach through a corresponding SVaR RNIV.

Back-testing

We validate the accuracy of our VaR model on a daily basis by back-testing the model against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items, such as fees, commissions and revenues of intra-day transactions.

The actual number of profits or losses in excess of VaR over this period can therefore be used to gauge how well the models are performing. A VaR model is deemed satisfactory if it experiences fewer than five profit or loss exceptions in a 250-day period.

We back-test our VaR at various levels of our group entity hierarchy. Our back-testing covers those entities within the group which have approval to use VaR in the calculation of market risk regulatory capital requirements.

Stress testing

Stress testing is an important procedure that is integrated into our market risk management framework to evaluate the potential impact on portfolio values of more extreme events or movements in a set of financial variables. In such scenarios, losses can be much greater than those predicted by VaR modelling. Stress testing and reverse stress testing provide senior management with insights regarding the 'tail risk' beyond VaR.

Stress testing is implemented at various legal entity and overall Group levels. The risk appetite around potential stress losses for the group is set and monitored against referral limits.

Market risk reverse stress tests are designed to identify vulnerabilities in our portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be local or idiosyncratic in nature, and complement the systematic top-down stress testing.

SVaR and stress testing, together with reverse stress testing and the management of gap risk, provide senior management with insights regarding the 'tail risk' beyond VaR for which the group's appetite is limited.

The market risk stress testing incorporates both historical and hypothetical events.

Market risk capital models

The Group has permission to use a number of market risk capital models to calculate regulatory capital as listed in the table below. For regulatory purposes, the trading book comprises all positions in financial instruments and commodities held with trading intent and positions where it can be demonstrated that they hedge positions in the trading book. Trading book positions must either be free of any restrictive covenants on their tradability or be capable of being hedged.

The Group maintains a trading book policy, which defines the minimum requirements for trading book positions and the process for classifying positions as trading or banking book. Positions in the trading book are subject to market risk-based rules, for example market risk capital, calculated using regulatory approved models. Where we do not have permission to use internal models, market risk capital is calculated using the standardised approach.

If any of the policy criteria are not met, then the position is categorised as a banking book exposure. We use the following market risk capital models:

Model component	Confidence level	Liquidity horizon	Model description and methodology
VaR	99%	10 day	Uses most recent two years' history of daily returns to determine a loss distribution. The result is scaled, using the square root of 10, to provide an equivalent 10-day loss.
SVaR	99%	10 day	SVaR is calibrated to a one-year period of stress observed in history, calculated using 10 day returns.
IRC	99.9%	1 year	Uses a multi-factor Gaussian Monte-Carlo simulation, which includes product basis, concentration, hedge mismatch, recovery rate and liquidity as part of the simulation process. A minimum liquidity horizon of three months is applied and is based on a combination of factors, including issuer type, currency and size of exposure.

VaR

VaR used for regulatory purposes differs from VaR used for management purpose with key differences listed below.

VaR	Regulatory	Management
Scope	Regulatory approval	Broader population of trading and banking book positions
Confidence interval	99%	99%
Liquidity horizon	10-day	1-day
Data set	Past 2 years	Past 2 years

We calculate VaR for regulatory purposes only in respect of the trading books for which we have received approval to use an internal model from the regulator. Regulatory VaR levels contribute to the calculation of market risk RWAs.

Stressed VaR

SVaR is primarily used for regulatory capital purposes and is integrated into the risk management process to ensure prudent capital management. SVaR complements other risk measures by providing the potential losses under stressed market conditions.

SVaR modelling follows the same approach as our VaR risk measure, except that:

– potential market movements employed for SVaR calculations are based on a continuous one-year period of stress for the trading portfolio;
– it is calculated to a 99% confidence using a 10-day holding period; and
– it is based on an actual 10-day holding period, whereas regulatory VaR is based on a one-day holding period scaled to 10 days.

Incremental risk charge

The IRC is a measure of the default and migration risk of issuers of traded debt instruments. As required by the IMM approach, IRC is modelled using a one-year horizon with 99.9% confidence interval.

IRC risk factors include credit migration, default, default and transition correlation, product basis, concentration, hedge mismatch and recovery rate. The PDs derived from historical data on defaults and a one-year stress period, corresponding to the global financial crisis, are used to calibrate the spread changes for rating migration events. The IRC model is validated on a quarterly basis by stressing key model parameters and evaluating the model response.

The IRC is a stand-alone charge generating no diversification benefit with other charges. Positions in scope of IRC are assigned liquidity horizons of one year.

The IRC transition matrices are calibrated using transition and default data published by three rating agencies (S&P, Moody's and Fitch) as the starting point, in combination with internal estimates used for flooring PDs. The IRC correlation matrix is derived quarterly from historical CDS spread data from 2007 onwards. The IRC correlation model uses factors related to sector and region of issuers.

Analysis of VaR, stressed VaR and incremental risk charge measures

The following table is prepared in accordance with the basis of preparation used to calculate the group's market risk capital charge under the IMM approach.

