The Hongkong and Shanghai Banking Corporation Limited

Banking Disclosure Statement at 31 December 2025
(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 2025. The group's Annual Report and Accounts 2025, 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 is subject to regular and independent review and has been approved by the group's senior management and 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 2025 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 25 February 2026. 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 2025, 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.

The Banking Disclosure Statement

The group's Banking Disclosure Statement at 31 December 2025 comprises Pillar 3 information required under the framework of the Basel Committee on Banking Supervision ('BCBS'). The disclosures are made in accordance with the latest BDR and the LAC Rules, including those under the Basel III final reform package which took effect on 1 January 2025, issued by the HKMA. According to the BDR and the LAC Rules, disclosure of comparative information is not required unless otherwise specified in the standard disclosure templates. Comparative information disclosed in the standard disclosure templates for periods before 1 January 2025 are made in accordance with the BDR and the LAC Rules issued by the HKMA under Basel III. Prior period disclosures can be found in the Regulatory Disclosure section of our website, www.hsbc.com.hk.

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 2025. 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 2025:	**References:**
– BDR Section 16FJ – LIQA: Liquidity risk management	Pages 49-50
– BDR Section 16J – The group's definition of impaired and forborne and the methods adopted for determining impairments	Note 1.2(j)
– BDR Section 29(5) – Net structural foreign currency exposures	Page 49
– 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 4Q25:

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 22 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 2025	30 Sep 2025	30 Jun 2025	31 Mar 2025	31 Dec 2024
	Regulatory capital (HK$m)[1]					
1 & 1a	Common Equity Tier 1 ('CET1')	**563,498**	529,114	538,359	523,180	516,121
2 & 2a	Tier 1	**643,430**	608,996	618,263	587,583	581,944
3 & 3a	Total capital	**697,459**	663,765	682,916	652,993	643,455
	Risk-weighted assets ('RWAs') (HK$m)[1]					
4	Total RWAs	**2,957,912**	3,024,425	3,009,836	2,984,030	3,167,152
4a	Total RWAs (pre-floor)[6]	**2,957,912**	3,024,425	3,009,836	2,984,030	N/A
	Risk-based regulatory capital ratios (as a percentage of RWAs)[1]					
5 & 5a	CET1 ratio (%)	**19.1**	17.5	17.9	17.5	16.3
5b	CET1 ratio (%) (pre-floor ratio)[6]	**19.1**	17.5	17.9	17.5	N/A
6 & 6a	Tier 1 ratio (%)	**21.8**	20.1	20.5	19.7	18.4
6b	Tier 1 ratio (%) (pre-floor ratio)[6]	**21.8**	20.1	20.5	19.7	N/A
7 & 7a	Total capital ratio (%)	**23.6**	21.9	22.7	21.9	20.3
7b	Total capital ratio (%) (pre-floor ratio)[6]	**23.6**	21.9	22.7	21.9	N/A
	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]	**0.37**	0.35	0.35	0.35	0.34
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 (%)	**5.37**	5.35	5.35	5.35	5.34
12	CET1 available after meeting the AI's minimum capital requirements (%)	**14.6**	13.0	13.4	13.0	11.8
	Basel III leverage ratio[3]					
13	Total leverage ratio exposure measure (HK$m)	**10,785,341**	10,741,956	10,635,764	10,162,707	10,038,018
13a	Leverage ratio exposure measure based on mean values of gross assets of securities financing transactions ('SFTs') (HK$m)[6]	**10,787,267**	10,741,421	10,611,743	10,131,214	N/A
14, 14a & 14b	Leverage ratio (%)	**6.0**	5.7	5.8	5.8	5.8
14c & 14d	Leverage ratio (%) based on mean values of gross assets of SFTs[6]	**6.0**	5.7	5.8	5.8	N/A
	Liquidity Coverage Ratio ('LCR')[4]					
15	Total high quality liquid assets ('HQLA') (HK$m)	**2,160,026**	2,306,665	2,286,582	2,190,883	2,064,238
16	Total net cash outflows (HK$m)	**1,451,610**	1,425,788	1,404,127	1,365,972	1,274,660
17	LCR (%)	**149.0**	162.1	163.0	160.4	162.2
	Net Stable Funding Ratio ('NSFR')[5]					
18	Total available stable funding (HK$m)	**6,399,607**	6,187,638	6,229,047	5,990,641	5,956,026
19	Total required stable funding (HK$m)	**4,332,172**	4,139,015	4,111,766	3,946,586	3,913,605
20	NSFR (%)	**147.7**	149.5	151.5	151.8	152.2

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').

2 Jurisdictional countercyclical capital buffer ('JCCyB') ratios used in the calculation of the CCyB requirement are in the range of 0% to 2.5% at 31 December 2025.

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.

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').

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.

6 Prior period disclosures are not applicable, as the disclosure requirement is only required under the Basel III final reform package which took effect on 1 January 2025.

Risk-based regulatory capital ratios

As at 31 December 2025, the increase in the CET1 capital ratio, the Tier 1 capital ratio and the total capital ratio were primarily driven by higher CET1 capital and a reduction in total RWAs. The increase in CET1 capital was driven by higher retained profits at HBAP level.

Additional CET1 buffer requirements

As at 31 December 2025, the CET1 available after meeting the AI's minimum capital requirements increased due to the increase in CET1 capital.

Liquidity Coverage Ratio

As at 31 December 2025, the 3-month average LCR decreased as a result of securities segregated and encumbered to privatise Hang Seng Bank Limited.

Risk management

Our risk management framework

We aim to 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 ('RMF'), including the key principles and practices that we deploy in managing material risks, both financial and non-financial.

The framework fosters continuous monitoring, promotes risk awareness and drives a positive risk culture. It encourage sound operational and strategic decision making and escalation. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we incur in our activities, with clear accountabilities.

- Further information on our RMF is set out on page 19 of the group's Annual Report and Accounts 2025. The management and mitigation of principal risks facing the group is described in our top and emerging risks on page 21 of the group's Annual Report and Accounts 2025.
- Commentary on hedging strategies and associated processes can be found in the 'Credit valuation adjustment risk' section on page 46 of this document. For further information, see pages 45 and 47 of the group's Annual Report and Accounts 2025.

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 22 to 61 of the Annual Report and Accounts 2025. Please see the following sections for further details on each material risk:

- Credit risk (refer to pages 24 to 45 of the Annual Report and Accounts 2025)
- Treasury risk (refer to pages 46 to 50 of the Annual Report and Accounts 2025)
- Market risk (refer to pages 51 to 52 of the Annual Report and Accounts 2025)
- Climate risk (refer to pages 52 to 54 of the Annual Report and Accounts 2025)
- Resilience risk (refer to page 55 of the Annual Report and Accounts 2025)
- Regulatory compliance risk (refer to page 55 of the Annual Report and Accounts 2025)
- Financial crime risk (refer to pages 55 to 56 of the Annual Report and Accounts 2025)
- Model risk (refer to page 56 of the Annual Report and Accounts 2025)
- Insurance manufacturing operations risk (refer to pages 57 to 61 of the Annual Report and Accounts 2025)

Culture

HSBC understands the importance of a strong culture. Our culture refers to our shared attitudes, beliefs, values and standards that shape behaviours including those 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.

- For further details of remuneration, see pages 58 and 59. Information about the group's remuneration committee membership and its activities is available on page 8 of group's the Annual Report and Accounts 2025.

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 2025.

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

- Further details on risk governance can be found on pages 19 to 20 of the group's Annual Report and Accounts 2025.

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 19 to 20 of the group's Annual Report and Accounts 2025.

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 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 2025.

Global and the group's Risk and Compliance function

We have a dedicated Global Risk and Compliance function, headed by the Group CRCO, which is responsible for the Group's RMF. This includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risks.

Global Risk and Compliance is composed of sub-functions covering all risks to our business. It is independent from the global businesses 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 and Compliance function, headed by the group's CRCO, is independent from the global businesses and responsible for the group's RMF.

- For further information, see page 19 of the group's Annual Report and Accounts.

Stress testing

HSBC operates a wide-ranging stress testing programme that supports our risk management and capital and liquidity planning by assessing potential financial risks to our business model. As well as undertaking regulatory-driven stress tests, we conduct our own internally defined stress tests to understand the nature of our potential vulnerabilities, quantify their impact of such risks and develop plausible mitigating actions. The outcome of a stress test provides management with key insights into the impact of severely adverse events on the group and provides an indication to regulators of the group's resilience to shocks and any consequences for financial stability.

The group's stress testing programme is overseen by the group's Risk Committee, and results are reported, where appropriate, to the group's Finance Management Meeting ('FMM') and Risk Committee.

- Further information about stress testing are set out on page 20 of the group's Annual Report and Accounts 2025.

Risk management and internal control systems

The Directors are responsible for maintaining and reviewing the effectiveness of the risk management and internal control systems, and for determining the aggregate level of risk and the 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 management and internal controls other than for financial reporting, and the group's Audit Committee has responsibility for oversight of risk management and internal controls over financial reporting.

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 system 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.

We are advancing a comprehensive initiative aimed at strengthening our global regulatory reporting processes and making them more sustainable. This multifaceted programme includes enhancing data, consistency and controls.

We remain committed to investing in the reliability and resilience of our technology systems and critical services, which support all parts of our business. We assess our third parties to ensure they deliver the standard of services we require to provide resilient services to our customers. We do so to help protect our customers, affiliates and counterparties, and to help ensure that we minimise any disruption to services. In our approach to defending against these threats, we invest in business and technical controls to help us prevent, detect, manage and recover from issues in a timely manner within our risk appetite.

Risk measurement and reporting structures deployed at Group level are applied throughout global businesses and major operating subsidiaries such as the group 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 and the group's Risk and Compliance function manage a number of analytics disciplines supporting the development and management of models, including those for risk rating, behavioural scoring, economic capital, climate 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. They 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 business segments and functions. They are an essential element of the governance structure for model risk management ('MRM').

The MRC meets regularly and reports to the RMM. It is chaired by the group Head of Enterprise Risk Management and its membership includes senior executives from the global businesses, Finance, and Risk and Compliance. The MRC is responsible for providing advice and making recommendations relating to the oversight of model risk within the group. It serves an important role in providing strategic direction on the management of models and their associated risks to global businesses and functions.

The MRC is supported by Model Oversight Forums ('MOFs') operating within the group through which issues are escalated. The MOFs serve to oversee and monitor the implementation of elements of the model risk framework and provide subject matter expertise. Their scope is a subset of the overall model landscape related to model categories including those for risk rating, behavioural scoring, economic capital, climate, and stress testing. Similarly, the GMRC is supported by the Global MOFs at the global level.

MRM undertakes four key activities including, model risk governance, model risk stewardship, independent model validation and infrastructure. Global model risk policy and procedures 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 business segments or functions, as well as local entities under the governance of their own management, subject to overall Group policy and oversight. MRM works closely with business segments and functions to help ensure that models in development meet risk management, pricing and capital management needs.

Models are subject to an independent validation process and governance oversight by the Model Risk Management team within Global and the group's Risk and Compliance function. The team helps to 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. All new or materially changed IRB capital models require pre-approval from the Prudential Regulation Authority's ('PRA') and the HKMA.

Model risk remains a key area of focus given the regulatory scrutiny in this area, with local regulatory exams taking place in many jurisdictions and the PRA supervisory statement SS1/23 Model risk management principles for banks coming into effect. This provides detailed principles-based guidance on how model risk should be managed, and further developments in policy are also expected from other regulators.

Regulatory and other expectations continue to evolve with regards to our capability and practice of model risk management.

In the 'Risk Review, Our Responsibilities' section of the group's Annual Report and Accounts 2025 on page 20 we outline how roles are defined using the three lines of defence model, which considers our business segments and functional structures. Global Internal Audit provides an independent and objective assessment of the group's RMF, control and governance processes, to check they are adequately designed and operating effectively. All three lines of defence at HSBC have responsibility to support effective management of model risk.

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 56 of the group's Annual Report and Accounts 2025.

Linkage to the Annual Report and Accounts 2025

Basis of consolidation

The basis of consolidation for 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 2025.

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 47 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. No surplus capital in insurance subsidiaries is recognised in the calculation of the group's capital adequacy.

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 2025.

For all subsidiaries included in both the accounting and regulatory scope of consolidation, the same consolidation methodology is applied at 31 December 2025.

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 2025, the effect of this regulatory reserve requirement is to reduce the amount of reserves which can be distributed to shareholders by HK$17,064m.

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

		At 31 Dec 2025	
	Principal activities	Total assets HK$m	Total equity HK$m
HSBC Broking Futures (Hong Kong) Ltd	**Futures broking**	**384**	**98**
HSBC Broking Services (Asia) Ltd and its subsidiaries	**Broking services**	**7,816**	**3,315**
HSBC Corporate Advisory (Malaysia) Sdn Bhd	**Financial services**	**6**	**4**
HSBC Corporate Finance (Hong Kong) Ltd	**Financial services**	**13**	**12**
HSBC Global Asset Management Holdings (Bahamas) Ltd	**Asset management**	**13**	**13**
HSBC Global Asset Management (Hong Kong) Ltd	**Asset management**	**1,372**	**600**
HSBC Asset Management (Japan) Ltd	**Asset management**	**358**	**172**
HSBC Global Asset Management (Singapore) Ltd	**Asset management**	**1,217**	**828**
HSBC Insurance (Asia-Pacific) Holdings Ltd and its subsidiaries	**Insurance**	**808,134**	**43,585**
HSBC InvestDirect (India) Private Ltd and its subsidiaries	**Financial services**	**2,658**	**952**
HSBC Investment Funds (Hong Kong) Ltd	**Asset management**	**557**	**331**
HSBC Qianhai Securities Ltd	**Securities services**	**2,406**	**1,554**
HSBC Securities (Japan) Co. Ltd	**Broking services**	**209,209**	**1,020**
HSBC Securities (Singapore) Pte Ltd	**Broking services**	**222**	**99**
HSBC Securities Brokers (Asia) Ltd	**Broking services**	**570**	**524**
Hang Seng Insurance Co. Ltd and its subsidiaries	**Insurance**	**246,148**	**11,499**
Hang Seng Investment Management Ltd	**Asset management**	**410**	**361**
Hang Seng Investment Services Ltd	**Investment services**	**9**	**9**
Hang Seng Qianhai Fund Management Co. Ltd	**Asset management**	**150**	**127**
Hang Seng Securities Ltd	**Broking services**	**3,068**	**1,010**
HSBC Investment and Insurance Brokerage, Philippines Inc	**Broking services**	**86**	**75**
HSBC Life (Bermuda) Ltd	**Reinsurance**	**836**	**72**
HSBC Philanthropy Foundation Beijing[1]	**Charitable foundation**	**86**	**86**
The Hongkong Bank Foundation[1]	**Charitable foundation**	**535**	**356**
Metrix Portfolio Distribution plc[1,2]	**Securitisation**	**3,171**	**—**
Lion Series 2020-1 Trust[1]	**Securitisation**	**1,147**	**—**
Lion Series 2022-1 Trust[1]	**Securitisation**	**1,616**	**—**
Lion Series 2023-1 Trust[1]	**Securitisation**	**2,669**	**—**

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:

Risk category	Our approach
Credit risk	The group uses the advanced IRB approach ('AIRB') and the foundation IRB approach ('FIRB') to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme ('CIS') exposures, the group uses the look-through approach to calculate the RWAs.
Counterparty credit risk ('CCR')	The group uses both the standardised (counterparty credit risk) approach ('SA-CCR approach') and the internal models (counterparty credit risk) approach ('IMM(CCR) approach') to calculate its default risk exposures for derivatives, and the comprehensive approach for SFTs.
Securitisation	The group uses 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.
Credit valuation adjustment ('CVA') risk	The group uses the standardised CVA approach ('SA-CVA') and the full basic CVA approach ('BA-CVA') to calculate its CVA risk capital charge.
Market risk	The group uses the standardised (market risk) approach ('STM approach') to calculate its market risk capital charge.
Operational risk	The group uses the standardised operational risk approach to calculate its operational risk capital charge.