Table 54: MR3 – IMM approach values for market risk exposures

		a
		At 31 Dec 2024 HK$m
VaR (10 day – one-tailed 99% confidence interval)[1]		
1	Maximum Value	**1,133**
2	Average Value	**619**
3	Minimum Value	**375**
4	Period End	**388**
Stressed VaR (10 day – one-tailed 99% confidence interval)[1]		
5	Maximum Value	**2,070**
6	Average Value	**1,507**
7	Minimum Value	**1,018**
8	Period End	**1,411**
IRC (99.9% confidence interval)		
9	Maximum Value	**3,791**
10	Average Value	**2,976**
11	Minimum Value	**2,132**
12	Period End	**2,132**

1 The total VaR excludes RNIV.

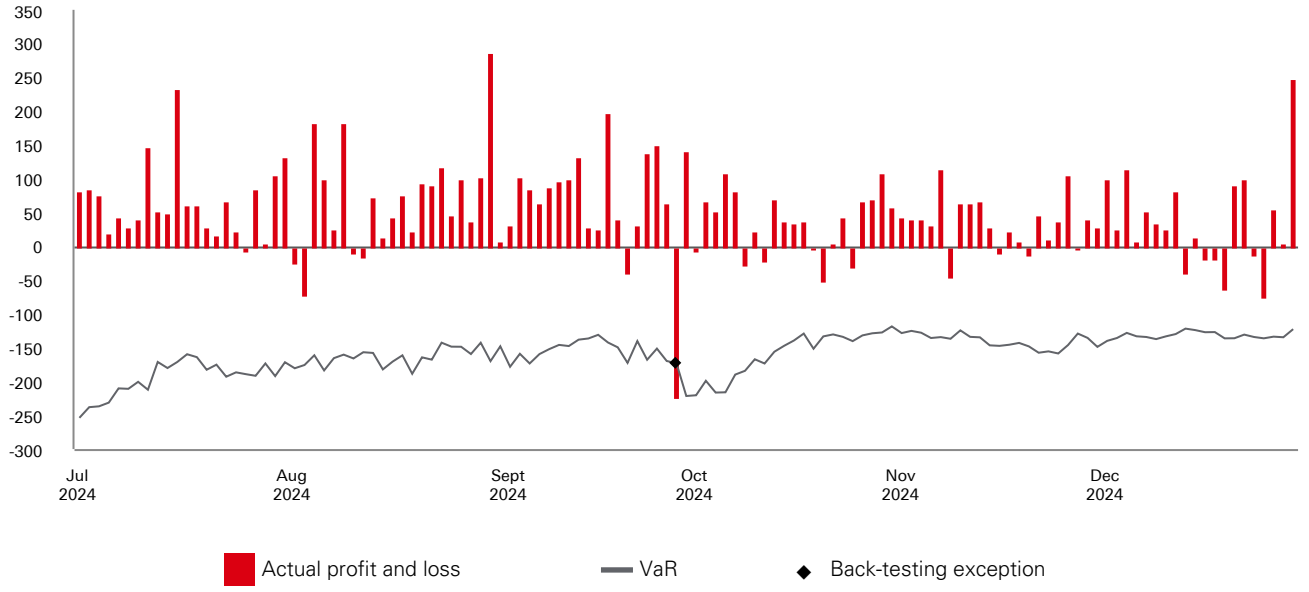
The group's trading VaR at 31 December 2024 was lower than 30 June 2024 mainly due to a decrease in interest rate risk exposures.

The reduction of trading Stressed VaR at 31 December 2024 compared to 30 June 2024 was mainly driven by a decrease in interest rate risk exposures.

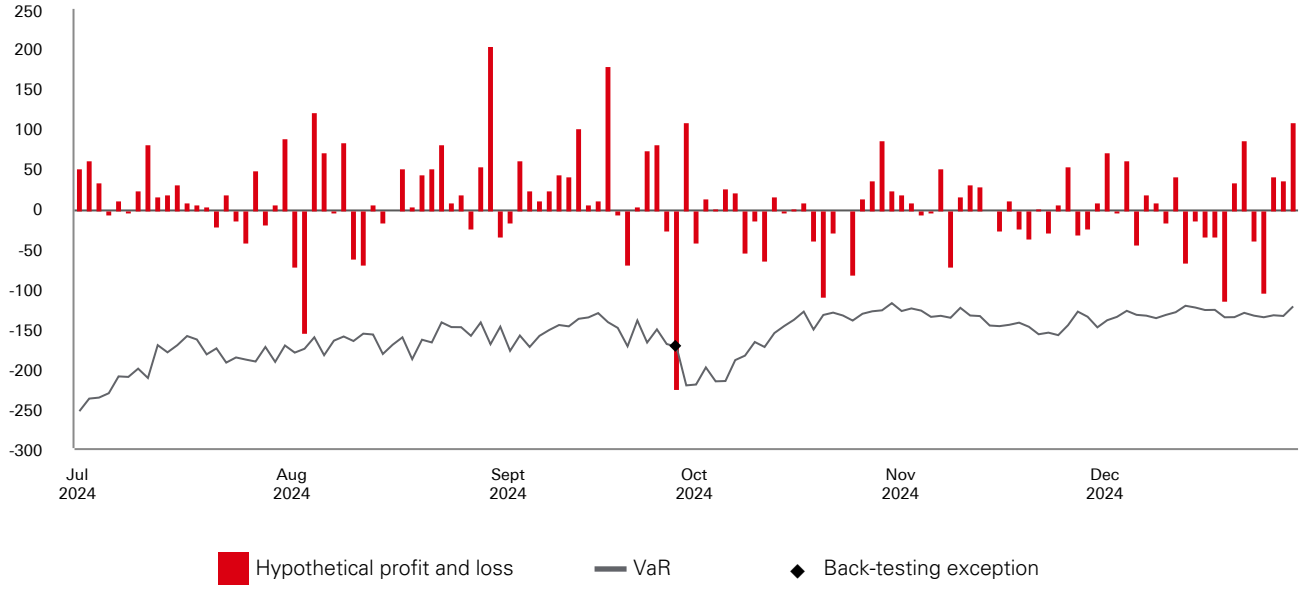
Trading IRC at 31 December 2024 was lower than 30 June 2024 due to a decrease in bond trading exposures.

Table 55: MR4 – Comparison of VaR estimates with gains or losses

VaR back-testing exceptions against actual profit and loss (HK$m)



VaR back-testing exceptions against hypothetical profit and loss (HK$m)



In the second half of 2024, the group experienced one loss back-testing exception against both actual and hypothetical profit and loss. The loss back-testing exception occurred at the end of September and was primarily driven by an increase in market volatility in equity markets.

Prudent valuation adjustment

The group has documented policies and maintains systems and controls for the calculation of PVA. Prudent value is an estimated conservative pricing with a 90% degree of certainty that would be received to sell an asset or paid to transfer a liability in orderly transactions occurring between market participants at the balance sheet date. The Group's methodology addresses fair value uncertainties arising from a number of sources; market price uncertainty, bid offer uncertainty, model risk, concentration, administrative cost, unearned credit spreads and investing and funding costs.

Table 56: PV1 – Prudent valuation adjustments

		a	b	c	d	e	f	g	h
		Equity	**Interest rates**	**FX**	**Credit**	**Commodities**	**Total**	**of which: In the trading book**	**of which: In the banking book**
		HK$m	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**
1	Close-out uncertainty	**635**	**1,299**	**72**	**223**	**1**	**2,230**	**1,518**	**712**
2	– of which: Mid-market value	**435**	**554**	**26**	**68**	**1**	**1,084**	**629**	**455**
3	Close-out costs	**77**	**297**	**22**	**30**	**—**	**426**	**271**	**155**
4	Concentration	**123**	**448**	**24**	**125**	**—**	**720**	**618**	**102**
5	Early termination	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
6	Model risk	**46**	**127**	**—**	**—**	**—**	**173**	**163**	**10**
7	Operational risks	**52**	**114**	**5**	**9**	**1**	**181**	**121**	**60**
8	Investing and funding costs	**—**	**11**	**—**	**—**	**2**	**13**	**7**	**6**
9	Unearned credit spreads	**—**	**350**	**3**	**—**	**10**	**363**	**363**	**—**
10	Future administrative costs	**38**	**67**	**—**	**4**	**—**	**109**	**43**	**66**
11	Other adjustments	**—**	**—**	**—**	**—**	**—**		**12**	**(12)**
12	**Total adjustments at 31 Dec 2024**	**771**	**1,968**	**80**	**236**	**14**	**3,069**	**2,227**	**842**

Liquidity information

The LCR aims to ensure that a bank has sufficient unencumbered HQLA to meet its liquidity needs in a 30 calendar day liquidity stress scenario. The group also uses the NSFR as a basis for ensuring operating entities raise sufficient stable funding to support their business activities. The NSFR requires institutions to maintain a minimum amount of stable funding based on assumptions of asset liquidity.

The following table displays the LCR and NSFR levels on three reporting bases in accordance with rules 10(1)(a), 10(1)(b) and 11(1) of the BLR under Basel III:

Table 57: LIQA – LCRs and NSFRs on three liquidity reporting bases

	At 31 Dec 2024	
	LCR	NSFR
	%	%
Hong Kong Office	**191.7**	**131.6**
Unconsolidated	**182.4**	**133.6**
Consolidated	**157.3**	**152.2**

Information relating to the group's approach to liquidity risk management, including customised measurement tools and metrics, and details of collateral pools and funding sources can be found on pages 52 to 53 of the group's Annual Report and Accounts 2024. The on- and off-balance sheet items, broken down into maturity buckets, are disclosed in Notes 25 and 26 on the group's Annual Report and Accounts 2024.

Table 58: LIQ1 – Liquidity coverage ratio – for category 1 institution

		a	b
	Number of data points used in calculating the average value of the LCR and related components set out in this table for the quarters ended on 31 December 2024 was 75.	**Quarter ended 31 Dec 2024**	
	Basis of disclosure: consolidated	**Unweighted value (average) HK$m**	**Weighted value (average) HK$m**
A	**HQLA**		
1	Total HQLA		**2,064,238**
B	**Cash outflows**		
2	Retail deposits and small business funding, of which:	**3,925,800**	**371,857**
3	Stable retail deposits and stable small business funding	**296,596**	**8,937**
4	Less stable retail deposits and less stable small business funding	**3,629,204**	**362,920**
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	**2,614,944**	**1,194,097**
6	Operational deposits	**800,453**	**194,408**
7	Unsecured wholesale funding (other than small business funding) not covered in row 6	**1,810,222**	**995,420**
8	Debt securities and prescribed instruments issued by the AI and redeemable within the LCR period	**4,269**	**4,269**
9	Secured funding transactions (including securities swap transactions)		**54,163**
10	Additional requirements, of which:	**1,523,202**	**361,681**
11	Cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	**201,915**	**201,836**
12	Cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	**2,824**	**2,824**
13	Potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	**1,318,463**	**157,021**
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	**181,417**	**181,417**
15	Other contingent funding obligations (whether contractual or non-contractual)	**2,569,558**	**26,560**
16	**Total cash outflows**		**2,189,775**
C	**Cash inflows**		
17	Secured lending transactions (including securities swap transactions)	**643,079**	**135,464**
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	**887,390**	**528,110**
19	Other cash inflows	**252,461**	**251,541**
20	**Total cash inflows**	**1,782,930**	**915,115**
D	**Liquidity coverage ratio (adjusted value)**		
21	Total HQLA		**2,064,238**
22	Total net cash outflows		**1,274,660**
23	LCR (%)		**162.2**