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 2025		
	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	**204,345**	**203,906**	
Hong Kong Government certificates of indebtedness	**342,994**	**342,994**	
Trading assets	**1,223,430**	**1,222,296**	
– of which: significant LAC investments eligible as Tier 2 capital issued by financial sector entities	**—**	**4**	1
Derivatives	**398,946**	**399,462**	
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**924,722**	**40,057**	
Reverse repurchase agreements – non-trading	**885,669**	**686,954**	
Loans and advances to banks	**516,658**	**511,894**	
Loans and advances to customers	**3,641,752**	**3,637,466**	
– of which: impairment allowances eligible for inclusion in Tier 2 capital	**—**	**(3,230)**	2
Financial investments	**2,537,975**	**2,497,166**	
Amounts due from Group companies	**192,443**	**362,544**	
– of which: significant LAC investments eligible as Tier 2 capital issued by financial sector entities	**—**	**6,951**	3
Investments in subsidiaries	**—**	**26,622**	
Interests in associates and joint ventures	**178,839**	**175,019**	
– of which: goodwill	**—**	**3,669**	4
– of which: significant LAC investments in financial sector entities exceeding 10% threshold	**—**	**129,658**	5
Goodwill and intangible assets	**42,638**	**37,820**	
– of which: goodwill	**—**	**4,339**	6
– of which: intangible assets	**—**	**33,481**	7
Property, plant and equipment	**116,262**	**109,616**	
Deferred tax assets	**17,803**	**2,523**	
– of which: deferred tax assets net of related tax liabilities	**—**	**2,599**	8
– of which: deferred tax liabilities related to goodwill	**—**	**(72)**	9
– of which: deferred tax liabilities related to intangible assets	**—**	**(4)**	10
Prepayments, accrued income and other assets	**458,755**	**334,871**	
– of which: defined benefit pension fund net assets	**—**	**487**	11
Total assets	**11,683,231**	**10,591,210**	

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

	a	b	c
	At 31 Dec 2025		
	Balance sheet as in published financial statements HK$m	Under regulatory scope of consolidation HK$m	Cross-referenced to definition of Capital Components
Liabilities			
Hong Kong currency notes in circulation	**342,994**	**342,994**	
Repurchase agreements – non-trading	**622,751**	**618,300**	
Deposits by banks	**232,930**	**232,766**	
Customer accounts	**7,097,003**	**7,096,626**	
Trading liabilities	**88,404**	**88,404**	
Derivatives	**418,974**	**419,721**	
– of which: gains and losses due to changes in own credit risk on fair valued liabilities	**—**	**(46)**	12
Financial liabilities designated at fair value	**195,199**	**164,694**	
– of which: gains and losses due to changes in own credit risk on fair valued liabilities	**—**	**119**	13
Debt securities in issue	**47,020**	**38,242**	
Retirement benefit liabilities	**811**	**810**	
Amounts due to Group companies	**387,744**	**386,832**	
– of which: qualifying Tier 2 capital instruments	**—**	**24,721**	14
– of which: gains and losses due to changes in own credit risk on fair valued liabilities	**—**	**5,884**	15
Accruals and deferred income, other liabilities and provisions	**320,213**	**245,501**	
Insurance contract liabilities	**943,838**	**—**	
Current tax liabilities	**16,670**	**12,964**	
Deferred tax liabilities	**24,509**	**24,124**	
– of which: deferred tax liabilities related to goodwill	**—**	**4**	16
– of which: deferred tax liabilities related to intangible assets	**—**	**5,319**	17
– of which: deferred tax liabilities related to defined benefit pension fund net assets	**—**	**66**	18
Total liabilities	**10,739,060**	**9,671,978**	
Equity			
Share capital	**180,181**	**180,181**	
– of which: portion eligible for inclusion in CET1 capital	**—**	**178,727**	19
– of which: revaluation reserve capitalisation issue	**—**	**1,454**	20
Other equity instruments	**79,158**	**79,158**	
– of which: qualifying Additional Tier 1 ('AT1') capital instruments	**—**	**79,158**	21
Other reserves	**136,194**	**128,135**	22
– of which: fair value gains arising from revaluation of land and buildings	**—**	**55,981**	23
– of which: cash flow hedging reserves	**—**	**3,660**	24
– of which: valuation adjustment	**—**	**57**	25
Retained earnings	**489,040**	**474,856**	26
– of which: regulatory reserve for general banking risks	**—**	**17,064**	27
– of which: regulatory reserve eligible for inclusion in Tier 2 capital	**—**	**5,020**	28
– of which: fair value gains arising from revaluation of land and buildings	**—**	**3,253**	29
– of which: valuation adjustment	**—**	**3,246**	30
Total shareholders' equity	**884,573**	**862,330**	
Non-controlling interests	**59,598**	**56,902**	
– of which: portion allowable in CET1 capital	**—**	**27,852**	31
– of which: portion allowable in AT1 capital	**—**	**774**	32
– of which: portion allowable in Tier 2 capital	**—**	**703**	33
Total equity	**944,171**	**919,232**	
Total liabilities and equity	**11,683,231**	**10,591,210**	

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	**204,345**	**203,906**	**203,906**	**—**	**—**	**—**	**—**
Hong Kong Government certificates of indebtedness	**342,994**	**342,994**	**342,994**	**—**	**—**	**—**	**—**
Trading assets[2]	**1,223,430**	**1,222,296**	**262**	**73,211**	**—**	**1,222,034**	**—**
Derivatives[2]	**398,946**	**399,462**	**—**	**399,462**	**—**	**399,462**	**—**
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**924,722**	**40,057**	**24,487**	**5,491**	**9,849**	**—**	**230**
Reverse repurchase agreements – non-trading	**885,669**	**686,954**	**—**	**686,954**	**—**	**—**	**—**
Loans and advances to banks	**516,658**	**511,894**	**510,790**	**1,104**	**—**	**—**	**—**
Loans and advances to customers	**3,641,752**	**3,637,466**	**3,519,962**	**206**	**117,298**	**—**	**—**
Financial investments	**2,537,975**	**2,497,166**	**2,494,150**	**—**	**2,827**	**—**	**189**
Amounts due from Group companies[2]	**192,443**	**362,544**	**103,192**	**247,830**	**—**	**6,340**	**11,310**
Investments in subsidiaries	**—**	**26,622**	**—**	**—**	**—**	**—**	**26,622**
Interests in associates and joint ventures	**178,839**	**175,019**	**69,308**	**—**	**—**	**—**	**105,711**
Goodwill and intangible assets[3]	**42,638**	**37,820**	**—**	**—**	**—**	**—**	**32,497**
Property, plant and equipment	**116,262**	**109,616**	**109,616**	**—**	**—**	**—**	**—**
Deferred tax assets	**17,803**	**2,523**	**—**	**—**	**—**	**—**	**2,523**
Prepayments, accrued income and other assets[3,4]	**458,755**	**334,871**	**247,317**	**66,062**	**—**	**2,969**	**18,457**
Total assets at 31 Dec 2025	**11,683,231**	**10,591,210**	**7,625,984**	**1,480,320**	**129,974**	**1,630,805**	**197,539**
Liabilities							
Hong Kong currency notes in circulation	**342,994**	**342,994**	**—**	**—**	**—**	**—**	**342,994**
Repurchase agreements – non-trading	**622,751**	**618,300**	**—**	**618,300**	**—**	**—**	**—**
Deposits by banks	**232,930**	**232,766**	**—**	**—**	**—**	**—**	**232,766**
Customer accounts	**7,097,003**	**7,096,626**	**—**	**—**	**—**	**—**	**7,096,626**
Trading liabilities[2]	**88,404**	**88,404**	**—**	**22,411**	**—**	**88,404**	**—**
Derivatives[2]	**418,974**	**419,721**	**—**	**419,721**	**—**	**419,721**	**—**
Financial liabilities designated at fair value	**195,199**	**164,694**	**—**	**—**	**—**	**148,202**	**16,492**
Debt securities in issue	**47,020**	**38,242**	**—**	**—**	**—**	**—**	**38,242**
Retirement benefit liabilities	**811**	**810**	**—**	**—**	**—**	**—**	**810**
Amounts due to Group companies[2]	**387,744**	**386,832**	**—**	**8,999**	**—**	**—**	**377,833**
Accruals and deferred income, other liabilities and provisions	**320,213**	**245,501**	**—**	**—**	**—**	**—**	**245,501**
Insurance contract liabilities	**943,838**	**—**	**—**	**—**	**—**	**—**	**—**
Current tax liabilities	**16,670**	**12,964**	**—**	**—**	**—**	**—**	**12,964**
Deferred tax liabilities	**24,509**	**24,124**	**—**	**—**	**—**	**—**	**24,124**
Total liabilities at 31 Dec 2025	**10,739,060**	**9,671,978**	**—**	**1,069,431**	**—**	**656,327**	**8,388,352**

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]	**10,393,671**	**7,625,984**	**129,974**	**1,480,320**	**1,630,805**
2	Liabilities carrying value amount under regulatory scope of consolidation (as per template LI1)[2]	**1,283,626**	**—**	**—**	**1,069,431**	**656,327**
3	**Total net amount under regulatory scope of consolidation**	**9,110,045**	**7,625,984**	**129,974**	**410,889**	**974,478**
4	Off-balance sheet amounts and potential future exposure ('PFE') for counterparty risk	**4,114,750**	**975,077**	**2,656**	**236,555**	**—**
5	Differences in netting rules	**53**	**—**	**—**	**53**	**—**
6	Differences due to financial collateral on standardised approach	**(34,867)**	**(34,867)**	**—**	**—**	**—**
7	Differences due to consideration of provisions	**38,865**	**38,865**	**—**	**—**	**—**
8	Differences due to credit risk mitigation ('CRM')	**(234,854)**	**—**	**—**	**(234,854)**	**—**
9	**Exposure amounts considered for regulatory purposes at 31 Dec 2025**	**12,993,992**	**8,605,059**	**132,630**	**412,643**	**974,478**

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 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 ('CCFs') to these items and add 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 (credit risk) approach ('STC approach') is calculated after deducting CRM, whereas the accounting value is before such deductions.

Differences due to consideration of provisions

The carrying value of assets is net of credit risk adjustments. The regulatory exposure value under IRB approaches and non-defaulted exposure under the STC approach are 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 58 presents further information on the prudent valuation adjustments ('PVA').

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 2025	
		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**	19
2	Retained earnings	**474,856**	26
3	Disclosed reserves	**128,135**	22
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)	**27,852**	31
6	**CET1 capital before regulatory deductions**	**809,570**	
	CET1 capital: regulatory deductions		
7	Valuation adjustments	**3,303**	25+30
8	Goodwill (net of associated deferred tax liabilities)	**7,932**	4+6+9-16
9	Other intangible assets (net of associated deferred tax liabilities)	**28,158**	7+10-17
10	Deferred tax assets (net of associated deferred tax liabilities)	**2,599**	8
11	Cash flow hedge reserve	**3,660**	24
14	Gains and losses due to changes in own credit risk on fair valued liabilities	**(5,957)**	-(12+13+15)
15	Defined benefit pension fund net assets (net of associated deferred tax liabilities)	**421**	11-18
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)	**129,658**	5
26	National specific regulatory adjustments applied to CET1 capital	**76,298**	
26a	Cumulative fair value gains arising from the revaluation of land and buildings (own-use and investment properties)	**59,234**	23+29
26b	Regulatory reserve for general banking risks	**17,064**	27
28	**Total regulatory deductions to CET1 capital**	**246,072**	
29	**CET1 capital**	**563,498**	
	AT1 capital: instruments		
30	Qualifying AT1 capital instruments plus any related share premium	**79,158**	21
31	– of which: classified as equity under applicable accounting standards	**79,158**	21
34	AT1 capital instruments issued by consolidated bank subsidiaries and held by third parties (amount allowed in AT1 capital of the consolidated group)	**774**	32
36	**AT1 capital before regulatory deductions**	**79,932**	
	AT1 capital: regulatory deductions		
43	**Total regulatory deductions to AT1 capital**	**–**	
44	**AT1 capital**	**79,932**	
45	**Tier 1 capital ('T1' = CET1 + AT1)**	**643,430**	
	Tier 2 capital: instruments and provisions		
46	Qualifying Tier 2 capital instruments plus any related share premium	**24,721**	14
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)	**703**	33
50	Collective provisions and regulatory reserve for general banking risks eligible for inclusion in Tier 2 capital	**8,250**	28-2
51	**Tier 2 capital before regulatory deductions**	**33,674**	
	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)	**6,955**	1+3
56	National specific regulatory adjustments applied to Tier 2 capital	**(27,310)**	
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	**(27,310)**	(20+23+29)x45%
57	**Total regulatory adjustments to Tier 2 capital**	**(20,355)**	
58	**Tier 2 capital ('T2')**	**54,029**	
59	**Total regulatory capital ('TC' = T1 + T2)**	**697,459**	
60	**Total RWAs**	**2,957,912**	

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

		a	b
		At 31 Dec 2025	
		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	**19.1%**	
62	Tier 1 capital ratio	**21.8%**	
63	Total capital ratio	**23.6%**	
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical capital buffer plus higher loss absorbency requirements)	**5.37%**	
65	– of which: capital conservation buffer requirement	**2.50%**	
66	– of which: bank specific countercyclical capital buffer requirement	**0.37%**	
67	– of which: higher loss absorbency requirement	**2.50%**	
68	CET1 (as a percentage of RWAs) available after meeting minimum capital requirements	**14.6%**	
	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	**35,056**	
73	Significant LAC investments in CET1 capital instruments issued by financial sector entities that are outside the scope of regulatory consolidation	**69,316**	
	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 approach ('BSC approach'), or the STC approach and SEC-ERBA, SEC-SA and securitisation fall-back approach ('SEC-FBA') (prior to application of cap)	**6,828**	
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	**7,270**	
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)	**1,443**	
79	Cap for inclusion of provisions in Tier 2 under the IRB approach and SEC-IRBA	**10,951**	

Total regulatory capital increased by HK$14.5bn in the second half of 2025, mainly due to an increase of HK$25.1bn in Tier 1 capital; partly offset by a decrease of HK$10.6bn in Tier 2 capital.

The increase in Tier 1 capital was mainly due to:

– an increase of HK$31.6bn from regulatory profits, net of dividends; partly offset by
– a decrease of HK$4.2bn from higher threshold deduction for significant investments in financial sector entities; and
– a decrease of HK$2.6bn in allowable non-controlling interests.

The decrease in Tier 2 capital was primarily driven by redemptions of Tier 2 capital instruments of HK$9.3bn and an increased deduction for a significant investment in a Tier 2 subordinated loan of HK$2.3bn.

Notes to the template:

		At 31 Dec 2025	
		Hong Kong basis HK$m	Basel III basis HK$m
10	Deferred tax assets (net of associated deferred tax liabilities)	**2,599**	**51**

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. 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 2025	
	Total amount	Amount recognised in regulatory capital HK$m
CET1 capital instruments		
Ordinary shares	**HK$180,181m**	**178,727**
AT1 capital instruments		
Fixed rate perpetual subordinated loans, callable from 2026	**US$900m**	**7,064**
Fixed rate perpetual subordinated loans, callable from 2027	**US$600m**	**4,686**
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 2030	**SG$800m**	**4,604**
Fixed rate perpetual subordinated loans, callable from 2030	**US$2,000m**	**15,536**
Fixed rate perpetual subordinated loans, callable from 2031	**US$1,500m**	**11,546**
Fixed rate perpetual subordinated loans, callable from 2034	**US$1,150m**	**8,877**
Tier 2 capital instruments		
Subordinated loan due 2031, callable from 2026	**US$600m**	**4,680**
Subordinated loan due 2032, callable from 2027	**SG$900m**	**5,696**
Subordinated loan due 2032, callable from 2027	**JPY11,900m**	**589**
Subordinated loan due 2033, callable from 2028	**SG$1,000m**	**6,394**
Subordinated loan due 2034, callable from 2029	**AU$850m**	**4,503**
Subordinated loan due 2035, callable from 2030	**AU$550m**	**2,859**

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 2025			
		Applicable JCCyB ratio in effect[1]	RWAs used in computation of CCyB ratio	AI-specific CCyB ratio	CCyB amount
	Geographical breakdown by Jurisdiction	%	HK$m	%	HK$m
1	Hong Kong	0.50	840,360		
2	Australia	1.00	147,706		
3	Belgium	1.00	135		
4	Bulgaria	2.00	1		
5	Chile	0.50	2,200		
6	Croatia	1.50	1		
7	Cyprus	1.00	615		
8	Czech Republic	1.25	1		
9	Denmark	2.50	444		
10	Estonia	1.50	1		
11	France	1.00	2,290		
12	Germany	0.75	1,099		
13	Greece	0.25	779		
14	Hungary	1.00	1,620		
15	Iceland	2.50	4		
16	Ireland	1.50	6,212		
17	Luxembourg	0.50	4,927		
18	Netherlands	2.00	7,110		
19	Norway	2.50	36		
20	Poland	1.00	148		
21	Portugal	0.75	11		
22	Romania	1.00	2		
23	South Korea	1.00	16,828		
24	Spain	0.50	462		
25	Sweden	2.00	2,153		
26	United Arab Emirates	0.50	9,805		
27	United Kingdom	2.00	27,763		
	Sum[2]		1,072,713		
	Total[3]		1,863,442	0.37	10,856

1 JCCyB ratios used in the calculation of the CCyB requirement are in the range of 0% to 2.5% at 31 December 2025.
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).

The RWAs used in the computation of CCyB ratio decreased by HK$62.0bn in the second half of 2025 primarily due to credit risk mitigations, portfolio mix changes in Hong Kong and methodology changes.

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.

Table 9: LR2 – Leverage ratio

		a	b
		31 Dec 2025 HK$m	30 Sep 2025 HK$m
	On-balance sheet exposures		
1	On-balance sheet exposures (excluding derivative contracts and SFTs, but including related on-balance sheet collateral)	**8,916,765**	8,930,936
3	Less: Deductions of receivables assets for cash variation margin provided under derivative contracts	**(117,060)**	(116,890)
5	Less: Specific and collective provisions associated with on-balance sheet exposures that are deducted from Tier 1 capital	**(40,820)**	(39,382)
6	Less: Asset amounts deducted in determining Tier 1 capital	**(250,181)**	(248,134)
7	**Total on-balance sheet exposures (excluding derivative contracts and SFTs) (sum of rows 1 to 6)**	**8,508,704**	8,526,530
	Exposures arising from derivative contracts		
8	Replacement cost associated with all derivative contracts (where applicable net of eligible cash variation margin and/or with bilateral netting)	**109,386**	107,709
9	Add-on amounts for PFE associated with all derivative contracts	**375,206**	398,255
10	Less: Exempted central counterparty ('CCP') leg of client-cleared trade exposures	**(24,683)**	(27,625)
11	Adjusted effective notional amount of written credit-related derivative contracts	**146,172**	156,353
12	Less: Permitted reductions in effective notional amount and permitted deductions from add-on amounts for PFE of written credit-related derivative contracts	**(128,327)**	(137,540)
13	**Total exposures arising from derivative contracts (sum of rows 8 to 12)**	**477,754**	497,152
	Exposures arising from SFTs		
14	Gross amount of SFT assets (with no recognition of netting), after adjusting for sale accounting transactions	**1,031,588**	947,598
15	Less: Netted amounts of cash payables and cash receivables of gross SFT assets	**(40,099)**	(20,303)
16	CCR exposure for SFT assets	**50,765**	44,874
18	**Total exposures arising from SFTs (sum of rows 14 to 16)**	**1,042,254**	972,169
	Other off-balance sheet exposures		
19	Off-balance sheet exposure at gross notional amount	**4,104,920**	4,029,845
20	Less: Adjustments for conversion to credit equivalent amounts	**(3,347,212)**	(3,283,626)
21	Less: Specific and collective provisions associated with off-balance sheet exposures that are deducted from Tier 1 capital	**(1,079)**	(114)
22	Off-balance sheet items (sum of rows 19 to 21)	**756,629**	746,105
	Capital and total exposures		
23	**Tier 1 capital**	**643,430**	608,996
24	**Total exposures (sum of rows 7, 13, 18 and 22)**	**10,785,341**	10,741,956
	Leverage ratio		
25 & 25a	Leverage ratio (%)[1]	**6.0**	5.7
26	Minimum leverage ratio requirement (%)	**3.0**	3.0
	Disclosure of mean values		
28	Mean value of gross assets of SFTs, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**993,415**	926,760
29	Quarter-end value of gross amount of SFT assets, after adjustment for sale accounting transactions and netted of amounts of associated cash payables and cash receivables	**991,489**	927,295
30 & 30a	Total exposures based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables)	**10,787,267**	10,741,421
31 & 31a	Leverage ratio based on mean values from row 28 of gross assets of SFTs (after adjustment for sale accounting transactions and netted amounts of associated cash payables and cash receivables) (%)	**6.0**	5.7

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

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

		a
		Value under the leverage ratio framework
	Item	**31 Dec 2025 HK$m**
1	Total consolidated assets as per published financial statements	**11,683,231**
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	**(1,031,925)**
3	Adjustment for securitised exposures that meet the operational requirements for the recognition of risk transference	**(5,320)**
8	Adjustments for derivative contracts	**(38,767)**
9	Adjustment for SFTs (i.e. repos and similar secured lending)	**50,765**
10	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of OBS exposures)	**757,708**
11	Adjustments for PVA and specific and collective provisions that are allowed to be excluded from leverage ratio exposure measure	**(1,166)**
12	Other adjustments	**(629,185)**
13	**Leverage ratio exposure measure**	**10,785,341**

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 leverage ratio exposure measure in accordance with the HKMA requirements specified in Part 1C of the BCR.

Overview of RWAs and the minimum capital requirements

Table 11: OV1 – Overview of RWAs

		a	b	c
		RWAs	RWAs	**Minimum capital requirements[1]**
		31 Dec 2025 HK$m	30 Sep 2025 HK$m	**31 Dec 2025 HK$m**
1	**Credit risk for non-securitisation exposures**	**2,127,252**	2,183,602	**170,180**
2	– of which: STC approach	**372,769**	381,143	**29,822**
3	– of which: FIRB	**854,345**	874,627	**68,348**
4	– of which: supervisory slotting criteria approach	**117,599**	113,374	**9,408**
5	– of which: AIRB	**415,431**	445,490	**33,234**
5a	– of which: retail IRB approach	**231,265**	230,277	**18,501**
5b	– of which: specific risk-weight approach	**135,843**	138,691	**10,867**
6	**Counterparty credit risk and default fund contributions**	**81,235**	90,079	**6,499**
7	– of which: SA-CCR approach	**41,423**	50,752	**3,314**
8	– of which: IMM(CCR) approach	**24,853**	25,259	**1,988**
9	– of which: Others	**14,959**	14,068	**1,197**
10	**CVA Risk**	**73,011**	79,235	**5,841**
12	**CIS exposures – look-through approach/third-party approach**	**1,796**	1,840	**144**
15	**Settlement risk**	**26**	369	**2**
16	**Securitisation exposures in banking book**	**25,242**	22,893	**2,020**
17	– of which: SEC-IRBA	**3,623**	3,562	**290**
18	– of which: SEC-ERBA including internal assessment approach ('IAA')	**7,338**	5,038	**587**
19	– of which: SEC-SA	**14,281**	14,293	**1,143**
20	**Market risk**	**166,272**	173,434	**13,302**
21	– of which: STM approach	**166,272**	173,434	**13,302**
24	**Operational risk**	**343,186**	341,679	**27,455**
25	**Amounts below the thresholds for deduction (subject to 250% risk weight ('RW'))**	**173,270**	164,630	**13,862**
26	**Output floor level applied**	**50%**	50%	
27	**Floor adjustment (before application of transitional cap)**	**—**	—	
28a	**Deduction to RWAs**	**33,378**	33,336	**2,670**
28c	– of which: portion of cumulative fair value gains arising from the revaluation of land and buildings which is not included in Tier 2 Capital	**33,378**	33,336	**2,670**
29	**Total**	**2,957,912**	3,024,425	**236,635**

1 Minimum capital requirements represent the Pillar 1 capital charge at 8% of the RWAs.

Credit risk for non-securitisation exposures

Excluding the foreign exchange impact of HK$5.7bn, RWAs decreased by HK$62.0bn in fourth quarter of 2025 primarily due to credit risk mitigations, portfolio mix changes in Hong Kong and methodology changes.

Comparison of modelled and standardised RWAs

Table 12: CMS1 – Comparison of modelled and standardised RWAs at risk level

		a	b	c	d
		RWAs			
		RWAs calculated under model-based approaches that the AI has the HKMA's approval to use	RWAs for portfolios where standardised approaches are used	Total actual RWAs (a + b) (i.e. RWAs which the AI reports as current requirements)	RWAs calculated using full standardised approach (i.e. used in the computation of the output floor)
		HK$m	HK$m	HK$m	HK$m
1	Credit risk for non-securitisation exposures	1,754,483	372,769	2,127,252	3,369,102
2	Counterparty credit risk and default fund contributions	66,944	14,291	81,235	327,645
3	CVA risk		73,011	73,011	73,011
4	Securitisation exposures in banking book	6,273	18,969	25,242	34,713
5	Market risk	—	166,272	166,272	166,272
6	Operational risk		343,186	343,186	343,186
7	Residual RWA	1,822	173,270	175,092	175,092
8	**Total at 31 Dec 2025**	1,829,522	1,161,768	2,991,290	4,489,021

The difference between the RWAs calculated under the model-based approaches and the full standardised approach is mainly from corporate exposures under credit risk for non-securitisation exposures.

Table 13: CMS2 – Comparison of modelled and standardised RWAs for credit risk at exposure class level

		a	b	c	d
		RWAs			
		RWAs calculated under model-based approaches that the AI has the HKMA's approval to use	RWAs for column (a) if recalculated using the standardised approach	Total actual RWAs (i.e. RWAs which the AI reports as current requirements)	RWAs calculated using full standardised approach (i.e. RWAs used in the computation of the output floor)
		HK$m	HK$m	HK$m	HK$m
1	Sovereign exposures	196,098	46,589	197,506	47,997
1a	– of which: categorised as public sector entity ('PSE') exposures and multilateral development bank exposures under the STC approach	—	—	1,373	1,373
2	Bank exposures	137,362	294,680	164,704	322,022
3	Equity			20,571	20,571
4	Corporate exposures (excluding specialised lending)	936,316	1,908,708	1,140,602	2,112,994
4a	– of which: FIRB is applied	716,983	1,572,580	716,983	1,572,580
4b	– of which: AIRB is applied	219,333	336,128	219,333	336,128
5	Retail exposures	231,265	432,928	350,427	552,090
5a	– of which: qualifying revolving retail	57,191	69,818	93,475	106,102
5b	– of which: other retail exposures to individuals and small business retail exposures	41,171	43,232	98,272	100,333
5c	– of which: residential mortgages	132,903	319,878	158,680	345,655
6	Corporate exposures – specialised lending	117,599	177,585	117,599	177,585
6a	– of which: income-producing real estate and high-volatility commercial real estate	85,739	129,079	85,739	129,079
7	Other exposures	135,843	135,843	135,843	135,843
8	**Total at 31 Dec 2025**	1,754,483	2,996,333	2,127,252	3,369,102

The main driver for the difference between the internally modelled amounts and amounts calculated using the standardised approach is the use of the FIRB for non-large corporate exposures of the group excluding Hong Kong and all large corporate and bank exposures.

RWA flow statements

RWA flow statement for credit risk

Table 14: CR8 – RWA flow statement of credit risk exposures under IRB approach

		a
		HK$m
1	**RWAs as at 30 Sep 2025**	**1,802,459**
2	Asset size	**(5,435)**
3	Asset quality	**(28,831)**
5	Methodology and policy	**(17,879)**
7	Foreign exchange movements	**4,169**
9	**RWAs as at 31 Dec 2025**	**1,754,483**

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

Excluding the foreign exchange impact of HK$4.2bn, RWAs under the IRB approach decreased by HK$52.1bn in fourth quarter of 2025 primarily due to asset quality movements arising from credit risk mitigations and portfolio mix changes in Hong Kong. Methodology and policy changes in multilateral development bank and international organisation exposures and undrawn exposures also contributed to the reduction.

RWA flow statement for counterparty credit risk

Table 15: CCR7 – RWA flow statement of default risk exposures under IMM(CCR) approach

		a
		HK$m
1	**RWAs as at 30 Sep 2025**	**25,259**
2	Asset size	**624**
3	Credit quality of counterparties	**(1,038)**
4	Model updates	**(2)**
7	Foreign exchange movements	**10**
9	**RWAs as at 31 Dec 2025**	**24,853**

RWA flow statement for credit valuation adjustment risk

Table 16: CVA4 – RWA flow statement of CVA risk exposures under standardised CVA approach

		a
		HK$m
1	**Total RWAs for CVA risk at 30 Sep 2025**	**17,853**
2	**Total RWAs for CVA risk at 31 Dec 2025**	**15,704**

Loss-absorbing Capacity

Table 17: KM2(A) – Key metrics – LAC requirements for material subsidiaries

		a	b	c	d	e
		At				
		31 Dec 2025	30 Sep 2025	30 Jun 2025	31 Mar 2025	31 Dec 2024
At LAC consolidation group level						
1	Internal loss-absorbing capacity available (HK$m)	**938,408**	905,489	916,673	880,940	863,977
2	Risk-weighted amount under the LAC Rules (HK$m)	**2,957,912**	3,024,425	3,009,836	2,984,030	3,167,152
3	Internal LAC risk-weighted ratio (%)	**31.7**	29.9	30.5	29.5	27.3
4	Exposure measure under the LAC Rules (HK$m)	**10,778,215**	10,737,273	10,631,083	10,159,594	10,034,883
5	Internal LAC leverage ratio (%)	**8.7**	8.4	8.6	8.7	8.6
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]	**N/A**	N/A	N/A	N/A	N/A
6b	Does the subordination exemption in the penultimate paragraph of Section 11 of the FSB TLAC Term Sheet apply?[1]	**N/A**	N/A	N/A	N/A	N/A
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]	**N/A**	N/A	N/A	N/A	N/A

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.

Internal LAC available increased by HK$32.9bn in the fourth quarter of 2025, due to higher regulatory capital elements of HK$33.7bn partly offset by a decrease in non-regulatory capital elements of HK$0.8bn.

Regulatory capital elements increased by HK$33.7bn mainly due to:

– an increase of HK$29.3bn from regulatory profits, net of dividends; and
– an increase of HK$4.8bn from favourable foreign currency translation differences.

Table 18: TLAC1(A) – TLAC composition

		a
		At 31 Dec 2025
	Regulatory capital elements of internal loss-absorbing capacity and adjustments (HK$m)	
1	CET1 capital	**563,498**
2	AT1 capital before LAC adjustments	**79,932**
5	**AT1 capital eligible under the LAC Rules**	**79,932**
6	Tier 2 capital before LAC adjustments	**54,029**
10	**Tier 2 capital eligible under the LAC Rules**	**54,029**
11	**Internal loss-absorbing capacity arising from regulatory capital**	**697,459**
	Non-regulatory capital elements of internal loss-absorbing capacity (HK$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	**241,119**
17	**Internal loss-absorbing capacity arising from non-capital LAC debt instruments before adjustments**	**241,119**
	Non-regulatory capital elements of internal loss-absorbing capacity: adjustments (HK$m)	
18	**Internal loss-absorbing capacity before deductions**	**938,578**
19	Deductions of exposures between the material subsidiary's LAC consolidation group and group companies outside that group that correspond to non-capital items eligible for internal loss-absorbing capacity	**170**
22	**Internal loss-absorbing capacity after deductions**	**938,408**
	Risk-weighted amount and exposure measure under the LAC Rules for internal loss-absorbing capacity purposes (HK$m)	
23	Risk-weighted amount under the LAC Rules	**2,957,912**
24	Exposure measure under the LAC Rules	**10,778,215**
	Internal LAC ratios and buffers	
25	Internal LAC risk-weighted ratio	**31.7%**
26	Internal LAC leverage ratio	**8.7%**
27	CET1 capital (as a percentage of RWAs under the BCR) available after meeting the LAC consolidation group's minimum capital and LAC requirements	**13.7%**
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)	**5.37%**
29	– of which: capital conservation buffer requirement	**2.50%**
30	– of which: institution-specific countercyclical capital buffer requirement	**0.37%**
31	– of which: higher loss absorbency requirement	**2.50%**

Table 19: 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 capital instruments**	**Tier 2 capital instruments**	**LAC loans**	
3	Total capital and liabilities net of CRM	**180,181**	**80,082**	**24,021**	**240,282**	**524,566**
5	Total capital and liabilities less excluded liabilities	**180,181**	**80,082**	**24,021**	**240,282**	**524,566**
6	– of row 5 that are eligible as internal loss-absorbing capacity	**180,181**	**80,082**	**24,021**	**240,282**	**524,566**
7	– of row 6 with 1 year ≤ residual maturity < 2 years	**—**	**—**	**—**	**27,374**	**27,374**
8	– of row 6 with 2 years ≤ residual maturity < 5 years	**—**	**—**	**—**	**89,767**	**89,767**
9	– of row 6 with 5 years ≤ residual maturity < 10 years	**—**	**—**	**24,021**	**79,446**	**103,467**
10	– of row 6 with residual maturity ≥ 10 years, but excluding perpetual securities	**—**	**—**	**—**	**43,695**	**43,695**
11	– of row 6 that are perpetual securities	**180,181**	**80,082**	**—**	**—**	**260,263**

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 CRCO 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 Enterprise Risk Management on the internal control framework and the risk appetite process. In addition, they work jointly with Treasury Risk and Finance on stress testing.

- The credit responsibilities of the group's Risk function are described on page 24 of the group's Annual Report and Accounts 2025.

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 chief risk officers 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 ('ECL'), 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 26.

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 RMF, 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 41 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 26. 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 GMRC.

Global Model Risk Policy and Procedures govern the development, independent validation, approval, implementation and performance monitoring of credit risk rating models. Independent model validations of credit risk models are performed by Model Risk Management, who are independent from the model development process.

Compliance with Group model risk policy and procedures are 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 20 to 24 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 36 to 38 and 39 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 20: CR1 – Credit quality of exposures

		a	b	c	d	e	f	g
		Gross carrying amounts of			of which: ECL accounting provisions[1] for credit losses on STC approach exposures			
		Defaulted exposures[2]	Non-defaulted exposures	Allowances/ impairments	Allocated in regulatory category of specific provisions	Allocated in regulatory category of collective provisions	of which: ECL accounting provisions for credit losses on IRB approach exposures	Net values (a+b-c)
		HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
1	Loans	**107,645**	**4,346,823**	**40,596**	**2,762**	**2,356**	**35,478**	**4,413,872**
2	Debt securities	**—**	**2,512,421**	**115**	**—**	**27**	**88**	**2,512,306**
3	Off-balance sheet exposures	**3,023**	**4,103,931**	**1,068**	**136**	**188**	**744**	**4,105,886**
4	**Total at 31 Dec 2025**	**110,668**	**10,963,175**	**41,779**	**2,898**	**2,571**	**36,310**	**11,032,064**

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.
2 Defaulted exposures are determined in accordance with sections 51(1) and 149 of BCR.

Table 21: CR2 – Changes in defaulted loans and debt securities

		a
		HK$m
1	Defaulted loans and debt securities at 30 Jun 2025	**98,434**
2	Loans and debt securities that have defaulted since 30 Jun 2025	**24,985**
3	Returned to non-defaulted status	**(1,792)**
4	Amounts written off	**(3,886)**
5	Other changes[1]	**(10,096)**
6	**Defaulted loans and debt securities at 31 Dec 2025**	**107,645**

1 Other changes include repayment and foreign exchange movements.

Table 22: CRB1 – Exposures by geographical location

	Gross carrying amounts at 31 Dec 2025 HK$m
Hong Kong[1]	**6,265,177**
Mainland China[1]	**1,121,488**
Others[2]	**3,687,178**
Total	**11,073,843**

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 23: CRB2 – Exposures by industry

	Gross carrying amounts at 31 Dec 2025 HK$m
Financial concerns	**1,405,528**
Individuals	**2,597,680**
Trade Finance	**1,350,121**
Others[1]	**5,720,514**
Total	**11,073,843**

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

Table 24: CRB3 – Exposures by residual maturity

	Gross carrying amounts at 31 Dec 2025 HK$m
Less than 1 year	**5,369,412**
Between 1 and 5 years	**3,547,582**
More than 5 years	**2,139,791**
Undated	**17,058**
Total	**11,073,843**

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

Tables 25 to 28 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(j) on the group's Annual Report and Accounts 2025. 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 25: 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 2025						
Residential mortgages	**1,242,124**	**5,564**	**(263)**	**(162)**	**4**	**42**
Real estate and construction	**432,823**	**67,326**	**(15,399)**	**(2,606)**	**7,782**	**3,072**
Wholesale and retail trade	**375,938**	**10,898**	**(5,125)**	**(456)**	**(283)**	**1,206**
Manufacturing	**378,904**	**5,522**	**(2,473)**	**(563)**	**1,148**	**1,241**
Others[3]	**1,248,038**	**19,830**	**(7,144)**	**(6,170)**	**4,192**	**4,141**
Total	**3,677,827**	**109,140**	**(30,404)**	**(9,957)**	**12,843**	**9,702**

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 26: 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 2025							
Hong Kong	**2,158,378**	**94,058**	**12,793**	**(25,726)**	**(6,447)**	**11,505**	**7,080**
Mainland China	**357,340**	**3,554**	**646**	**(1,225)**	**(1,370)**	**772**	**492**
Others[3]	**1,162,109**	**11,528**	**13,349**	**(3,453)**	**(2,140)**	**566**	**2,130**
Total	**3,677,827**	**109,140**	**26,788**	**(30,404)**	**(9,957)**	**12,843**	**9,702**

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 20 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 27: 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 2025				
Loans and advances to customers held at amortised cost	**22,744**	**1,959**	**2,085**	**26,788**
– personal	**13,715**	**1,855**	**1,416**	**16,986**
– corporate and commercial	**7,184**	**104**	**669**	**7,957**
– non-bank financial institutions	**1,845**	**—**	**—**	**1,845**
Total	**22,744**	**1,959**	**2,085**	**26,788**

Table 28: CRB7 – Breakdown of forborne loans between credit impaired and not credit impaired

	31 Dec 2025 HK$m
Not credit impaired	**8,400**
Credit impaired	**38,716**
Total	**47,116**

Loans and advances to customers

Tables 29 to 31 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 29: 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 2025				
Gross loans and advances to customers	**1,873,778**	**1,561,933**	**246,409**	**3,682,120**
Gross credit-impaired loans and advances to customers	**91,671**	**17,061**	**410**	**109,142**

Tables 30 and 31 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 30: Loans and advances to customers by industry

	At 31 Dec 2025	
	Gross advances HK$m	Collateral and other security HK$m
Industrial, commercial and financial	**703,597**	**389,507**
– property development	**69,027**	**28,109**
– property investment	**226,743**	**196,589**
– financial concerns	**101,232**	**56,775**
– stockbrokers	**2,681**	**1,039**
– wholesale and retail trade	**68,995**	**27,629**
– manufacturing	**47,969**	**10,306**
– transport and transport equipment	**42,557**	**29,301**
– recreational activities	**428**	**221**
– information technology	**31,322**	**1,225**
– others	**112,643**	**38,313**
Individuals	**1,034,852**	**911,431**
– advances for the purchase of flats under the Hong Kong Government's Home Ownership Scheme, Private Sector Participation Scheme and Tenants Purchase Scheme	**83,835**	**83,670**
– advances for the purchase of other residential properties	**738,164**	**736,894**
– credit card advances	**79,275**	**—**
– others	**133,578**	**90,867**
Gross loans and advances to customers for use in Hong Kong	**1,738,449**	**1,300,938**
Trade Finance	**170,872**	**23,361**
Gross loans and advances to customers for use outside Hong Kong	**1,772,799**	**659,003**
Gross loans and advances to customers	**3,682,120**	**1,983,302**

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 2025.