Table 59: LIQ2 – Net stable funding ratio – for category 1 institution

		a	b	c	d	e
		Quarter ended 31 Dec 2024				
		Unweighted value by residual maturity				
	Basis of disclosure: consolidated	No specified term to maturity HK$m	<6 months or repayable on demand HK$m	6 months to < 12 months HK$m	12 months or more HK$m	Weighted amount HK$m
A	**Available stable funding ('ASF') item**					
1	Capital:	**842,858**	**—**	**—**	**38,707**	**881,565**
2	Regulatory capital	**842,858**	**—**	**—**	**31,226**	**874,084**
3	Other capital instruments	**—**	**—**	**—**	**7,481**	**7,481**
4	Retail deposits and small business funding:		**3,967,329**	**—**	**—**	**3,586,645**
5	Stable deposits		**320,988**	**—**	**—**	**304,938**
6	Less stable deposits		**3,646,341**	**—**	**—**	**3,281,707**
7	Wholesale funding:	**—**	**3,672,357**	**50,259**	**7,660**	**1,221,986**
8	Operational deposits		**822,201**	**—**	**—**	**411,100**
9	Other wholesale funding	**—**	**2,850,156**	**50,259**	**7,660**	**810,886**
10	Liabilities with matching interdependent assets	**328,454**	**—**	**—**	**—**	**—**
11	Other liabilities:	**323,241**	**200,007**	**22,201**	**254,729**	**265,830**
13	All other funding and liabilities not included in the above categories	**323,241**	**200,007**	**22,201**	**254,729**	**265,830**
14	**Total ASF**					**5,956,026**
B	**Required stable funding ('RSF') item**					
15	Total HQLA for NSFR purposes[1]			**2,416,863**		**140,058**
17	Performing loans and securities:	**543,115**	**2,815,878**	**430,670**	**2,308,208**	**3,067,923**
18	Performing loans to financial institutions secured by Level 1 HQLA	**—**	**779,815**	**7,832**	**28,101**	**109,999**
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	**7,800**	**411,397**	**106,955**	**208,046**	**331,033**
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	**151,949**	**1,119,739**	**281,297**	**924,728**	**1,478,219**
21	With a risk-weight of less than or equal to 35% under the STC approach	**173**	**3,694**	**1,392**	**37,418**	**31,933**
22	Performing residential mortgages, of which:	**—**	**12,202**	**10,926**	**1,043,195**	**702,772**
23	With a risk-weight of less than or equal to 35% under the STC approach	**—**	**11,579**	**10,179**	**977,538**	**646,279**
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	**383,366**	**492,725**	**23,660**	**104,138**	**445,900**
25	Assets with matching interdependent liabilities	**328,454**	**—**	**—**	**—**	**—**
26	Other assets:	**1,098,692**	**90,603**	**—**	**1,964**	**632,813**
27	Physical traded commodities, including gold	**26,880**				**22,848**
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	**85,901**				**73,016**
29	Net derivative assets	**35,564**				**35,564**
30	Total derivative liabilities before adjustments for deduction of variation margin posted	**386,002**				**19,300**
31	All other assets not included in the above categories	**564,345**	**90,603**	**—**	**1,964**	**482,085**
32	Off-balance sheet items[1]			**3,883,218**		**72,811**
33	**Total RSF**					**3,913,605**
34	**Net Stable Funding Ratio (%)**					**152.2**

Table 59: LIQ2 – Net stable funding ratio – for category 1 institution (continued)

		a	b	c	d	e
		Quarter ended 30 Sep 2024				
		Unweighted value by residual maturity				
	Basis of disclosure: consolidated	No specified term to maturity HK$m	<6 months or repayable on demand HK$m	6 months to < 12 months HK$m	12 months or more HK$m	Weighted amount HK$m
A	Available stable funding ('ASF') item					
1	Capital:	880,872	—	—	40,698	921,570
2	Regulatory capital	880,872	—	—	32,696	913,568
3	Other capital instruments	—	—	—	8,002	8,002
4	Retail deposits and small business funding:		3,925,250	—	—	3,545,507
5	Stable deposits		255,644	—	—	242,861
6	Less stable deposits		3,669,606	—	—	3,302,646
7	Wholesale funding:	—	3,811,284	46,325	7,984	1,205,903
8	Operational deposits		791,218	—	—	395,609
9	Other wholesale funding	—	3,020,066	46,325	7,984	810,294
10	Liabilities with matching interdependent assets	330,774	—	—	—	—
11	Other liabilities:	328,901	359,842	23,343	267,825	279,498
13	All other funding and liabilities not included in the above categories	328,901	359,842	23,343	267,825	279,498
14	Total ASF					5,952,478
B	Required stable funding ('RSF') item					
15	Total HQLA for NSFR purposes[1]			2,419,340		133,848
17	Performing loans and securities:	521,026	2,988,686	452,902	2,333,415	3,116,475
18	Performing loans to financial institutions secured by Level 1 HQLA	—	779,440	16,049	23,664	109,569
19	Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	14,534	489,953	97,214	193,259	329,893
20	Performing loans, other than performing residential mortgage, to non-financial corporate clients, retail and small business customers, sovereigns, the Monetary Authority for the account of the Exchange Fund, central banks and PSEs, of which:	130,610	1,161,892	301,438	952,931	1,511,921
21	With a risk-weight of less than or equal to 35% under the STC approach	172	3,159	2,041	39,390	34,092
22	Performing residential mortgages, of which:	—	10,508	11,989	1,068,695	718,857
23	With a risk-weight of less than or equal to 35% under the STC approach	—	9,842	11,255	1,003,912	663,092
24	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	375,882	546,893	26,212	94,866	446,235
25	Assets with matching interdependent liabilities	330,774	—	—	—	—
26	Other assets:	1,023,850	229,977	—	1,714	614,904
27	Physical traded commodities, including gold	20,158				17,136
28	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	75,014				63,762
29	Net derivative assets	6,053				6,053
30	Total derivative liabilities before adjustments for deduction of variation margin posted	332,932				16,647
31	All other assets not included in the above categories	589,693	229,977	—	1,714	511,306
32	Off-balance sheet items[1]			3,852,523		63,140
33	Total RSF					3,928,367
34	Net Stable Funding Ratio (%)					151.5

1 The unweighted values disclosed in these rows are not required to be split by residual maturity.

Other disclosures

Interest rate exposures in the banking book

Interest rate risk in the banking book ('IRRBB') is the potential adverse impact of changes in interest rates on earnings and capital. The component of IRRBB that can be economically neutralised in the market is transferred to the Markets Treasury team to manage, in accordance with internal transfer pricing rules. In its management of IRRBB, the group aims to balance the potential adverse effect of future interest rate movements on the net interest income ('NII') against the cost of hedging. The monitoring of the projected NII and economic value of equity ('EVE') sensitivities ('Δ') under varying interest rate scenarios is a key part of this.

Risk Management and Governance

Global Treasury measures, monitors and manages IRRBB. This includes reviewing and challenging the interest rate risk management impacts of proposed new products and the related behavioural assumptions used for hedging activities. Global Treasury is also responsible for maintaining and updating the transfer pricing framework, informing the Asset and Liability Committee ('ALCO') of the group's overall banking book interest rate risk exposure, and managing the balance sheet in conjunction with Markets Treasury.

EVE and NII sensitivities are monitored against thresholds at both entity and consolidated levels. Global Treasury is subject to independent oversight and challenge from Treasury Risk, Global Internal Audit and model governance.

At HSBC, stress testing also forms a key part of our risk management framework. HSBC runs various internal and regulatory stress tests during the year both at a Group and individual entity level. These help to identify our exposure to key economic risks and how they impact financial and capital positions in the event of a severe economic shock. Identifying these risks allows us to actively assess and implement effective risk management strategies to help mitigate risks before they occur. This also helps to ensure that we have adequate capital and liquidity to withstand severe but plausible hypothetical economic shocks, as defined in the stress scenarios, and helps determine our capital requirements under the internal capital adequacy process ('ICAAP').

The ALCO defines each operating entity's transfer pricing curve and reviews and approves the transfer pricing policy, including behavioural assumptions used for products where there is either no defined maturity or customer optionality exists.

The ALCO is also responsible for monitoring and reviewing each entity's overall structural interest rate risk position. Structural hedge demand is determined as per Group's Benchmark Structural Hedge methodology and is approved by local ALCOs at least annually. Banking book assets and liabilities are transferred to Markets Treasury based on their repricing and maturity characteristics. Markets Treasury manages the banking book interest rate positions transferred to it within the Market Risk limits.

Sensitivity of economic value of equity

ΔEVE is the extent to which the EVE will change due to a pre-specified movement in interest rates (six interest rate shock scenarios prescribed by the HKMA), where all other economic variables are held constant. Variations in market interest rates can affect the economic value of assets, liabilities and OBS positions. The economic value of an instrument represents an assessment of the present value of its expected net cash flows, discounted to reflect market rates. The economic value perspective reflects this sensitivity. It provides a more comprehensive view of the potential long-term effects of changes in interest rates.

Sensitivity of net interest income

ΔNII is the sensitivity of expected NII applying varying interest rate scenarios, where all other economic variables are held constant. The sensitivity of NII reflects the bank's sensitivity of earnings due to changes in market interest rates. Based on the reported interest rate repricing positions in the Interest Rate Risk Return, the impact on earnings is assessed over the next 12 months using the interest rate shock scenarios prescribed by the HKMA.

The ΔEVE and ΔNII shown in Table 60 are indicative and based on scenarios and assumptions prescribed by the HKMA under its completion instructions for the Return of Interest Rate Risk in the Banking Book – MA(BS)12A, which is completed and reported quarterly on a consolidated basis.

Key modelling and parametric assumptions used in calculating ΔEVE and ΔNII in Table 60 include:

a. for ΔEVE, commercial margins and other spread components have been excluded from the interest cash flows calculation, and all balance sheet items are discounted at risk free rates back to the reporting date;

b. all the positions captured are assumed to run to maturity and slotted into the appropriate time bands based on structural hedge maturity profile for material exposures and according to the earliest interest repricing date for the rest (as per the HKMA Return of Interest Rate Risk in the Banking Book – MA(BS)12A) including for non-maturity deposits ('NMDs'); and

c. no prepayment or early redemption risk is assumed as the bank does not have material long-term fixed rate positions, since the majority of loans are on a floating basis and the average term for fixed rate deposits is one to three months, therefore the risk is immaterial.

The group uses an internal measurement system to generate ΔEVE for internal assessment of capital adequacy which is different from the modelling assumptions prescribed for this disclosure, however, the cumulative impact on the quantification of EVE sensitivity is small. This includes:

a. structural hedge demand of non-maturity products, the extent of which can be driven by:
   i. the amount of the current balance that can be assessed as stable under business-as-usual conditions; and
   ii. for managed rate balances the historic market interest rate re-pricing behaviour observed; or
   iii. for non-interest bearing balances the duration for which the balance is expected to remain under business-as-usual conditions. This assessment is often driven by the re-investment tenors available to Markets Treasury to neutralise the risk through the use of fixed rate government bonds or interest rate derivatives, and for derivatives the availability of cash flow hedging capacity.

b. internal measurements consider aggregated results of all currencies and not only material currencies as prescribed by the HKMA under its completion instruction for the Return of Interest Rate Risk in the Banking Book – MA(BS)12A;

c. negative rate flooring is set at -1% for the overnight tenor to 0% for 20-year tenor, unlike the modelling assumptions prescribed under this disclosure which is set at -2% for all currencies; and

d. economic value gains weighted 50% and losses weighted 100% under internal measurement unlike the modelling assumptions for this disclosure where economic value gains are weighted at 0%.