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 31: 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 2025						
Gross amounts which have been overdue with respect to either principal or interest for:						
– more than three months but not more than six months	**3,360**	**0.2**	**1,899**	**0.1**	**5,259**	**0.1**
– more than six months but not more than one year	**12,074**	**0.6**	**1,506**	**0.1**	**13,580**	**0.4**
– more than one year	**36,666**	**1.6**	**4,674**	**0.3**	**41,340**	**1.1**
Total	**52,100**	**2.4**	**8,079**	**0.5**	**60,179**	**1.6**
Specific provisions made in respect of amounts overdue[2]	**(15,906)**		**(3,238)**		**(19,144)**	
Fair value of collateral held in respect of amounts overdue	**28,275**		**6,878**		**35,153**	
Rescheduled loans and advances to customers	**14,375**	**0.7**	**4,953**	**0.3**	**19,328**	**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 20 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.

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

Table 32: Off-balance sheet exposures other than derivative transactions

	31 Dec 2025 HK$m
Contract amounts	
Direct credit substitutes	**56,339**
Transaction-related contingencies	**383,243**
Trade-related contingencies	**115,357**
Forward asset purchases	**2,238**
Commitments that are unconditionally cancellable without prior notice	**3,128,672**
Commitments which have an original maturity of not more than one year	**73,226**
Commitments which have an original maturity of more than one year	**355,812**
Total	**4,114,887**
Risk-weighted amounts	**330,021**

Credit risk under internal ratings-based approach

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 Risk MOFs ('RMOF').

WMOFs and RMOFs have the responsibility to review and understand the model portfolio and model risk profile, and to ensure that the portfolio and model approval decisions remain within acceptable levels of risk appetite.

Global Model Risk Policy and Procedures govern the development, independent model validation, approval, implementation and performance monitoring of credit risk rating models. Independent model validation of credit risk models are performed by Model Risk Management, who are independent from the model development process.

Compliance with Group model risk policy and procedures are 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 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, small-and-medium sized corporates ('SMEs') and financial institutions treated as corporate.
- Sovereign exposures, including exposures to central governments and central monetary institutions.
- Bank exposures, including exposures to banks, qualifying non-bank financial institutions and covered bonds.
- Retail exposures, including residential mortgages, qualifying revolving retail exposures ('QRRE') and other retail exposures.
- CIS exposures.
- Other exposures, including cash items and other assets.

At 31 December 2025, 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 33: CRE1 – Percentage of total EAD and RWAs covered by IRB approach

	Percentage of total EAD under IRB approach		Percentage of total RWAs under IRB approach	
Portfolio	**FIRB**	**AIRB and other**	**FIRB**	**AIRB and other**
Corporate exposures (including specialised lending[1])	**68%**	**22%**	**57%**	**27%**
Sovereign exposures	**0%**	**99%**	**0%**	**100%**
Bank exposures	**99%**	**0%**	**99%**	**0%**
Retail exposures[2]	**0%**	**89%**	**0%**	**66%**
CIS exposures[2]	**0%**	**100%**	**0%**	**100%**
Other exposures[2]	**0%**	**100%**	**0%**	**100%**

1 Specialised lending exposures, which adopt supervisory slotting criteria approach, are grouped under 'AIRB and other' in this table.
2 Retail exposures (including residential mortgages), CIS exposures and other exposures under the IRB framework adopt retail IRB approach, CIS calculation approach and specific risk-weight approach correspondingly.

The above table covers credit risk for non-securitisation exposures excluding CCR. For CCR, please refer to page 45 of this document.

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 LGD. These measures are used to calculate both 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 IRB approaches, that is, advanced and foundation 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 nature of customers and facilities, the facility seniority, the type and value of collateral, past recovery experience and priority under law. It is expressed as a percentage of EAD.

For those portfolios on a Foundation IRB approach approved by the HKMA, regulatory values are used.

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 assumption.

Table 34: 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	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/Qualifying Non-bank Financial Institution/ Covered Bonds	PD	5	A statistical models that combine quantitative analysis on financial information with expert inputs and macroeconomic factors.	>10	Subject to section 159 of the BCR
			The non-bank financial institution models which are the predominantly statistical models that combine quantitative analysis on financial information with expert inputs.	>=10	
Large Corporate/ Financial Institutions treated as Corporates/ Other Corporate/SMEs[2,3]	PD	9	The corporate models use financial information, macroeconomic information and market-driven data, and is complemented by a qualitative assessment.	>=10	Subject to section 159 of the BCR
			The non-bank financial institution 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.		
	LGD[4]	2	The regional corporate model covers the exposures to SME and other corporates booked in Hong Kong, which is developed using historical loss and recovery data, and incorporates customer-specific, transactional, and macroeconomic information.	>10	Subject to section 161 of the BCR
			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.		
	EAD[5]	1	The regional corporate model covers the exposures that are at revolving nature to SME and other corporates booked in Hong Kong, which is developed using historical utilisation data and incorporated transactional and macroeconomic information.	>10	Subject to section 164 of the BCR

1 LGD floor exemption for mainland China and Hong Kong.
2 For Large Corporate and Financial Institutions treated as Corporates, credit risk parameters (LGD and EAD) are reported using FIRB supervisory values in accordance with regulatory requirements, rather than internal models.
3 Excludes specialised lending exposures subject to supervisory slotting approach.
4 For exposures booked in Hong Kong to SME and other corporates, internal model is applied, while FIRB supervisory values are used for non-Hong Kong exposures.
5 For exposures booked in Hong Kong to SME and other corporates at revolving nature, internal model is applied, while FIRB supervisory values are used for non-Hong Kong exposures and for Hong Kong exposures at non-revolving nature subject to section 164 of the BCR.

Table 35: 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	0.05%
	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 subject to a floor that is the on-balance sheet exposure
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	QRRE-Transactors: 0.05% QRRE-Revolvers: 0.10% Other retail: 0.05%
	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	Unsecured QRRE-Transcators: 50% QRRE-Revolvers: 50% Other Retail: 30% Secured Other Retail: Varying by collateral type – financial: 0% – receivables: 10% – commercial or residential real estate: 10% – other physical: 15%
	EAD	1	EAD derived by different segments. Statistical models based on fixed-horizon data which derive CCF to determine the undrawn portion of the facility to be added to the outstanding balance of accounts at the time of observation.	> 10	EAD subject to a floor that is the sum of (i) the on-balance sheet exposure; and (ii) 50% of the off-balance sheet exposures using the applicable CCF in the standardised approach.
Hong Kong – HSBC Personal Loans (Other retail exposures to individuals)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate.	> 10	0.05%
	LGD	1	Statistical model based on forecasting the amount of expected future losses. Downturn LGD derived using data from the period with the highest default rate. For LGD purposes the time lapse between default event and the closure of the exposure is 24 months	> 10	30%
	EAD	1	EAD based on outstanding balances of the accounts with adjustment added catering for the interest and fee charges till default for the already delinquent accounts.	> 10	EAD subject to a floor that is the on-balance sheet exposure
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	QRRE-Transactors: 0.05% QRRE-Revolvers: 0.10% Other retail: 0.05%
	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	Unsecured QRRE-Transcators: 50% QRRE-Revolvers: 50% Other Retail: 30% Secured Other Retail: Varying by collateral type – financial: 0% – receivables: 10% – commercial or residential real estate: 10% – other physical: 15%
	EAD	1	Statistical model which derives a credit limit utilisation which is used to determine the EAD.	> 10	EAD subject to a floor that is the sum of (i) the on-balance sheet exposure; and (ii) 50% of the off-balance sheet exposures using the applicable CCF in the standardised approach.

Table 35: 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 Personal Residential Mortgages (Residential mortgage exposures)	PD	1	Statistical model built on internal behavioural data and calibrated to a long-run default rate.	>10	0.05%
	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 subject to a floor that is the on-balance sheet exposure
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	QRRE-Transactors: 0.05% QRRE-Revolvers: 0.10% Other retail: 0.05%
	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	QRRE-Transactors: 50% QRRE-Revolvers: 50% Other Retail: 30%
	EAD	1	Statistical model which derives a credit limit utilisation by segment which is used to determine the EAD.	>10	EAD subject to a floor that is the sum of (i) the on-balance sheet exposure; and (ii) 50% of the off-balance sheet exposures using the applicable CCF in the standardised approach.
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	0.05%
	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	30%
	EAD	1	Rule-based calculation based on current balance and estimated incurred interest which continues to be a conservative estimate for EAD.	> 10	EAD subject to a floor that is the on-balance sheet
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	0.05%
	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 CCF 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 subject to a floor that is the sum of (i) the on-balance sheet exposure; and (ii) 50% of the off-balance sheet exposures using the applicable CCF in the standardised approach.

Table 36.1: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (FIRB)

	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 %	Expected loss ('EL') HK$m	Provisions HK$m
Portfolio (i) – Bank												
0.00 to < 0.15	**560,023**	**69,481**	**41.7**	**592,307**	**0.06**	**4,645**	**45.0**	**1.19**	**112,266**	**19**	**171**	
0.15 to < 0.25	**13,856**	**2,330**	**26.6**	**14,500**	**0.22**	**228**	**45.0**	**1.32**	**6,329**	**44**	**14**	
0.25 to < 0.50	**3,392**	**776**	**32.0**	**3,641**	**0.37**	**98**	**45.0**	**0.65**	**1,855**	**51**	**6**	
0.50 to < 0.75	**19,802**	**1,411**	**42.8**	**20,407**	**0.63**	**112**	**45.0**	**0.88**	**14,943**	**73**	**58**	
0.75 to < 2.50	**1,413**	**623**	**58.0**	**1,772**	**1.42**	**76**	**45.0**	**1.09**	**1,845**	**104**	**11**	
2.50 to < 10.00	**41**	**36**	**26.8**	**51**	**5.86**	**27**	**43.8**	**0.27**	**75**	**148**	**1**	
10.00 to <100.00	**19**	**13**	**20.0**	**21**	**17.63**	**17**	**45.0**	**0.89**	**49**	**229**	**2**	
100.00 (Default)	**70**	**—**	**—**	**70**	**100.00**	**1**	**45.0**	**1.00**	**—**	**—**	**31**	
Sub-total at 31 Dec 2025	**598,616**	**74,670**	**41.3**	**632,769**	**0.10**	**5,204**	**45.0**	**1.18**	**137,362**	**22**	**294**	**1,182**
Portfolio (ii) – Corporate – SMEs												
0.00 to < 0.15	**1,175**	**1,678**	**19.7**	**1,137**	**0.13**	**95**	**29.1**	**1.25**	**159**	**14**	**—**	
0.15 to < 0.25	**1,142**	**3,279**	**21.5**	**1,832**	**0.22**	**270**	**32.3**	**1.39**	**407**	**22**	**1**	
0.25 to < 0.50	**1,476**	**3,859**	**20.0**	**2,247**	**0.37**	**252**	**36.1**	**1.12**	**726**	**32**	**3**	
0.50 to < 0.75	**1,988**	**4,514**	**16.1**	**2,713**	**0.63**	**204**	**33.7**	**1.05**	**1,050**	**39**	**6**	
0.75 to < 2.50	**10,218**	**10,713**	**16.7**	**12,005**	**1.49**	**792**	**33.6**	**1.35**	**7,296**	**61**	**62**	
2.50 to < 10.00	**4,720**	**4,226**	**18.0**	**5,481**	**4.52**	**475**	**33.0**	**1.15**	**4,302**	**78**	**81**	
10.00 to <100.00	**183**	**325**	**10.6**	**217**	**11.81**	**41**	**35.5**	**1.14**	**265**	**122**	**9**	
100.00 (Default)	**291**	**26**	**15.2**	**295**	**100.00**	**10**	**40.0**	**0.96**	**—**	**—**	**118**	
Sub-total at 31 Dec 2025	**21,193**	**28,620**	**17.9**	**25,927**	**3.00**	**2,139**	**33.5**	**1.25**	**14,205**	**55**	**280**	**171**
Portfolio (iii) – Corporate – large corporates												
0.00 to < 0.15	**455,916**	**801,119**	**23.8**	**642,468**	**0.09**	**5,431**	**39.7**	**1.51**	**111,414**	**17**	**217**	
0.15 to < 0.25	**143,731**	**252,674**	**24.0**	**203,820**	**0.22**	**2,630**	**39.4**	**1.60**	**69,116**	**34**	**200**	
0.25 to < 0.50	**94,179**	**179,750**	**22.6**	**134,814**	**0.37**	**2,128**	**39.7**	**1.53**	**59,203**	**44**	**198**	
0.50 to < 0.75	**105,393**	**144,479**	**20.3**	**134,736**	**0.63**	**1,959**	**39.1**	**1.41**	**74,466**	**55**	**332**	
0.75 to < 2.50	**147,444**	**276,002**	**17.9**	**196,833**	**1.31**	**4,628**	**38.5**	**1.35**	**141,440**	**72**	**986**	
2.50 to < 10.00	**24,203**	**49,750**	**19.1**	**33,681**	**4.28**	**1,653**	**37.7**	**1.16**	**35,138**	**104**	**537**	
10.00 to <100.00	**12,463**	**4,752**	**21.8**	**13,500**	**14.98**	**301**	**24.8**	**1.70**	**13,731**	**102**	**505**	
100.00 (Default)	**14,555**	**572**	**17.6**	**14,656**	**100.00**	**102**	**43.1**	**1.06**	**—**	**—**	**6,310**	
Sub-total at 31 Dec 2025	**997,884**	**1,709,098**	**22.3**	**1,374,508**	**1.68**	**18,832**	**39.3**	**1.48**	**504,508**	**37**	**9,285**	**15,428**
Portfolio (iv) – Corporate – financial institutions treated as corporates												
0.00 to < 0.15	**93,838**	**78,186**	**24.3**	**112,816**	**0.07**	**506**	**45.0**	**1.45**	**24,655**	**22**	**37**	
0.15 to < 0.25	**20,514**	**31,840**	**20.8**	**27,121**	**0.22**	**190**	**45.0**	**1.41**	**12,090**	**45**	**27**	
0.25 to < 0.50	**10,038**	**11,014**	**27.5**	**13,064**	**0.37**	**124**	**45.0**	**1.18**	**7,383**	**57**	**22**	
0.50 to < 0.75	**8,690**	**11,489**	**41.1**	**13,412**	**0.63**	**109**	**43.1**	**1.38**	**10,205**	**76**	**36**	
0.75 to < 2.50	**7,390**	**13,704**	**23.5**	**10,614**	**1.22**	**194**	**44.8**	**1.76**	**11,379**	**107**	**58**	
2.50 to < 10.00	**872**	**768**	**28.4**	**1,090**	**4.58**	**77**	**44.9**	**1.45**	**1,597**	**147**	**22**	
10.00 to <100.00	**70**	**1**	**10.0**	**70**	**13.00**	**4**	**45.0**	**0.17**	**150**	**215**	**4**	
100.00 (Default)	**2,301**	**21**	**10.0**	**2,303**	**100.00**	**21**	**57.8**	**1.87**	**—**	**—**	**1,331**	
Sub-total at 31 Dec 2025	**143,713**	**147,023**	**25.0**	**180,490**	**1.53**	**1,225**	**45.0**	**1.45**	**67,459**	**37**	**1,537**	**1,262**

Table 36.1: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (FIRB) (continued)

	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) – Corporate – other corporates												
0.00 to < 0.15	**42,031**	**29,910**	**20.8**	**46,744**	**0.09**	**564**	**39.1**	**2.21**	**10,064**	**22**	**3**	
0.15 to < 0.25	**9,096**	**22,171**	**20.8**	**14,124**	**0.22**	**649**	**37.8**	**1.32**	**2,720**	**19**	**13**	
0.25 to < 0.50	**12,496**	**24,156**	**24.8**	**18,487**	**0.37**	**657**	**37.8**	**1.55**	**7,633**	**41**	**26**	
0.50 to < 0.75	**15,154**	**22,299**	**21.8**	**20,015**	**0.63**	**607**	**36.7**	**1.41**	**10,424**	**52**	**46**	
0.75 to < 2.50	**44,669**	**99,419**	**28.2**	**72,665**	**1.47**	**4,151**	**38.5**	**2.32**	**76,533**	**105**	**479**	
2.50 to < 10.00	**16,476**	**23,302**	**18.1**	**20,687**	**4.22**	**1,275**	**37.5**	**1.00**	**21,234**	**103**	**328**	
10.00 to <100.00	**1,616**	**1,374**	**21.6**	**1,913**	**26.06**	**182**	**30.0**	**1.20**	**2,202**	**115**	**136**	
100.00 (Default)	**5,581**	**999**	**32.2**	**5,903**	**100.00**	**182**	**30.6**	**2.18**	**—**	**—**	**1,835**	
Sub-total at 31 Dec 2025	**147,119**	**223,630**	**24.3**	**200,538**	**4.26**	**8,267**	**37.9**	**1.91**	**130,810**	**65**	**2,866**	**3,889**

Table 36.2: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (AIRB)