The repricing maturity of NMDs is determined by the actual risk transfer tenors subject to caps prescribed by the HKMA in the Supervisory Policy Manual for IRRBB (IR-1).

Quantitative information on interest rate risk in banking book

At 31 December 2024, the maximum decline in EVE is in the 'Parallel Up' shock at HK$18,242m. This translates to 3.1% of Tier 1 capital. The most adverse NII sensitivity scenario over the next 12 months is the 'Parallel Up' shock, resulting in a decrease in projected NII of HK$14,448m at 31 December 2024, as compared to HK$11,399m at 31 December 2023.

The changes in sensitivities have been driven by factors including balance sheet evolution and growth, an increase in stabilisation activities in line with our strategy, and modelling improvements.

The average and the longest repricing maturity for NMDs as of 31 December 2024 was 11 months and 120 months respectively.

Table 60: IRRBB1 – Quantitative information on interest rate risk in banking book

		a	b	c	d
		ΔEVE		ΔNII	
		31 Dec 2024	31 Dec 2023	**31 Dec 2024**	31 Dec 2023
		HK$m	HK$m	**HK$m**	HK$m
1	Parallel up	**18,242**	17,329	**14,448**	11,399
2	Parallel down	**399**	390	**(14,559)**	(11,638)
3	Steepener	**2,321**	5,618		
4	Flattener	**4,617**	3,494		
5	Short rate up	**10,669**	7,388		
6	Short rate down	**40**	1,042		
7	Maximum	**18,242**	17,329	**14,448**	11,399
	Period	**31 Dec 2024**		31 Dec 2023	
8	Tier 1 capital	**581,944**		562,454	

Mainland activities

The analysis of mainland activities is based on the categories of non-bank counterparties and the type of direct exposures defined by the HKMA under the Basel III BDR with reference to the HKMA's Return of Mainland Activities – MA(BS)20, which includes the mainland exposures extended by the Bank's Hong Kong offices and wholly-owned banking subsidiaries in mainland China.

Table 61: Mainland activities

		On-balance sheet exposure	**Off-balance sheet exposure**	**Total exposures**
		HK$m	**HK$m**	**HK$m**
	At 31 Dec 2024			
	Types of counterparties			
1	Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	**258,648**	**42,339**	**300,987**
2	Local governments, local government-owned entities and their subsidiaries and JVs	**79,344**	**4,905**	**84,249**
3	People's Republic of China ('PRC') nationals residing in mainland China or other entities incorporated in mainland China and their subsidiaries and JVs	**419,721**	**71,799**	**491,520**
4	Other entities of central government not reported in item 1 above	**10,897**	**2,873**	**13,770**
5	Other entities of local governments not reported in item 2 above	**10,474**	**1,897**	**12,371**
6	PRC nationals residing outside mainland China or entities incorporated outside mainland China where the credit is granted for use in mainland China	**17,982**	**2,070**	**20,052**
7	Other counterparties where the exposures are considered by the reporting institution to be non-bank mainland China exposures	**35,517**	**2,757**	**38,274**
	Total	**832,583**	**128,640**	**961,223**
	Total assets after provision	**6,746,073**		
	On-balance sheet exposures as percentage of total assets	**12.34%**		

International claims

The group's country risk exposures in the table below are prepared in accordance with the HKMA Return of International Banking Statistics – MA(BS)29 guidelines on a regulatory consolidation basis and reflect amendments in regulatory reporting instructions during the second half of 2024. International claims are on-balance sheet exposures to counterparties based on the location of the counterparties, after taking into account the transfer of risk, and represent the sum of cross-border claims in all currencies and local claims in foreign currencies.

The table shows claims on individual countries and territories or areas, after recognised risk transfer, amounting to not less than 10% of the group's total international claims.

Table 62: International claims

	Banks	Official sector	Non-bank financial institutions	Non-financial private sector	Total
	HK$m	HK$m	HK$m	HK$m	HK$m
At 31 Dec 2024					
Developed countries	**386,641**	**1,051,075**	**557,485**	**455,446**	**2,450,647**
– of which: United States	**55,569**	**719,509**	**150,127**	**33,397**	**958,602**
– of which: Japan	**60,233**	**147,076**	**220,062**	**256,022**	**683,393**
Offshore centres	**114,029**	**88,656**	**162,313**	**481,206**	**846,204**
– of which: Hong Kong	**46,378**	**16,093**	**65,014**	**335,855**	**463,340**
Developing Asia and Pacific	**461,758**	**178,311**	**106,814**	**302,497**	**1,049,380**
– of which: Mainland China	**332,596**	**90,655**	**52,678**	**150,373**	**626,302**

Foreign currency positions

The group had the following non-structural foreign currency positions that were not less than 10% of the net non-structural positions in all foreign currencies at 31 December 2024:

Table 63: Non-structural foreign currency positions

HK$m equivalent	United States Dollars HK$m	Singapore Dollars HK$m
At 31 Dec 2024		
Spot assets	**2,894,446**	**507,356**
Spot liabilities	**(3,757,645)**	**(374,085)**
Forward purchases	**14,747,853**	**359,528**
Forward sales	**(13,839,998)**	**(486,110)**
Net options positions	**(14,030)**	**(46)**
Net long (net short) position[1]	**30,626**	**6,643**

1 The net options positions reported above are calculated using the delta-weighted positions of the options contracts.

Remuneration

Remuneration Strategy

Our goal is to deliver a unique and exceptional experience to energise colleagues to perform at their best. This is critical to strengthening our ability to attract, retain and motivate the people we need in competitive markets where employee expectations continue to evolve. Our performance and pay framework is underpinned by our Group's Remuneration Strategy and principles.

Our reward principles and commitments guide our approach to workforce reward and are set out below. They support our focus on being a great place to work, provide clarity on our proposition and ensure prioritisation in the right areas.

- We will reward our colleagues responsibly through fixed pay security and protection through core benefits, a competitive total compensation opportunity, pay equity and a more inclusive and sustainable benefits proposition over time.
- We will recognise colleagues' success through our performance culture and routines, including feedback and recognition, pay for performance, and all employees share ownership opportunities.
- We will support our colleagues to grow through our proposition beyond pay, with a focus on future skills and development, your mental, physical, social and financial well-being, and flexibility.

In 2024, we made several significant changes to improve our proposition to unlock our performance edge:

- We introduced performance routines to help ensure colleagues know what is expected of them, how they are doing and how they can improve. This is achieved by setting ambitious goals, discussing performance frequently through the year, regularly exchanging feedback and recognising outstanding performance via our simplified performance assessment;
- We introduced "Target Variable Pay" to majority of our junior to mid-level employees, helping to improve fairness and consistency in reward outcomes, and providing more clarity and transparency on how we make pay decisions and the impact of Group, business and individual performance on variable pay; and
- We continued to improve our wellbeing offering by enhancing country Employee Assistance Programmes, increasing the number of mental health champions in our Mindfulness Network, developed new financial wellbeing support and running activity challenges to improve employees' physical activity.

Please refer to the HSBC remuneration practices and governance at www.hsbc.com/who-we-are/esg-and-responsible-business/governance/remuneration and the Pillar 3 Remuneration Disclosures in the Director's Remuneration Report section of the Annual Report and Accounts of HSBC Holdings plc for further details.

Governance and role of relevant stakeholders

The Group Remuneration Committee is responsible for setting the principles, parameters and governance framework for the Group's remuneration strategy applicable to all Group employees, which is adopted by the Bank. The members of the Bank's Remuneration Committee are independent non-executive Directors of the Bank Board.

The Bank as an authorised institution under the Banking Ordinance is required by HKMA Supervisory Policy Manual CG-5 'Guideline on a Sound Remuneration System' ('the Guideline') to assess whether their existing remuneration systems and policy are in line with the principles in the Guideline, independently of management. This review is undertaken annually. For the review completed in April 2024, Deloitte LLP confirmed that the Bank's remuneration strategy as adopted from the Group strategy is consistent with the principles set out in the Guideline. Deloitte has been commissioned to undertake the review for 2024/2025.

Senior management and key personnel

Senior management is defined as those persons responsible for oversight of the group's strategy, activities or material business lines. This includes the Executive Directors, Executive Committee members, Co-Chief Executives, Alternative Chief Executive, Head of Control Functions (Audit, Risk, Legal and Compliance) and Managers as registered with the HKMA. There were 32 members of senior management during 2024.

Key personnel is defined as individual employees whose duties or activities involve the assumption of material risk or the taking on of material exposures on behalf of the group. Under the provisions of the UK Prudential Regulation Authority's ('PRA') Remuneration Rules, HSBC is required to identify individuals who will be considered as 'Identified Staff and Material Risk Takers' (collectively referred to as 'Material Risk Takers' or 'MRTs') based on the qualitative and quantitative criteria specified in the Regulatory Technical Standard ('RTS') issued by the European Banking Authority ('EBA'). Based on the criteria applicable to the Group, the identified number of MRTs, and in turn key personnel, in 2024 were 344 members.

Table 64: REM1 – Remuneration awarded during financial year

		a	b
		2024	
	Remuneration amount and quantitative information	**Senior Management**	**Key personnel**
	Fixed remuneration[1]		
1	Number of employees	**32**	**312**
2	Total fixed remuneration (HK$m)	**289**	**1,233**
3	– of which: cash-based	**289**	**1,233**
	Variable remuneration[2]		
9	Number of employees[3]	**32**	**312**
10	Total variable remuneration (HK$m)	**347**	**1,200**
11	– of which: cash-based	**163**	**574**
12	– of which: deferred	**95**	**282**
13	– of which: shares or other share-linked instruments	**184**	**626**
14	– of which: deferred	**117**	**335**
17	**Total remuneration (HK$m)**	**636**	**2,433**

1 Fixed remuneration includes base salary, cash allowance, pension contribution and international assignment benefits where applicable.
2 The forms of variable remuneration and the proportion deferred are based on the seniority, role and responsibilities of employees and their level of total variable compensation.
3 Number of employees disclosed above includes leavers who may have zero variable pay.

Table 65: REM2 – Special payments

		e	f
		2024	
		Severance payments	
	Special payments	**Number of employees**	**Total amount HK$m**
2	Key personnel	**10**	**19**

Table 66: REM3 – Deferred remuneration

		a	b	d	e
		2024			
	Deferred and retained remuneration	**Total amount of outstanding deferred remuneration HK$m**	**of which: Total amount of outstanding deferred and retained remuneration exposed to ex post explicit and/ or implicit adjustment HK$m**	**Total amount of amendment during the year due to ex post implicit adjustments HK$m**	**Total amount of deferred remuneration paid out in the financial year HK$m**
1	**Senior management**	**595**	**595**	**90**	**121**
2	Cash	**217**	**217**	**–**	**50**
3	Shares	**378**	**378**	**90**	**71**
6	**Key personnel**	**1,578**	**1,578**	**254**	**434**
7	Cash	**568**	**568**	**–**	**162**
8	Shares	**1,010**	**1,010**	**254**	**272**
11	**Total**	**2,173**	**2,173**	**344**	**555**

The amount of outstanding deferred remuneration and amendment due to ex post implicit adjustments have both increased as compared to last year. This is a reflection of personnel changes in senior management and key personnel, and fluctuation of share price.