	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 (vi) – Sovereign												
0.00 to < 0.15	**2,509,908**	**5,819**	**12.5**	**2,515,221**	**0.02**	**780**	**37.9**	**1.99**	**175,892**	**7**	**165**	
0.15 to < 0.25	**9,165**	**300**	**17.5**	**9,218**	**0.22**	**11**	**45.1**	**1.02**	**2,964**	**32**	**9**	
0.25 to < 0.50	**4,510**	**—**	**—**	**4,510**	**0.37**	**5**	**45.0**	**1.64**	**2,301**	**51**	**8**	
0.50 to < 0.75	**1,130**	**—**	**—**	**1,130**	**0.63**	**1**	**45.0**	**1.00**	**666**	**59**	**3**	
0.75 to < 2.50	**—**	**35**	**49.0**	**17**	**2.25**	**1**	**65.0**	**3.79**	**33**	**195**	**—**	
2.50 to < 10.00	**9,832**	**2,160**	**73.4**	**11,417**	**3.95**	**15**	**45.1**	**1.16**	**13,987**	**123**	**204**	
10.00 to <100.00	**—**	**—**	**—**	**—**	**36.00**	**1**	**45.0**	**5.00**	**—**	**264**	**—**	
100.00 (Default)	**446**	**—**	**—**	**446**	**100.00**	**2**	**4.6**	**3.94**	**255**	**57**	**—**	
Sub-total at 31 Dec 2025	**2,534,991**	**8,314**	**28.7**	**2,541,959**	**0.05**	**816**	**38.0**	**1.98**	**196,098**	**8**	**389**	**1,776**
Portfolio (vii) – Corporate – SMEs												
0.00 to < 0.15	**1,097**	**1,933**	**19.4**	**331**	**0.12**	**64**	**24.6**	**1.76**	**44**	**13**	**—**	
0.15 to < 0.25	**1,022**	**2,797**	**22.4**	**1,647**	**0.22**	**184**	**35.3**	**2.72**	**564**	**34**	**1**	
0.25 to < 0.50	**2,503**	**4,969**	**21.0**	**3,551**	**0.37**	**312**	**32.2**	**2.26**	**1,294**	**36**	**4**	
0.50 to < 0.75	**6,705**	**3,557**	**19.6**	**7,390**	**0.63**	**293**	**28.1**	**2.48**	**3,104**	**42**	**13**	
0.75 to < 2.50	**27,126**	**14,071**	**21.4**	**30,123**	**1.51**	**1,438**	**29.5**	**2.46**	**18,233**	**61**	**131**	
2.50 to < 10.00	**7,558**	**2,147**	**19.4**	**7,976**	**3.88**	**282**	**30.7**	**2.28**	**6,397**	**80**	**98**	
10.00 to <100.00	**1,554**	**133**	**16.7**	**1,576**	**25.19**	**14**	**53.6**	**3.71**	**4,043**	**257**	**191**	
100.00 (Default)	**1,606**	**80**	**10.5**	**1,622**	**100.00**	**22**	**31.5**	**1.36**	**1,992**	**123**	**290**	
Sub-total at 31 Dec 2025	**49,171**	**29,687**	**20.9**	**54,216**	**5.25**	**2,609**	**30.6**	**2.43**	**35,671**	**66**	**728**	**1,197**
Portfolio (viii) – Corporate – other corporates												
0.00 to < 0.15	**77,813**	**221,632**	**3.2**	**83,951**	**0.07**	**1,352**	**22.6**	**1.88**	**8,683**	**10**	**14**	
0.15 to < 0.25	**19,185**	**208,881**	**1.8**	**22,885**	**0.21**	**470**	**25.0**	**1.94**	**5,236**	**23**	**12**	
0.25 to < 0.50	**20,008**	**24,907**	**12.8**	**23,191**	**0.37**	**642**	**32.8**	**2.40**	**10,278**	**44**	**28**	
0.50 to < 0.75	**23,566**	**21,849**	**10.6**	**25,893**	**0.63**	**680**	**31.1**	**1.92**	**12,538**	**48**	**50**	
0.75 to < 2.50	**98,881**	**89,072**	**9.7**	**107,512**	**1.45**	**2,912**	**25.6**	**1.77**	**55,098**	**51**	**393**	
2.50 to < 10.00	**24,807**	**15,001**	**9.2**	**26,192**	**4.20**	**836**	**28.0**	**1.83**	**21,918**	**84**	**306**	
10.00 to <100.00	**7,558**	**3,258**	**9.4**	**7,863**	**14.34**	**136**	**42.0**	**1.73**	**14,202**	**181**	**477**	
100.00 (Default)	**35,144**	**462**	**19.3**	**35,233**	**100.00**	**637**	**35.7**	**1.44**	**55,710**	**158**	**8,068**	
Sub-total at 31 Dec 2025	**306,962**	**585,062**	**4.6**	**332,720**	**11.83**	**7,665**	**27.4**	**1.83**	**183,663**	**55**	**9,348**	**13,760**

Table 36.3: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Retail IRB approach)

	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 (ix) – Retail – QRRE (transactor)												
0.00 to < 0.15	**29,104**	**398,808**	**48.7**	**223,473**	**0.07**	**3,656,859**	**101.8**	**—**	**9,558**	**4**	**150**	
0.15 to < 0.25	**2,047**	**9,558**	**61.2**	**7,899**	**0.23**	**151,334**	**102.7**	**—**	**962**	**12**	**18**	
0.25 to < 0.50	**3,623**	**13,228**	**59.2**	**11,448**	**0.41**	**174,180**	**100.9**	**—**	**2,200**	**19**	**47**	
0.50 to < 0.75	**962**	**1,345**	**67.0**	**1,863**	**0.59**	**19,670**	**101.0**	**—**	**483**	**26**	**11**	
0.75 to < 2.50	**3,751**	**11,799**	**54.8**	**10,211**	**1.28**	**135,742**	**103.1**	**—**	**4,829**	**47**	**135**	
2.50 to < 10.00	**917**	**830**	**68.9**	**1,489**	**4.13**	**17,597**	**96.8**	**—**	**1,535**	**103**	**60**	
10.00 to < 100.00	**50**	**96**	**16.5**	**66**	**23.60**	**1,381**	**98.3**	**—**	**141**	**215**	**15**	
100.00 (Default)	**3**	**4**	**5.3**	**4**	**100.00**	**66**	**98.5**	**—**	**6**	**156**	**3**	
Sub-total at 31 Dec 2025	**40,457**	**435,668**	**49.6**	**256,453**	**0.17**	**4,156,829**	**101.8**	**—**	**19,714**	**8**	**439**	**49**
Portfolio (x) – Retail – QRRE (revolver)												
0.00 to < 0.15	**8,087**	**87,899**	**55.4**	**56,737**	**0.11**	**874,286**	**101.3**	**—**	**3,654**	**6**	**61**	
0.15 to < 0.25	**1,511**	**8,761**	**62.0**	**6,940**	**0.23**	**101,098**	**98.6**	**—**	**829**	**12**	**15**	
0.25 to < 0.50	**3,804**	**16,189**	**62.3**	**13,895**	**0.40**	**177,507**	**99.4**	**—**	**2,641**	**19**	**56**	
0.50 to < 0.75	**3,114**	**4,473**	**68.6**	**6,182**	**0.57**	**54,388**	**100.2**	**—**	**1,712**	**28**	**35**	
0.75 to < 2.50	**8,789**	**13,510**	**61.6**	**17,114**	**1.38**	**220,751**	**96.6**	**—**	**8,211**	**48**	**228**	
2.50 to < 10.00	**8,619**	**2,697**	**87.7**	**10,986**	**4.51**	**93,157**	**88.7**	**—**	**11,370**	**103**	**445**	
10.00 to < 100.00	**4,098**	**567**	**103.0**	**4,683**	**24.20**	**35,294**	**86.2**	**—**	**8,531**	**182**	**1,008**	
100.00 (Default)	**296**	**63**	**6.5**	**300**	**100.00**	**2,126**	**98.4**	**—**	**529**	**176**	**254**	
Sub-total at 31 Dec 2025	**38,318**	**134,159**	**58.5**	**116,837**	**2.00**	**1,558,607**	**98.4**	**—**	**37,477**	**32**	**2,102**	**119**
Portfolio (xi) – Retail – Residential mortgage exposures												
0.00 to < 0.15	**658,354**	**34,794**	**34.2**	**670,243**	**0.07**	**229,829**	**20.2**	**—**	**27,161**	**4**	**100**	
0.15 to < 0.25	**208,443**	**11,456**	**82.6**	**217,908**	**0.21**	**114,401**	**19.3**	**—**	**20,639**	**9**	**88**	
0.25 to < 0.50	**144,282**	**2,097**	**35.1**	**145,017**	**0.43**	**47,165**	**16.7**	**—**	**20,339**	**14**	**104**	
0.50 to < 0.75	**25,303**	**303**	**164.5**	**25,802**	**0.57**	**14,128**	**21.0**	**—**	**4,522**	**18**	**30**	
0.75 to < 2.50	**83,402**	**622**	**110.4**	**84,089**	**1.24**	**36,177**	**18.9**	**—**	**24,443**	**29**	**200**	
2.50 to < 10.00	**25,125**	**94**	**128.7**	**25,246**	**5.12**	**11,942**	**19.1**	**—**	**17,832**	**71**	**260**	
10.00 to < 100.00	**6,597**	**2**	**185.7**	**6,600**	**21.61**	**4,189**	**20.2**	**—**	**7,567**	**115**	**288**	
100.00 (Default)	**6,388**	**46**	**27.7**	**6,401**	**100.00**	**4,679**	**15.6**	**—**	**10,400**	**162**	**292**	
Sub-total at 31 Dec 2025	**1,157,894**	**49,414**	**47.4**	**1,181,306**	**1.00**	**462,510**	**19.5**	**—**	**132,903**	**11**	**1,362**	**745**
Portfolio (xii) – Retail – small business retail exposures												
0.00 to < 0.15	**2,091**	**—**	**—**	**2,091**	**0.07**	**1,063**	**16.7**	**—**	**73**	**3**	**—**	
0.15 to < 0.25	**403**	**—**	**—**	**403**	**0.19**	**109**	**20.9**	**—**	**33**	**8**	**—**	
0.25 to < 0.50	**935**	**—**	**—**	**935**	**0.38**	**224**	**56.0**	**—**	**322**	**34**	**2**	
0.50 to < 0.75	**319**	**—**	**—**	**319**	**0.57**	**126**	**13.9**	**—**	**34**	**11**	**—**	
0.75 to < 2.50	**347**	**—**	**—**	**347**	**1.07**	**88**	**46.0**	**—**	**166**	**48**	**3**	
2.50 to < 10.00	**404**	**—**	**—**	**404**	**6.13**	**162**	**24.2**	**—**	**150**	**37**	**7**	
10.00 to < 100.00	**63**	**—**	**—**	**62**	**13.54**	**30**	**16.8**	**—**	**20**	**32**	**1**	
100.00 (Default)	**38**	**—**	**—**	**38**	**100.00**	**9**	**22.8**	**—**	**55**	**145**	**4**	
Sub-total at 31 Dec 2025	**4,600**	**—**	**—**	**4,599**	**1.80**	**1,811**	**27.8**	**—**	**853**	**19**	**17**	**21**

Table 36.3: CR6 – Credit risk exposures by portfolio and PD range – for IRB approach (Retail IRB approach) (continued)

	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 (xiii) – Retail – other retail exposures to individuals												
0.00 to < 0.15	**2,465**	**27,040**	**32.6**	**11,267**	**0.09**	**33,573**	**23.1**	**—**	**523**	**5**	**2**	
0.15 to < 0.25	**2,382**	**22,604**	**35.0**	**10,302**	**0.21**	**29,178**	**22.9**	**—**	**1,200**	**12**	**5**	
0.25 to < 0.50	**14,443**	**8,374**	**37.3**	**17,568**	**0.36**	**66,499**	**66.5**	**—**	**6,847**	**39**	**41**	
0.50 to < 0.75	**5,745**	**3,296**	**44.2**	**7,202**	**0.63**	**25,088**	**64.8**	**—**	**3,763**	**52**	**28**	
0.75 to < 2.50	**17,451**	**1,539**	**63.1**	**18,421**	**1.38**	**63,901**	**78.5**	**—**	**16,456**	**89**	**205**	
2.50 to < 10.00	**7,211**	**2,148**	**40.2**	**8,074**	**4.21**	**33,564**	**69.9**	**—**	**8,217**	**102**	**252**	
10.00 to < 100.00	**1,275**	**—**	**942.1**	**1,278**	**19.12**	**8,323**	**94.7**	**—**	**2,570**	**201**	**232**	
100.00 (Default)	**297**	**21**	**27.0**	**302**	**100.00**	**1,004**	**76.4**	**—**	**742**	**245**	**178**	
Sub-total at 31 Dec 2025	**51,269**	**65,022**	**35.6**	**74,414**	**1.72**	**261,130**	**57.6**	**—**	**40,318**	**54**	**943**	**168**

Table 36.4: 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 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$m	Provisions[2] HK$m
Total (sum of all portfolios) at 31 Dec 2025	**6,092,187**	**3,490,367**	**25.3**	**6,976,736**	**1.36**	**6,487,644**	**38.9**	**1.32**	**1,501,041**	**22**	**29,590**	**39,767**

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 which include the regulatory reserves for general banking risks and the impairment allowances reported under IRB approach.

RWAs decreased by HK$55.4bn in the second half of 2025, primarily attributed to the credit risk mitigations and portfolio mix changes in Hong Kong and methodology changes.

As at 31 December 2025, the average CCF decreased to 25.3% (30 June 2025: 28.0%) attributed to the methodology and policy change for undrawn exposures.

Table 37: 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 HK$m	Off-balance sheet exposure amount HK$m	Supervisory risk weight ('SRW') %	EAD amount HK$m	RWAs HK$m	EL amount HK$m
Strong^	Less than 2.5 years	**240**	**—**	**70**	**240**	**168**	**1**
Strong	Equal to or more than 2.5 years	**158**	**—**	**95**	**158**	**151**	**1**
Good^	Less than 2.5 years	**38**	**—**	**95**	**38**	**36**	**—**
Good	Equal to or more than 2.5 years	**37**	**—**	**120**	**37**	**45**	**—**
Weak		**—**	**—**	**250**	**—**	**—**	**—**
Default		**737**	**—**	**—**	**737**	**—**	**368**
Total at 31 Dec 2025		**1,210**	**—**		**1,210**	**400**	**370**

^ Use of preferential risk weights.

Table 38: 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	**12,242**	**5,505**	**50**	**1,675**	**11,897**	**13,572**	**6,786**	**—**
Strong	Less than 2.5 years	**6,774**	**3,095**	**70**	**4,527**	**2,986**	**7,513**	**5,259**	**30**
Strong^	Equal to or more than 2.5 years	**7,234**	**1,384**	**50**	**7,785**	**—**	**7,785**	**3,893**	**—**
Strong	Equal to or more than 2.5 years	**40,595**	**4,310**	**70**	**21,041**	**21,279**	**42,320**	**29,624**	**169**
Good^	Less than 2.5 years	**25,241**	**2,726**	**70**	**289**	**25,415**	**25,704**	**17,993**	**103**
Good	Less than 2.5 years	**2,956**	**2,773**	**90**	**781**	**3,169**	**3,950**	**3,556**	**32**
Good^	Equal to or more than 2.5 years	**1,713**	**670**	**70**	**1,986**	**—**	**1,986**	**1,390**	**8**
Good	Equal to or more than 2.5 years	**17,612**	**2,082**	**90**	**5,368**	**13,051**	**18,419**	**16,577**	**147**
Satisfactory		**20,725**	**2,319**	**115**	**1,831**	**19,928**	**21,759**	**25,023**	**609**
Weak		**2,834**	**18**	**250**	**—**	**2,839**	**2,839**	**7,098**	**227**
Default		**32,151**	**40**	**—**	**14**	**32,153**	**32,167**	**—**	**16,084**
Total at 31 Dec 2025		**170,077**	**24,922**		**45,297**	**132,717**	**178,014**	**117,199**	**17,409**

^ Use of preferential risk weights.

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:

- multilateral development bank exposures;
- unspecified multilateral body exposures;
- PSE exposures; and
- bank or corporate exposures (those without an internal CRR).

We have nominated three ECAIs for this purpose – Moody's Investors Service ('Moody's'), S&P and Fitch Ratings ('Fitch').

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.

Data files of external ratings from the nominated ECAIs are matched with customer records in our centralised credit database.

When calculating the risk-weighted value of an exposure using ECAI risk assessments, risk systems identify the customer in question and look up the available ratings in the central database according to the rating selection rules. The systems then apply the prescribed credit quality step mapping to derive from the rating the relevant risk weight.

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

Table 39: CR5 – Credit risk exposures by exposure classes and by risk weights – for STC approach

	Risk Weight	20%	25%	30%	35%	40%	45%	50%	60%	70%	75%	85%	90%	100%	105%	150%	Others	Total credit exposures amount (post-CCF and post-CRM)
	At 31 Dec 2025	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
	Exposure class																	
9	Real estate exposures	50,639	14,773	15,236	152	921	288	134	3,592	942	12,285	2,083	3	15,488	18	3,347	914	120,815
9a	– of which: regulatory residential real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	50,639	14,773	14,021	–	921	–	134	–	251	–	–	–	–	–	–	794	81,533
9b	– of which: no loan splitting applied	50,639	14,773	14,021	–	921	–	134	–	251	–	–	–	–	–	–	794	81,533
9e	– of which: regulatory residential real estate exposures (materially dependent on cash flows generated by mortgaged properties)	–	–	1,215	152	–	288	–	16	–	10	–	–	–	18	–	120	1,819
9f	– of which: regulatory commercial real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–	–	–	3,576	–	1	175	–	483	–	–	–	4,235
9g	– of which: no loan splitting applied	–	–	–	–	–	–	–	3,576	–	1	175	–	483	–	–	–	4,235
9j	– of which: regulatory commercial real estate exposures (materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–	–	–	–	691	–	–	3	–	–	–	–	694
9k	– of which: other real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–	–	–	–	–	12,274	1,908	–	15,005	–	–	–	29,187
9l	– of which: no loan splitting applied	–	–	–	–	–	–	–	–	–	12,274	1,908	–	15,005	–	–	–	29,187
9o	– of which: other real estate exposures (materially dependent on cash flows generated by mortgaged properties)	–	–	–	–	–	–	–	–	–	–	–	–	–	–	3,340	–	3,340
9p	– of which: land acquisition, development and construction exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	7	–	7

Table 39: CR5 – Credit risk exposures by exposure classes and by risk weights – for STC approach (continued)

	Risk Weight	0%	20%	30%	45%	50%	75%	85%	100%	150%	250%	400%	Others	Total credit exposures amount (post-CCF and post-CRM)
	At 31 Dec 2025	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**
	Exposure class													
1	Sovereign exposures	**18,402**	**173**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**18,575**
2	PSE exposures	**85,348**	**59,302**	**–**	**–**	**20,178**	**–**	**–**	**4,602**	**–**	**–**	**–**	**–**	**169,430**
3	Multilateral development bank exposures	**82,538**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**82,538**
3a	Unspecified multilateral body exposures	**–**	**340**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**340**
4	Bank exposures	**–**	**3,462**	**341**	**–**	**358**	**–**	**–**	**–**	**637**	**–**	**–**	**–**	**4,798**
4a	Qualifying non-bank financial institution exposures	**–**	**36**	**1**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**37**
6	General corporate exposures	**–**	**78,504**	**–**	**–**	**1,633**	**3,205**	**2,094**	**152,946**	**585**	**–**	**–**	**–**	**238,967**
6a	– of which: non-bank financial institution exposures excluding those reported under row 4a	**–**	**11,323**	**–**	**–**	**372**	**237**	**410**	**52,068**	**–**	**–**	**–**	**–**	**64,410**
7	Equity exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**451**	**–**	**–**	**451**
7b	Holdings of capital instruments issued by and non-capital LAC liabilities of, financial sector entities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,707**	**44**	**–**	**7,751**
7c	Subordinated debts issued by banks, qualifying non-bank financial institutions and corporates	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**204**	**–**	**–**	**–**	**204**
8	Retail exposures	**–**	**–**	**–**	**17,999**	**–**	**61,368**	**–**	**9,527**	**–**	**–**	**–**	**16,937**	**105,831**
10	Defaulted exposures	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**825**	**5,060**	**–**	**–**	**155**	**6,040**

Table 40: CR5 – Exposure amounts and CCFs applied to off-balance sheet exposures

		a	b	c	d
	Risk Weight	**On-balance sheet exposure**	**Off-balance sheet exposure (pre-CCF)**	**Weighted average CCF[1]**	**Exposure (post-CCF and post-CRM)[2]**
		HK$m	**HK$m**	**%**	**HK$m**
1	Less than 40%	**386,885**	**42,557**	**27**	**409,906**
2	40 – 70%	**30,557**	**128,261**	**12**	**46,046**
3	75%	**64,258**	**173,211**	**9**	**76,858**
4	85%	**4,303**	**2,859**	**13**	**4,002**
5	90 – 100%	**185,511**	**200,741**	**14**	**182,909**
6	105 – 130%	**855**	**191**	**40**	**931**
7	150%	**29,727**	**41,456**	**10**	**26,924**
8	250%	**8,157**	**–**	**–**	**8,157**
9	400%	**44**	**–**	**–**	**44**
11	**Total exposures at 31 Dec 2025**	**710,297**	**589,276**	**13**	**755,777**

1 Weighting is based on off-balance sheet exposure (pre-CCF).
2 Exposure (post-CCF and post-CRM) is calculated by applying provisioning, CRM measures and then CCFs in relation to both on-balance sheet and off-balance sheet exposures.