Other information

Abbreviations

The following abbreviated terms are used throughout this document.

Currencies

HK$bn	Billions (thousands of millions) of Hong Kong dollars
HK$m	Millions of Hong Kong dollars

A

α	Alpha
AI	Authorised institution
ALCO	Asset and Liability Management Committee
ASF	Available stable funding
AT1	Additional tier 1
AVAs	Additional valuation adjustments

B

Bank	The Hongkong and Shanghai Banking Corporation Limited
BCBS	Basel Committee on Banking Supervision
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BLR	Banking (Liquidity) Rules
BSC	Basic indicator approach

C

CCF	Credit conversion factor
CCP[1]	Central counterparty
CCR[1]	Counterparty credit risk
CCyB[1]	Countercyclical capital buffer
CDS[1]	Credit default swap
CET1[1]	Common equity tier 1
CIS	Collective investment scheme
CRE[1]	Commercial real estate
CRM[1]	Credit risk mitigation/mitigant
CRO	Chief Risk Officer
CRR[1]	Customer risk rating
CSA	Credit support annex
CVA[1]	Credit valuation adjustment

D

Dec	December
D-SIB	Domestic systemically important authorised institution
DTAs	Deferred tax assets

E

EAD[1]	Exposure at default
EBA	European Banking Authority
ECA	Export credit agencies
ECAI	External Credit Assessment Institutions
ECL[1]	Expected credit loss
EEPE	Effective expected positive exposures
EL	Expected loss
EVE	Economic value of equity

F

Fitch	Fitch Ratings
FSB	Financial Stability Board
FX	Foreign exchange

G

GMRC	Global Model Risk Committee
Group	HSBC Holdings together with its subsidiary undertakings
group	The Hongkong and Shanghai Banking Corporation Limited together with its subsidiary undertakings
G-SIB[1]	Global systemically important authorised institution

H

HAHO	HSBC Asia Holdings Limited
HKFRS	Hong Kong Financial Reporting Standards
HKMA	Hong Kong Monetary Authority
Hong Kong/HK	The Hong Kong Special Administrative Region of the People's Republic of China
HQLA	High-quality liquid assets
HSBC	HSBC Holdings together with its subsidiary undertakings
HSBC Group	HSBC Holdings together with its subsidiary undertakings
HVCRE	High volatility commercial real estate

I

IAA	Internal assessment approach
ICAAP	Internal capital adequacy process
IMM[1]	Internal Models Method
IMM(CCR)	Internal models (counterparty credit risk)
IPRE	Income producing real estate
IRB[1]	Internal ratings-based approach
IRC	Incremental risk charge
IRRBB	Interest rate risk in the banking book

J

J	Jurisdiction
JCCyB	Jurisdictional countercyclical capital buffer
Jun	June
JVs	Joint ventures

L

LAC	Loss-absorbing capacity
LAC Rules	Financial Institutions (Resolution) (Loss–absorbing Capacity Requirements - Banking Sector) Rules
LCR[1]	Liquidity Coverage Ratio
LGD[1]	Loss given default
LR[1]	Leverage ratio
LTA	Look-through approach

M

Mar	March
MBA	Mandate-based approach
MOF	Model Oversight Forum
Moody's	Moody's Investors Service
MRC	Regional Model Risk Committee
MRTs[1]	Identified Staff and Material Risk Takers
MSRs	Mortgage servicing rights

N

NBFI	Non-bank financial institution
NII[1]	Net interest income
NMDs	Non-maturity deposits
NSFR[1]	Net stable funding ratio
NTBFX	Non-trading book foreign exchange

O

OBS	Off-balance sheet
OTC[1]	Over-the-counter

P

PD[1]	Probability of default
PF	Project finance
PFE	Potential future exposure
PiT	Point-in-Time
PMA	Post Model Adjustment
PRA[1]	Prudential Regulation Authority
PRC	People's Republic of China
PSE	Public sector entities
PVA	Prudent valuation adjustments

Q

QRRE	Qualifying revolving retail exposures

R

RAS	Risk appetite statement
RC	Replacement cost

RMM	Risk Management Meeting
RMOF	Retail Model Oversight Forum
RNIV	Risks not in VaR
RSF	Required stable funding
RTS	Regulatory Technical Standard
RW	Risk weight
RWA[1]	Risk-weighted asset/risk-weighted amount
S	
SA-CCR	Standardised (counterparty credit risk) approach
SEC-ERBA	Securitisation external ratings-based approach
SEC-FBA	Securitisation fall-back approach
SEC-IRBA	Securitisation internal ratings-based approach
SEC-SA	Securitisation standardised approach
Δ	Sensitivity
Sep	September
SFT	Securities Financing Transactions
SMEs	Small-and-medium sized enterprises/corporates
SPE[1]	Special purpose entities
SRW	Supervisory risk weight
STC	Standardised (credit risk) approach
STM	Standardised (market risk) approach
STO	Standardised (operational risk) approach
SVaR[1]	Stressed Value at risk
S&P	Standard and Poor's Ratings Services
T	
T1[1]	Tier 1 capital
T2[1]	Tier 2 capital
TC[1]	Total regulatory capital
TLAC[1]	Total Loss-absorbing Capacity
V	
VaR[1]	Value at risk
W	
WMOF	Wholesale Model Oversight Forum

1 Full definition included in the Glossary published on HSBC website www.hsbc.com.

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