Exposure amount under STC approach increased by HK$88.6bn in the second half of 2025, mainly due to the methodology and policy changes to report multilateral development bank and international organisation exposures under STC approach as permitted by the regulator.

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, 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 Corporate and Institutional Banking ('CIB') business 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. For residential mortgages, Group policy prescribes a revaluation of the portfolio at a minimum of every three years, or every 6 months for material portfolios. More frequent revaluations are required where market conditions are subject to significant change, and for non performing loans are subject to monitoring at a minimum annually. Residential property collateral values are determined through a combination of professional appraisals, desktop valuations, automated valuation models ('AVMs'), 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.

LGD values are calculated using regulatory approved models, where available. For those portfolios on a FIRB approved by the HKMA, regulatory values are used. 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 under the IRB approach, recognition may be through PD and/or LGD.
- Eligible financial collateral under the AIRB and FIRB is recognised.
- All other types of eligible collateral, including real estate, the LGD is recognised under the AIRB and FIRB. The types of eligible mitigation recognised under the FIRB are more limited than AIRB.

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 comprehensive approach using standard supervisory haircuts (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 amount is subject to the risk rating of the obligor.

Table 41: CR3 – Overview of recognised credit risk mitigation

		a	b	c	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	**2,474,049**	**1,939,823**	**1,450,084**	**337,103**
2	Debt securities	**2,505,221**	**7,085**	**7**	**4,004**
3	**Total at 31 Dec 2025**	**4,979,270**	**1,946,908**	**1,450,091**	**341,107**
4	– of which: defaulted	**29,721**	**47,347**	**27,546**	**983**

Table 42: 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 (project finance)	**31,859**	**31,859**
4	Corporate – Specialised lending (income-producing real estate)	**85,340**	**85,340**
5	Corporate – Specialised lending (high-volatility commercial real estate)	**400**	**400**
6	Corporate – SMEs	**49,876**	**49,876**
7	Corporate – Large corporates	**504,508**	**504,508**
8	Corporate – Financial institutions treated as corporates	**67,459**	**67,459**
9	Corporate – Other corporates	**314,473**	**314,473**
10	Sovereigns – Sovereigns	**196,098**	**196,098**
12	Sovereigns – Multilateral development banks	**—**	**—**
13	Bank – Banks (excluding covered bonds)	**127,065**	**127,065**
14	Bank – Qualifying non-bank financial institutions	**996**	**996**
16	Bank – Unspecified multilateral bodies	**—**	**—**
17	Bank – Covered bonds	**9,301**	**9,301**
18	Retail – Small business retail exposures	**853**	**853**
19	Retail – Residential mortgages to individuals	**129,351**	**129,351**
20	Retail – Residential mortgages to property-holding shell companies	**3,552**	**3,552**
21	Retail – QRRE (transactor)	**19,714**	**19,714**
22	Retail – QRRE (revolver)	**37,477**	**37,477**
23	Retail – Other retail exposures to individuals	**40,318**	**40,318**
24	CIS – CIS exposures	**1,796**	**1,796**
25	Other – Cash items	**1,789**	**1,789**
26	Other – Other items	**134,080**	**134,080**
27	**Total (under the IRB calculation approaches) at 31 Dec 2025**	**1,756,305**	**1,756,305**

Table 43: 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	**12,713**	**3**	**18,480**	**94**	**35**	**–**
2	PSE exposures	**161,315**	**26,150**	**161,246**	**8,185**	**26,551**	**16**
3	Multilateral development bank exposures	**82,529**	**92**	**82,529**	**9**	**–**	**–**
3a	Unspecified multilateral body exposures	**340**	**–**	**340**	**–**	**68**	**20**
4	Bank exposures	**849**	**9,262**	**862**	**3,937**	**1,929**	**40**
4a	Qualifying non-bank financial institution exposures	**–**	**1**	**36**	**1**	**8**	**20**
5	Eligible covered bond exposures	**–**	**–**	**–**	**–**	**–**	**10**
6	General corporate exposures	**224,151**	**180,534**	**213,025**	**25,942**	**174,524**	**73**
6a	– of which: non-bank financial institution exposures excluding those reported under row 4a	**45,223**	**38,189**	**55,638**	**8,772**	**55,045**	**85**
7	Equity exposures	**451**	**–**	**451**	**–**	**1,127**	**250**
7b	Holdings of capital instruments issued by and non-capital LAC liabilities of, financial sector entities	**7,751**	**–**	**7,751**	**–**	**19,444**	**251**
7c	Subordinated debts issued by banks, qualifying non-bank financial institutions and corporates	**149**	**289**	**149**	**54**	**306**	**150**
8	Retail exposures	**89,066**	**326,501**	**75,514**	**30,317**	**86,638**	**82**
9	Real estate exposures	**125,037**	**45,906**	**115,003**	**5,812**	**53,711**	**44**
9a	– of which: regulatory residential real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	**84,585**	**16,023**	**79,533**	**2,000**	**18,942**	**23**
9b	– of which: regulatory residential real estate exposures (materially dependent on cash flows generated by mortgaged properties)	**1,734**	**266**	**1,734**	**85**	**652**	**36**
9c	– of which: regulatory commercial real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	**4,223**	**2,207**	**4,038**	**197**	**2,778**	**66**
9d	– of which: regulatory commercial real estate exposures (materially dependent on cash flows generated by mortgaged properties)	**689**	**41**	**690**	**4**	**486**	**70**
9e	– of which: other real estate exposures (not materially dependent on cash flows generated by mortgaged properties)	**30,349**	**26,399**	**25,750**	**3,437**	**25,833**	**89**
9f	– of which: other real estate exposures (materially dependent on cash flows generated by mortgaged properties)	**3,450**	**970**	**3,251**	**89**	**5,010**	**150**
9q	– of which: land acquisition, development and construction exposures	**7**	**–**	**7**	**–**	**10**	**150**
10	Defaulted exposures	**5,946**	**538**	**5,946**	**94**	**8,428**	**140**
12	**Total at 31 Dec 2025**	**710,297**	**589,276**	**681,332**	**74,445**	**372,769**	**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 44: 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]				
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	of which: new defaulted obligors in the year	Average historical annual default rate %
Sovereigns (AIRB)										
0.00 to <0.15	**AAA to BBB**	**Aaa to Baa2**	**AAA to BBB**	**0.02**	**0.03**	**44**	**42**	**—**	**—**	**—**
0.15 to <0.25	**BBB-**	**Baa3**	**BBB-**	**0.22**	**0.22**	**3**	**3**	**—**	**—**	**—**
0.25 to <0.50	**BBB-**	**Baa3**	**BBB-**	**0.37**	**0.37**	**2**	**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-**	**—**	**—**	**—**	**1**	**—**	**—**	**—**
2.5 to <10.00	**B to B-**	**B2 to Caa1**	**CCC+ to CCC**	**3.22**	**4.65**	**3**	**3**	**—**	**—**	**6.67**
10.00 to <100.00	**B- to C**	**Caa1 to C**	**CCC to C**	**14.79**	**24.50**	**2**	**—**	**—**	**—**	**20.00**
Banks (FIRB)[4]										
0.00 to <0.15	**AAA to A-**	**Aaa to Baa1**	**AAA to BBB+**	**0.04**	**0.07**	**383**	**359**	**—**	**—**	**—**
0.15 to <0.25	**BBB+**	**Baa2**	**BBB**	**0.22**	**0.22**	**60**	**54**	**—**	**—**	**—**
0.25 to <0.50	**BBB**	**Baa3**	**BBB-**	**0.37**	**0.37**	**30**	**26**	**—**	**—**	**—**
0.50 to <0.75	**BBB-**	**Baa3**	**BBB-**	**0.63**	**0.63**	**34**	**22**	**—**	**—**	**—**
0.75 to <2.50	**BB+ to BB-**	**Ba1 to B1**	**BB+ to B+**	**1.00**	**1.23**	**22**	**21**	**—**	**—**	**—**
2.5 to <10.00	**B+ to B-**	**B2 to Caa1**	**B to CCC+**	**3.12**	**5.60**	**4**	**4**	**—**	**—**	**—**
10.00 to <100.00	**CCC+ to C**	**Caa1 to C**	**CCC to C**	**16.24**	**16.75**	**8**	**10**	**—**	**—**	**—**
Total Corporate[5,6] (AIRB & FIRB)										
0.00 to <0.15	**AAA to A-**	**Aaa to Baa1**	**AAA to BBB+**	**0.08**	**0.09**	**5,607**	**7,074**	**—**	**—**	**0.01**
0.15 to <0.25	**BBB+**	**Baa2**	**BBB**	**0.22**	**0.22**	**2,961**	**3,678**	**1**	**—**	**0.03**
0.25 to <0.50	**BBB**	**Baa3**	**BBB-**	**0.37**	**0.37**	**3,155**	**3,423**	**8**	**—**	**0.16**
0.50 to <0.75	**BBB-**	**Baa3**	**BBB-**	**0.63**	**0.63**	**3,038**	**3,178**	**5**	**—**	**0.24**
0.75 to <2.50	**BB+ to BB-**	**Ba1 to B1**	**BB+ to B+**	**1.38**	**1.46**	**8,159**	**9,303**	**66**	**—**	**0.68**
2.5 to <10.00	**B+ to B-**	**B2 to Caa1**	**B to CCC+**	**4.40**	**4.11**	**2,519**	**3,125**	**47**	**—**	**1.64**
10.00 to <100.00	**CCC+ to C**	**Caa1 to C**	**CCC to C**	**22.24**	**18.88**	**288**	**296**	**21**	**—**	**12.16**

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 is being reported at entity level. Sovereigns are reported at country level based on local currency and foreign currency ratings.
4 Pursuant to the implementation of Basel III final reform package from 1 January 2025, FIRB approach is applicable to Banks portfolio from prior AIRB approach.
5 Changes in corporate asset classification introduced in the Basel III final reform package were incorporated in the Capital Adequacy Ratio reporting at 31 March 2025. Annual information is presented at total corporate exposure level.
6 Specialised lending exposures are excluded.

Table 44: 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 (transactor)							
0.00 to < 0.15	**0.07**	**0.07**	**4,104,583**	**4,097,938**	**2,240**	**—**	**0.05**
0.15 to < 0.25	**0.23**	**0.23**	**166,683**	**171,677**	**238**	**—**	**0.12**
0.25 to < 0.50	**0.41**	**0.41**	**193,682**	**217,907**	**573**	**—**	**0.24**
0.50 to < 0.75	**0.59**	**0.59**	**24,535**	**30,761**	**113**	**—**	**0.36**
0.75 to < 2.50	**1.28**	**1.30**	**219,233**	**251,992**	**1,067**	**—**	**0.37**
2.50 to < 10.00	**4.17**	**4.16**	**35,279**	**37,582**	**645**	**—**	**1.34**
10.00 to < 100.00	**24.39**	**26.47**	**1,623**	**1,568**	**133**	**—**	**5.21**
Retail – QRRE (revolver)							
0.00 to < 0.15	**0.11**	**0.11**	**846,041**	**932,808**	**1,101**	**40**	**0.11**
0.15 to < 0.25	**0.23**	**0.23**	**99,113**	**109,979**	**290**	**18**	**0.22**
0.25 to < 0.50	**0.40**	**0.40**	**189,619**	**164,256**	**911**	**13**	**0.38**
0.50 to < 0.75	**0.57**	**0.58**	**57,384**	**63,063**	**536**	**29**	**0.57**
0.75 to < 2.50	**1.40**	**1.34**	**277,568**	**279,519**	**3,711**	**223**	**1.22**
2.50 to < 10.00	**4.60**	**4.47**	**110,624**	**109,370**	**5,142**	**18**	**3.65**
10.00 to < 100.00	**24.39**	**27.96**	**43,053**	**39,735**	**7,725**	**1**	**14.53**
Retail – Residential mortgage exposures							
0.00 to < 0.15	**0.07**	**0.07**	**239,484**	**245,819**	**207**	**17**	**0.05**
0.15 to < 0.25	**0.21**	**0.19**	**120,300**	**119,673**	**331**	**38**	**0.22**
0.25 to < 0.50	**0.43**	**0.43**	**47,822**	**52,124**	**213**	**6**	**0.37**
0.50 to < 0.75	**0.55**	**0.60**	**18,155**	**14,485**	**60**	**—**	**0.42**
0.75 to < 2.50	**1.25**	**1.24**	**40,413**	**38,485**	**209**	**1**	**0.52**
2.50 to < 10.00	**5.19**	**5.18**	**13,079**	**12,774**	**391**	**1**	**2.89**
10.00 to < 100.00	**22.54**	**22.05**	**4,533**	**4,351**	**377**	**—**	**8.30**
Retail – small business retail exposures							
0.00 to < 0.15	**0.07**	**0.07**	**1,411**	**1,278**	**2**	**—**	**0.06**
0.15 to < 0.25	**0.19**	**0.19**	**151**	**134**	**—**	**—**	**—**
0.25 to < 0.50	**0.36**	**0.36**	**241**	**346**	**—**	**—**	**—**
0.50 to < 0.75	**0.54**	**0.55**	**178**	**156**	**—**	**—**	**—**
0.75 to < 2.50	**1.11**	**1.08**	**136**	**124**	**—**	**—**	**0.34**
2.50 to < 10.00	**6.10**	**5.68**	**188**	**186**	**2**	**—**	**1.87**
10.00 to < 100.00	**45.96**	**45.96**	**31**	**35**	**—**	**—**	**1.38**
Retail – Other retail exposures to individuals							
0.00 to < 0.15	**0.09**	**0.09**	**35,718**	**34,568**	**52**	**—**	**0.08**
0.15 to < 0.25	**0.21**	**0.20**	**26,115**	**30,937**	**27**	**—**	**0.08**
0.25 to < 0.50	**0.35**	**0.35**	**78,873**	**72,819**	**226**	**53**	**0.19**
0.50 to < 0.75	**0.65**	**0.63**	**28,996**	**27,957**	**226**	**39**	**0.56**
0.75 to < 2.50	**1.43**	**1.45**	**71,974**	**73,773**	**1,270**	**105**	**1.21**
2.50 to < 10.00	**3.86**	**4.24**	**37,031**	**38,553**	**1,575**	**118**	**3.17**
10.00 to < 100.00	**19.66**	**19.65**	**10,285**	**10,355**	**1,437**	**22**	**11.76**

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 ('RC') 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 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 MOF. 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 111 of the group's Annual Report and Accounts 2025.

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 2025, 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$282m and for a two-notch downgrade was HK$321m.

Table 45: CCR1 – Analysis of counterparty credit risk exposures (other than those to CCPs) by approaches

		a	b	c	d	e	f
		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
1	SA-CCR approach (for derivative contracts)	**39,690**	**78,399**		**1.40**	**165,325**	**41,423**
2	IMM(CCR) approach			**77,681**	**1.45**	**112,637**	**24,853**
4	Comprehensive approach (for SFTs)					**95,413**	**12,973**
6	**Total at 31 Dec 2025**						**79,249**

Table 46: CCR6 – Credit-related derivatives contracts

	a	b
	Protection bought	Protection sold
At 31 Dec 2025	HK$m	HK$m
Notional amounts		
Index credit default swaps	**78,989**	**70,707**
Single-name credit default swaps	**75,105**	**64,154**
Total return swaps	**37,779**	**19,506**
Total notional amounts	**191,873**	**154,367**
Fair values		
Positive fair value (asset)	**479**	**1,980**
Negative fair value (liability)	**(1,881)**	**(962)**

Table 47: CCR5 – Composition of collateral for counterparty credit 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	Unsegregated	Segregated	Unsegregated		
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
Cash – domestic currency	**—**	**15,883**	**—**	**10,856**	**51,479**	**85,890**
Cash – other currencies	**—**	**142,962**	**2,321**	**160,905**	**574,567**	**962,038**
Domestic sovereign debt	**—**	**—**	**—**	**—**	**7,957**	**61,129**
Other sovereign debt	**1,114**	**62,573**	**14,058**	**70,735**	**727,059**	**681,819**
Government agency debt	**—**	**96**	**—**	**345**	**—**	**—**
Corporate bonds	**568**	**8,953**	**63,726**	**720**	**350,409**	**59,456**
Equity securities	**—**	**1**	**—**	**—**	**142,106**	**66,341**
Other collateral	**—**	**29,877**	**—**	**8,192**	**—**	**—**
Total at 31 Dec 2025	**1,682**	**260,345**	**80,105**	**251,753**	**1,853,577**	**1,916,673**

The fair value of posted collateral (segregated) for derivative contracts increased by HK$60.2bn in the second half of 2025, mainly due to an increase in margin requirement.

The fair value of recognised collateral received and posted collateral for SFTs increased by HK$46.4bn and HK$86.6bn respectively in the second half of 2025, mainly due to higher client demand from sovereign and corporate counterparties.

Table 48: CCR8 – Exposures to CCPs

		a	b
		Exposure after CRM	RWAs
		HK$m	HK$m
At 31 Dec 2025			
1	**Exposures of the AI as clearing member or clearing client to qualifying CCPs (total)**		**1,485**
2	Default risk exposures to qualifying CCPs (excluding items disclosed in rows 7 to 10)	**22,552**	**619**
3	– of which: (i) OTC derivative transactions	**13,595**	**440**
4	– of which: (ii) exchange-traded derivative contracts	**8,957**	**179**
7	Segregated initial margin	**19,682**	
8	Unsegregated initial margin	**10,815**	**221**
9	Funded default fund contributions	**5,409**	**645**
10	Unfunded default fund contributions	**10,960**	**—**
11	**Exposures of the AI as clearing member or clearing client to non-qualifying CCPs (total)**		**501**
12	Default risk exposures to non-qualifying CCPs (excluding items disclosed in rows 17 to 20)	**8**	**8**
14	– of which: (ii) exchange-traded derivative contracts	**8**	**8**
18	Unsegregated initial margin	**445**	**445**
19	Funded default fund contributions	**36**	**16**
20	Unfunded default fund contributions	**3**	**32**

Counterparty credit risk under internal ratings-based approach

Table 49: CCR4 – Counterparty credit 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 (AIRB)							
0.00 to < 0.15	**27,132**	**0.02**	**47**	**45.6**	**0.36**	**1,129**	**4**
0.15 to < 0.25	**192**	**0.22**	**3**	**54.5**	**1.00**	**89**	**46**
0.75 to < 2.50	**—**	**1.65**	**1**	**88.0**	**1.00**	**—**	**175**
Sub-total at 31 Dec 2025	**27,324**	**0.03**	**51**	**45.6**	**0.36**	**1,218**	**4**
Portfolio (ii) – Bank (FIRB)							
0.00 to < 0.15	**222,902**	**0.06**	**753**	**44.9**	**0.79**	**32,290**	**14**
0.15 to < 0.25	**3,542**	**0.22**	**95**	**45.0**	**0.63**	**1,281**	**36**
0.25 to < 0.50	**3,243**	**0.37**	**59**	**45.0**	**0.97**	**1,780**	**55**
0.50 to < 0.75	**1,324**	**0.63**	**39**	**45.0**	**0.96**	**999**	**75**
0.75 to < 2.50	**179**	**1.32**	**26**	**45.0**	**0.79**	**176**	**99**
2.50 to < 10.00	**6**	**3.05**	**1**	**45.0**	**1.00**	**7**	**110**
10.00 to < 100.00	**7**	**13.47**	**6**	**45.0**	**1.00**	**15**	**226**
Sub-total at 31 Dec 2025	**231,203**	**0.07**	**979**	**44.9**	**0.79**	**36,548**	**16**
Portfolio (iii) – Corporate (AIRB)							
0.00 to < 0.15	**5,247**	**0.06**	**513**	**24.1**	**1.00**	**419**	**8**
0.15 to < 0.25	**470**	**0.20**	**39**	**24.5**	**1.00**	**85**	**18**
0.25 to < 0.50	**389**	**0.37**	**35**	**22.9**	**1.00**	**103**	**26**
0.50 to < 0.75	**249**	**0.61**	**32**	**23.7**	**1.00**	**84**	**34**
0.75 to < 2.50	**2,462**	**1.22**	**99**	**21.6**	**1.00**	**1,037**	**42**
2.50 to < 10.00	**94**	**4.35**	**20**	**29.6**	**1.00**	**87**	**92**
10.00 to < 100.00	**7**	**31.56**	**1**	**20.5**	**1.00**	**8**	**119**
100.00 (Default)	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Sub-total at 31 Dec 2025	**8,918**	**0.48**	**739**	**23.4**	**1.00**	**1,823**	**20**
Portfolio (iv) – Corporate (FIRB)							
0.00 to < 0.15	**58,505**	**0.08**	**2,166**	**42.2**	**0.87**	**9,013**	**15**
0.15 to < 0.25	**9,845**	**0.22**	**688**	**41.9**	**0.83**	**3,083**	**31**
0.25 to < 0.50	**7,375**	**0.37**	**394**	**41.9**	**0.94**	**3,319**	**45**
0.50 to < 0.75	**3,484**	**0.63**	**320**	**40.7**	**0.80**	**2,330**	**67**
0.75 to < 2.50	**5,806**	**1.29**	**780**	**40.4**	**0.97**	**4,205**	**72**
2.50 to < 10.00	**2,944**	**4.40**	**190**	**40.1**	**1.00**	**3,284**	**112**
10.00 to < 100.00	**146**	**15.63**	**8**	**40.0**	**1.00**	**260**	**179**
100.00 (Default)	**6**	**100.00**	**3**	**40.0**	**1.00**	**—**	**—**
Sub-total	**88,111**	**0.40**	**4,549**	**41.9**	**0.88**	**25,494**	**29**
Total (sum of all portfolios) at 31 Dec 2025	**355,556**	**0.16**	**6,318**	**43.7**	**0.78**	**65,083**	**18**

The Bank applies internal models for calculating counterparty credit risk exposures in accordance with regulatory approvals granted by the HKMA. The scope of IMM(CCR) for counterparty credit risk, which was determined based on the exposure size, covers OTC derivatives with corporate, bank and sovereign counterparties.

At 31 December 2025, the percentage of total RWAs covered by IRB models is 100% for sovereign exposures, 98% for bank exposures and 71% for corporate exposures.

During the second half of 2025, RWA density declined from 21% to 18%, reflecting the reduction in average PD from 0.24% to 0.16% driven by the decrease in the proportion of corporate portfolio with higher PD.

Counterparty credit risk under standardised approach

Table 50: CCR3 – Counterparty credit risk exposures (other than those to CCPs) by exposure classes and by risk weights – for STC approach

		a	c	d	ea	f	g	i
	Risk Weight	0% HK$m	20% HK$m	50% HK$m	85% HK$m	100% HK$m	150% HK$m	Total default risk exposure after CRM HK$m
	Exposure class							
1	Sovereign exposures	**22**	**—**	**—**	**—**	**—**	**—**	**22**
2	PSE exposures	**431**	**1,195**	**470**	**—**	**—**	**—**	**2,096**
3	Multilateral development bank exposures	**1,821**	**—**	**—**	**—**	**—**	**—**	**1,821**
5	Bank exposures	**—**	**—**	**—**	**—**	**—**	**169**	**169**
7	General corporate exposures	**—**	**45**	**224**	**22**	**10,894**	**—**	**11,185**
8	Retail exposures	**—**	**—**	**—**	**—**	**2,182**	**—**	**2,182**
11	**Total at 31 Dec 2025**	**2,274**	**1,240**	**694**	**22**	**13,076**	**169**	**17,475**

Credit valuation adjustment risk

Qualitative disclosures related to CVA risk

The X-Value Adjustment ('XVA') desk is in charge of hedging and mitigating risks arising from valuation adjustments including CVA and Funding Value Adjustment ('FVA') for transactions from OTC bilateral derivatives transactions, under no or imperfect CSA.

The main risks being hedged include credit, funding, interest rates and foreign exchange. For credit, the desk uses a combination of both single-name CDS and credit indices to achieve both precise and broad-based risk coverage. Interest rates and foreign exchange risks are hedged via interest rates and foreign exchange derivatives. All these risk mitigation activities are executed as per the hedging strategies defined part of the desk's mandate.

The XVA desk, acting as the first line of defence on XVA risks management, actively manages these risks on a daily basis in order to protect XVA profits and losses from adverse market movements, and limit losses incurred by the bank in case of counterparty default.

Hedge effectiveness is monitored on a regular basis through sensitivity reports, profits and losses analysis, backtesting and stress-testing to ensure alignment between portfolio exposures and hedging strategies put in place by the desk.

Additional qualitative disclosures for AI using standardised CVA approach

The XVA desk is a transversal desk part of CIB business, in charge of hedging and mitigating risks arising from valuation adjustments including CVA and FVA for transactions from OTC bilateral derivatives transactions, under no or imperfect CSA. The function is split across two regions: Europe and America, Asia and Middle East. The Global Head of XVA reports to CIB senior management.

CIB senior management is involved in the CVA RMF through Global Financial Resource and XVA committee on a monthly basis.

To effectively manage CVA risks, HSBC has deployed a robust RMF, which is based on a three lines of defence model:

- The XVA desk acts as the first line of defence. CVA and FVA risks originated by the operations of the different business lines are transferred and centralised into a single desk, whose mandate is to manage the profits and losses volatility and market risks linked to these valuation adjustments.
- The second line of defence is the Traded Risk department. It enforces the controls around trading in permissible instruments approved for the XVA desk as well as following completion of the new product approval process. It also restricts trading in the complex derivative products when there are appropriate levels of product expertise and robust control systems.
- The Global Internal Audit team acts as the third line of defence and is responsible for providing independent assurance over the effectiveness of HSBC's RMF.

Table 51: CVA2 – CVA risk under full basic CVA approach

		a
		CVA risk capital charge under the full basic CVA approach
		HK$m
1	$BA\_CVA_{reduced}$	**5,356**
2	BA_CVA_{hedged}	**4,328**
3	**At 31 Dec 2025**	**4,585**

Table 52: CVA3 – CVA risk under standardised CVA approach

		a	b
		CVA risk capital charge under the standardised CVA approach	**Number of counterparties**
		HK$m	
1	Interest rate risk	**94**	
2	Foreign exchange risk	**150**	
3	Reference credit spread risk	**—**	
4	Equity risk	**—**	
5	Commodity risk	**17**	
6	Counterparty credit spread risk	**995**	
7	**Total (sum of rows 1 to 6) at 31 Dec 2025**	**1,256**	**4,728**

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 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 RMF and further details are provided on pages 49 to 50 of the group's Annual Report and Accounts 2025.

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 2025.

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. 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 STM approach, which includes a market risk capital charge for credit spread risks.

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$5,728m.

Table 53: 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 2025							
1	**Retail (total) – of which:**	**40,574**	**—**	**40,574**	**89,598**	**—**	**89,598**
2	residential mortgage	**40,574**	**—**	**40,574**	**34,174**	**—**	**34,174**
3	credit card	**—**	**—**	**—**	**3,921**	**—**	**3,921**
4	other retail exposures	**—**	**—**	**—**	**51,503**	**—**	**51,503**
6	**Wholesale (total) – of which:**	**—**	**19,500**	**19,500**	**20,186**	**—**	**20,186**
7	loans to corporates	**—**	**19,500**	**19,500**	**4,048**	**—**	**4,048**
8	commercial mortgage	**—**	**—**	**—**	**2,874**	**—**	**2,874**
9	lease and receivables	**—**	**—**	**—**	**12,766**	**—**	**12,766**
10	other wholesale	**—**	**—**	**—**	**498**	**—**	**498**

Table 54: SEC2 – Securitisation exposures in trading book

		g	i
		Acting as investor	
		Traditional HK$m	Sub-total HK$m
At 31 Dec 2025			
1	**Retail (total) – of which:**	**8,632**	**8,632**
2	residential mortgage	**5,928**	**5,928**
3	credit card	**130**	**130**
4	other retail exposures	**2,574**	**2,574**

Table 55: SEC3 – Securitisation exposures in banking book and associated capital requirements – where AI acts as originator

		a	b	c	d	e	f	j	n
		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	1250% RW HK$m	SEC-IRBA HK$m	SEC-IRBA HK$m	SEC-IRBA HK$m
At 31 Dec 2025									
1	**Total exposures**	**19,595**	**—**	**—**	**90**	**13**	**19,698**	**3,623**	**290**
2	**Traditional securitisation**	**185**	**—**	**—**	**—**	**13**	**198**	**187**	**15**
3	– of which: securitisation	**185**	**—**	**—**	**—**	**13**	**198**	**187**	**15**
4	– of which: retail	**185**	**—**	**—**	**—**	**13**	**198**	**187**	**15**
6	– of which: wholesale	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
8	– of which: re-securitisation								
9	**Synthetic securitisation**	**19,410**	**—**	**—**	**90**	**—**	**19,500**	**3,436**	**275**
10	– of which: securitisation	**19,410**	**—**	**—**	**90**	**—**	**19,500**	**3,436**	**275**
11	– of which: retail	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
12	– of which: wholesale	**19,410**	**—**	**—**	**90**	**—**	**19,500**	**3,436**	**275**
13	– of which: re-securitisation								

Table 56: 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 2025											
1	**Total exposures**	**90,471**	**16,249**	**3,064**	**—**	**40,868**	**68,916**	**7,338**	**14,281**	**587**	**1,143**
2	**Traditional securitisation**	**90,471**	**16,249**	**3,064**	**—**	**40,868**	**68,916**	**7,338**	**14,281**	**587**	**1,143**
3	– of which: securitisation	**90,471**	**16,249**	**3,064**	**—**	**40,868**	**68,916**	**7,338**	**14,281**	**587**	**1,143**
4	– of which: retail	**75,358**	**12,752**	**1,487**	**—**	**39,291**	**50,307**	**6,540**	**11,047**	**523**	**884**
6	– of which: wholesale	**15,113**	**3,497**	**1,577**	**—**	**1,577**	**18,609**	**798**	**3,234**	**64**	**259**

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, foreign exchange ('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 Value at risk ('VaR'), stressed VaR ('SVaR') and IRC of the group resides in CIB. CIB manages market risk, within overall risk limits set by the group CRCO and approved by the Board.

▶ For a discussion on market risk governance and structure, refer to page 51 of the group's Annual Report and Accounts 2025.

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 RMF 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.

Stress testing

Stress testing is an important procedure that is integrated into our market RMF 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.

Policy under standardised approach

The Bank maintains a comprehensive internal policy that defines the scope and classification criteria for financial instruments included in the trading book and banking book. This policy is fully aligned with the requirements set out in Part 8 of the BCR and outlines the procedures for determining whether a position is designated as trading.

Instruments may be assigned to the banking book contrary to the general presumptions of the trading book. At 31 December 2025, such instruments included:

- Listed equity-related instruments obtained through loan restructuring (HK$262m).
- Strategic investments in listed equities (HK$95,756m).

In accordance with the Bank's hedge accounting policy, the Bank transferred certain hedged derivatives from the banking book to the trading book following the de-designation of hedge accounting. At 31 December 2025, the notional amount of these transferred hedges was HK$12,630m.

The Bank conducts general interest rate internal risk transfer ('IRT') activities through dedicated IRT trading desks. Internal policies specified the type of permissible IRT activities, approval processes, and ongoing monitoring are maintained to govern the compliance of BCR requirements.

Market risk under standardised approach

Table 57: MR1 – Market risk under STM approach

		a
		Market risk capital charges under STM approach
		HK$m
1	General interest rate risk	**1,614**
2	Equity risk	**2,112**
3	Commodity risk	**46**
4	Foreign exchange risk	**4,436**
5	Credit spread risk (non-securitisation)	**2,748**
6	Credit spread risk (securitisation: non-correlation trading portfolio ('CTP'))	**86**
7	Credit spread risk (securitisation: CTP)	**—**
8	Standardised default risk charge ('SA-DRC') (non-securitisation)	**1,120**
9	SA-DRC (securitisation: non-CTP)	**108**
10	SA-DRC (securitisation: CTP)	**—**
11	Residual risk add-on	**1,032**
12	**Total at 31 Dec 2025**	**13,302**

Total market risk capital charges under the STM approach decreased by HK$1.4bn in the second half of 2025, mainly attributable to reductions in the default risk charge on non-securitisation exposures, foreign exchange exposures and general interest rate risk exposures.

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 58: 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	**831**	**1,258**	**43**	**244**	**1**	**2,377**	**1,794**	**583**
2	– of which: Mid-market value	**258**	**556**	**19**	**55**	**1**	**889**	**481**	**408**
3	Close-out costs	**175**	**303**	**12**	**27**	**—**	**517**	**348**	**169**
4	Concentration	**398**	**399**	**12**	**162**	**—**	**971**	**965**	**6**
5	Early termination	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
6	Model risk	**94**	**134**	**—**	**2**	**—**	**230**	**186**	**44**
7	Operational risks	**46**	**125**	**3**	**11**	**2**	**187**	**126**	**61**
8	Investing and funding costs	**—**	**11**	**—**	**—**	**4**	**15**	**15**	**—**
9	Unearned credit spreads	**—**	**376**	**—**	**—**	**10**	**386**	**386**	**—**
10	Future administrative costs	**35**	**71**	**—**	**2**	**—**	**108**	**29**	**79**
11	Other adjustments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
12	**Total adjustments at 31 Dec 2025**	**1,006**	**1,975**	**46**	**259**	**17**	**3,303**	**2,536**	**767**

Operational risk

Operational risk is the risk of loss resulting from people, inadequate or failed internal processes, data or systems and external events. Sound operational risk management is central to achieving fair outcomes for our customers, growing our business safely, and maintaining the orderly and transparent operation of financial markets. Operational risk is relevant to every aspect of our business and is broadly managed through the RMF. Operational risk covers a wide spectrum of areas, such as resilience risk, financial crime risk, regulatory compliance risk, financial reporting and tax risk, legal risk, model risk and people risk. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of operational risk.

Organisation and responsibilities

The RMF sets out how we identify, assess and manage the risks that matter the most in our ability to operate, grow and meet expectations. It translates our strategy, values, and commitments into practical actions and risk-aware decisions. The RMF is supplemented with frameworks, guides and detailed operating procedures. Responsibility for managing Operational risk lies with our people. We continue to focus on strengthening our approach to manage Operational risk and enhancing the framework and tools for strengthening the control environment and improving practices in management of operational risk.

The Enterprise Risk Management function helps the business grow safely by driving governance and management of Operational risk through the delivery and embedding of effective frameworks and policies, and continuous oversight and assurance of risks, controls, events, and impacts.

Activity to strengthen the first and second lines of defence continues to be a key focus.

Measurement and monitoring

The RMF is supplemented with frameworks, guides and detailed operating procedures, we set our risk appetite and then regularly monitor risk exposure against that appetite.

The group calculates the Pillar 1 Operational risk capital ('ORC') charge using the standardised approach, introduced under Basel III final reform package. Pillar 1 ORC is computed using the formula: ORC = BIC x ILM, where the Business Indicator Component ('BIC') reflects the bank's size and the Internal Loss Multiplier ('ILM') scales it based on historical losses, making capital more sensitive to actual loss experience.

Risk Scenario analysis across each material risk category, provides an aggregated, forward-looking assessment of risks for stress testing and to help determine capital requirements. This forward-looking view enables assessment of the risk impact and risk likelihood to understand the cost and wider consequences of risk materialization, as well as the evaluation of potential further actions by management.

The first line of defense is responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. There is a dedicated tool for systematic reporting of Operational loss data.

Risk mitigation, transfer, and control assessment approach

Operational risk and control assessments are performed by the first line of defence and provides a view of the risks, an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage risks within acceptable levels. Appropriate means of mitigation or transfer are considered. These include making specific changes to strengthen the internal control environment, and investigating whether cost-effective insurance cover is available to mitigate the risk.

Recording

We use a Group-wide risk management system to record the results of our risk management process, including the first line of defence risk and control assessments and the monitoring and follow up on the progress of documented action plans. Operational risk losses are entered into the Group-wide risk management system and are reported through governance at the agreed intervals to executive management and the board of directors (as appropriate). Loss capture thresholds are in line with industry standards.

Table 59: OR1 – Historical losses

		a	b	c	d	e	f	g	h	i	j	k
		31 Dec 2025	31 Dec 2024	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019	31 Dec 2018	31 Dec 2017	31 Dec 2016	Average
Using HKD200,000 threshold (HK$m)												
1	Total amount of operational losses net of recoveries (no exclusions)	**197**	296	610	285	442	126	326	609	263	243	340
2	Total number of operational risk losses	**166**	188	216	195	181	158	179	187	133	150	175
3	Total amount of excluded operational risk losses	**—**	—	—	—	—	—	—	—	—	—	—
4	Total number of exclusions	**—**	—	—	—	—	—	—	—	—	—	—
5	Total amount of operational losses net of recoveries and net of excluded losses	**197**	296	610	285	442	126	326	609	263	243	340
Using HKD1 million threshold (HK$m)												
6	Total amount of operational losses net of recoveries (no exclusions)	**163**	250	553	248	405	77	284	562	220	185	295
7	Total number of operational risk losses	**53**	69	76	59	71	49	63	46	34	51	57
8	Total amount of excluded operational risk losses	**—**	—	—	—	—	—	—	—	—	—	—
9	Total number of exclusions	**—**	—	—	—	—	—	—	—	—	—	—
10	Total amount of operational losses net of recoveries and net of excluded losses	**163**	250	553	248	405	77	284	562	220	185	295
Details of operational risk capital charge calculation												
11	Are losses used to calculate the ILM (yes/no)?						**YES**					
12	If 'no' in row 11, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards (yes/no)?											
13	Loss event threshold: HKD200,000 or HKD 1 million for the ORC charge calculation if applicable						**200,000**					

The group's operational risk losses reporting and related disclosure aligns with the Basel III final reform package and corresponding revision in the BCR which came in effect from 1 January 2025. The Bank continues to monitor and assess the losses as per the policies and frameworks described in this section. The Bank's ILM has remained in a constant band over the 2025 reporting quarters. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1.2(o) of the Annual Report and Accounts 2025. The 10-year losses include legal proceedings and regulatory matters disclosed by the Bank in previous years.

Table 60: OR2 – Business indicator and business indicator components breakdown

		a	b	c
	Business indicator ('BI') and its subcomponents (HK$m)	**31 Dec 2025**	31 Dec 2024	31 Dec 2023
1	Interest, leases and dividend component	**160,661**		
1a	– interest and leases income	**294,094**	327,858	304,118
1b	– interest and leases expenses	**154,138**	197,937	166,101
1c	– interest earning assets	**8,139,602**	7,681,057	7,349,260
1d	– dividend income	**27,029**	27,677	19,383
2	Services component	**63,178**		
2a	– fee and commission income	**67,245**	57,033	51,285
2b	– fee and commission expenses	**16,303**	14,966	13,594
2c	– other operating income	**4,595**	4,558	4,817
2d	– other operating expenses	**197**	296	610
3	Financial component	**64,150**		
3a	– net P&L on trading book	**61,145**	67,378	58,330
3b	– net P&L on banking book	**1,289**	767	(3,542)
4	BI	**287,988**		
5	BIC	**42,898**		
Disclosure on the BI:				
6a	BI gross of excluded divested businesses and activities	**287,988**		
6b	Reduction in BI due to excluded divested businesses and activities	**—**		

Table 61: OR3 – Minimum operational risk capital requirement

		a
		31 Dec 2025
1	BIC (HK$m)	**42,898**
2	ILM (%)	**64**
3	Minimum ORC requirement (HK$m)	**27,455**
4	Total RWAs for operational risk (HK$m)	**343,186**

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:

Table 62: LIQA – LCRs and NSFRs on three liquidity reporting bases

	At 31 Dec 2025	
	LCR	NSFR
	%	%
Hong Kong Office	**165.5**	**129.3**
Unconsolidated	**158.5**	**129.1**
Consolidated	**146.9**	**147.7**

- 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 49 to 50 of the group's Annual Report and Accounts 2025. 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 2025.

Table 63: 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 2025 was 74.	**Quarter ended 31 Dec 2025**	
		Unweighted value (average)	**Weighted value (average)**
	Basis of disclosure: consolidated	**HK$m**	**HK$m**
A	**HQLA**		
1	Total HQLA		**2,160,026**
B	**Cash outflows**		
2	Retail deposits and small business funding, of which:	**4,114,130**	**387,841**
3	– stable retail deposits and stable small business funding	**337,125**	**10,140**
4	– less stable retail deposits and less stable small business funding	**3,777,005**	**377,701**
5	Unsecured wholesale funding (other than small business funding) and debt securities and prescribed instruments issued by the AI, of which:	**2,863,914**	**1,282,052**
6	– operational deposits	**917,583**	**223,941**
7	– unsecured wholesale funding (other than small business funding) not covered in row 6	**1,943,916**	**1,055,696**
8	– debt securities and prescribed instruments issued by the AI and redeemable within the LCR period	**2,415**	**2,415**
9	Secured funding transactions (including securities swap transactions)		**52,744**
10	Additional requirements, of which:	**1,898,023**	**390,160**
11	– cash outflows arising from derivative contracts and other transactions, and additional liquidity needs arising from related collateral requirements	**190,739**	**190,579**
12	– cash outflows arising from obligations under structured financing transactions and repayment of funding obtained from such transactions	**6,287**	**6,287**
13	– potential drawdown of undrawn committed facilities (including committed credit facilities and committed liquidity facilities)	**1,700,997**	**193,294**
14	Contractual lending obligations (not otherwise covered in Section B) and other contractual cash outflows	**212,811**	**212,811**
15	Other contingent funding obligations (whether contractual or non-contractual)	**2,301,475**	**24,084**
16	**Total cash outflows**		**2,349,692**
C	**Cash inflows**		
17	Secured lending transactions (including securities swap transactions)	**608,730**	**125,778**
18	Secured and unsecured loans (other than secured lending transactions covered in row 17) and operational deposits placed at other financial institutions	**879,090**	**491,148**
19	Other cash inflows	**283,230**	**281,156**
20	**Total cash inflows**	**1,771,050**	**898,082**
D	**Liquidity coverage ratio (adjusted value)**		
21	Total HQLA		**2,160,026**
22	Total net cash outflows		**1,451,610**
23	LCR (%)		**149.0**

Table 64: LIQ2 – Net stable funding ratio – for category 1 institution

		a	b	c	d	e
		Quarter ended 31 Dec 2025				
		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:	**899,648**	**—**	**—**	**33,113**	**932,760**
2	– Regulatory capital	**899,648**	**—**	**—**	**25,425**	**925,072**
3	– Other capital instruments	**—**	**—**	**—**	**7,688**	**7,688**
4	Retail deposits and small business funding:		**4,238,983**	**—**	**—**	**3,831,954**
5	– Stable deposits		**337,384**	**—**	**—**	**320,515**
6	– Less stable deposits		**3,901,599**	**—**	**—**	**3,511,439**
7	Wholesale funding:	**—**	**4,005,329**	**45,735**	**9,026**	**1,352,591**
8	– Operational deposits		**914,065**	**—**	**—**	**457,032**
9	– Other wholesale funding	**—**	**3,091,264**	**45,735**	**9,026**	**895,559**
10	Liabilities with matching interdependent assets	**342,994**	**—**	**—**	**—**	**—**
11	Other liabilities:	**265,046**	**165,826**	**31,760**	**266,422**	**282,302**
13	– All other funding and liabilities not included in the above categories	**265,046**	**165,826**	**31,760**	**266,422**	**282,302**
14	**Total ASF**					**6,399,607**
B	**Required stable funding ('RSF') item**					
15	Total HQLA for NSFR purposes[1]			**2,524,994**		**171,437**
17	Performing loans and securities:	**588,878**	**3,012,812**	**389,977**	**2,525,572**	**3,371,317**
18	– Performing loans to financial institutions secured by Level 1 HQLA	**—**	**659,596**	**14,158**	**58,820**	**131,864**
19	– Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	**7,269**	**546,755**	**120,016**	**311,507**	**460,797**
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:	**155,888**	**1,071,655**	**218,427**	**917,539**	**1,463,465**
21	– With a risk-weight of less than or equal to 35% under the STC approach	**919**	**1,786**	**1,245**	**29,969**	**25,780**
22	– Performing residential mortgages, of which:	**—**	**38,296**	**16,756**	**1,115,893**	**770,647**
23	– With a risk-weight of less than or equal to 35% under the STC approach	**—**	**37,262**	**15,860**	**1,026,940**	**694,072**
24	– Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	**425,721**	**696,510**	**20,620**	**121,813**	**544,544**
25	Assets with matching interdependent liabilities	**342,994**				
26	Other assets:	**1,045,208**	**186,118**	**656**	**1,800**	**698,709**
27	– Physical traded commodities, including gold	**49,638**				**42,192**
28	– Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	**142,446**				**121,079**
29	– Net derivative assets	**28,194**				**28,194**
30	– Total derivative liabilities before adjustments for deduction of variation margin posted	**302,584**				**15,129**
31	– All other assets not included in the above categories	**522,346**	**186,118**	**656**	**1,800**	**492,115**
32	Off-balance sheet items[1]			**4,066,942**		**90,709**
33	**Total RSF**					**4,332,172**
34	**Net Stable Funding Ratio (%)**					**147.7**

Table 64: LIQ2 – Net stable funding ratio – for category 1 institution (continued)

		a	b	c	d	e
		Quarter ended 30 Sep 2025				
		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:	864,674	—	—	33,934	898,608
2	– Regulatory capital	864,674	—	—	25,603	890,277
3	– Other capital instruments	—	—	—	8,331	8,331
4	Retail deposits and small business funding:		4,091,797	—	—	3,699,726
5	– Stable deposits		342,178	—	—	325,069
6	– Less stable deposits		3,749,619	—	—	3,374,657
7	Wholesale funding:	—	4,014,898	40,703	10,288	1,303,022
8	– Operational deposits		872,350	—	—	436,175
9	– Other wholesale funding	—	3,142,548	40,703	10,288	866,847
10	Liabilities with matching interdependent assets	338,854	—	—	—	—
11	Other liabilities:	326,523	335,529	37,702	267,431	286,282
13	– All other funding and liabilities not included in the above categories	326,523	335,529	37,702	267,431	286,282
14	Total ASF					6,187,638
B	Required stable funding ('RSF') item					
15	Total HQLA for NSFR purposes[1]			2,702,823		169,403
17	Performing loans and securities:	556,724	2,918,955	431,228	2,437,011	3,235,203
18	– Performing loans to financial institutions secured by Level 1 HQLA	—	671,258	25,526	32,288	110,498
19	– Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	9,475	559,016	123,043	272,931	427,780
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:	147,207	993,912	240,913	917,018	1,440,445
21	– With a risk-weight of less than or equal to 35% under the STC approach	864	2,661	2,567	39,381	33,204
22	– Performing residential mortgages, of which:	—	42,674	18,360	1,101,757	764,607
23	– With a risk-weight of less than or equal to 35% under the STC approach	—	41,614	17,454	1,012,014	687,343
24	– Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	400,042	652,095	23,386	113,017	491,873
25	Assets with matching interdependent liabilities	338,854	—	—	—	—
26	Other assets:	986,901	267,154	2,890	1,839	653,258
27	– Physical traded commodities, including gold	46,872				39,841
28	– Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs	75,512				64,186
29	– Net derivative assets	27,743				27,743
30	– Total derivative liabilities before adjustments for deduction of variation margin posted	284,185				14,209
31	– All other assets not included in the above categories	552,589	267,154	2,890	1,839	507,279
32	Off-balance sheet items[1]			3,995,273		81,151
33	Total RSF					4,139,015
34	Net Stable Funding Ratio (%)					149.5

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

Asset encumbrance

The following table provides the carrying amount of encumbered and unencumbered assets on the balance sheet.

Encumbered assets means any assets that the Bank is restricted or prevented from liquidating, selling, transferring or assigning, due to legal, regulatory, contractual or other limitations. Unencumbered assets means any assets of the Bank other than encumbered assets. Encumbered assets increased by HK$41.8bn in the second half of 2025, which reflected the segregation and encumbrance of securities to privatise Hang Seng Bank Limited.

Table 65: ENC – Asset encumbrance

	a	c	d
	Encumbered assets	**Unencumbered assets**	**Total**
At 31 Dec 2025	**HK$m**	**HK$m**	**HK$m**
Financial investments	**628,807**	**1,868,359**	**2,497,166**
Trading assets	**176,717**	**1,045,579**	**1,222,296**
Assets other than Financial investments and Trading assets	**160,972**	**6,710,776**	**6,871,748**
Total assets	**966,496**	**9,624,714**	**10,591,210**

Other disclosures

Interest rate risk in the banking book

Interest rate risk in the banking book ('IRRBB') is the potential negative impact on earnings or capital due to fluctuations in market interest rates or changes in expected repricing of client products. The risk arises from our non-traded assets and liabilities, that are not held for trading intent or in order to hedge positions held with trading intent.

Risk Management and Governance

Our global IRRBB RMF is designed to identify, measure, manage and monitor all material sources of IRRBB. We have established policies and frameworks to ensure comprehensive oversight.

We utilise a combination of economic value and earnings-based measures to manage IRRBB effectively. These measures are used to assess IRRBB risks across the banking book, supporting the overall monitoring against risk appetite. They include:

- Net Interest Income ('NII') Sensitivity; and
- Economic Value of Equity ('EVE') Sensitivity.

Economic value of equity Sensitivity

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 off-balance sheet 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.

Net interest income Sensitivity

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 assumptions

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

- 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;
- 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 non-maturity deposits ('NMDs') 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); and
- 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.

Quantitative information on interest rate risk in banking book

At 31 December 2025, the maximum decline in EVE is in the 'Parallel Up' shock at HK$18,774m. This translates to 2.9% 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$17,806m at 31 December 2025, as compared to HK$16,223m as of 31 December 2024.

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

The average and the longest repricing maturity for NMDs as of 31 December 2025 was close to 12 months and 120 months respectively.

Table 66: IRRBB1 – Quantitative information on interest rate risk in banking book

		a	b	c	d
		ΔEVE		ΔNII	
		31 Dec 2025	31 Dec 2024[1]	**31 Dec 2025**	31 Dec 2024[1]
		HK$m	HK$m	**HK$m**	HK$m
1	Parallel up	**18,774**	18,830	**17,806**	16,223
2	Parallel down	**420**	397	**(18,004)**	(16,341)
3	Steepener	**3,570**	2,367		
4	Flattener	**6,190**	5,373		
5	Short rate up	**11,971**	11,422		
6	Short rate down	**1,136**	38		
7	Maximum	**18,774**	18,830	**17,806**	16,223
	Period	**31 Dec 2025**		31 Dec 2024	
8	Tier 1 capital	**643,430**		581,944	

1 Comparative data have been restated to align with the submission to the HKMA.

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 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 67: Mainland activities

		On-balance sheet exposure	**Off-balance sheet exposure**	**Total exposures**
		HK$m	**HK$m**	**HK$m**
	At 31 Dec 2025			
	Types of counterparties			
1	Central government, central government-owned entities and their subsidiaries and joint ventures ('JVs')	**257,590**	**44,199**	**301,789**
2	Local governments, local government-owned entities and their subsidiaries and JVs	**59,735**	**4,943**	**64,678**
3	People's Republic of China ('PRC') nationals residing in mainland China or other entities incorporated in mainland China and their subsidiaries and JVs	**443,215**	**80,070**	**523,285**
4	Other entities of central government not reported in item 1 above	**10,688**	**3,376**	**14,064**
5	Other entities of local governments not reported in item 2 above	**8,624**	**1,947**	**10,571**
6	PRC nationals residing outside mainland China or entities incorporated outside mainland China where the credit is granted for use in mainland China	**16,822**	**2,131**	**18,953**
7	Other counterparties where the exposures are considered by the reporting institution to be non-bank mainland China exposures	**35,645**	**1,467**	**37,112**
	Total	**832,319**	**138,133**	**970,452**
	Total assets after provision	**7,149,487**		
	On-balance sheet exposures as percentage of total assets	**11.64%**		

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. 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 68: 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 2025					
Developed countries	**523,826**	**1,252,729**	**589,107**	**582,883**	**2,948,545**
– of which: United States	**83,761**	**921,411**	**199,235**	**53,633**	**1,258,040**
– of which: Japan	**88,443**	**144,951**	**153,960**	**323,330**	**710,684**
Offshore centres	**150,611**	**99,549**	**124,488**	**475,813**	**850,461**
Developing Asia and Pacific	**456,851**	**167,891**	**139,719**	**325,845**	**1,090,306**
– of which: Mainland China	**345,527**	**68,772**	**61,355**	**142,570**	**618,224**

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 2025:

Table 69: Non-structural foreign currency positions

HK$m equivalent	United States dollars HK$m	Singapore dollars HK$m	Chinese Renminbi HK$m	Indian Rupee HK$m	Malaysian Ringgit HK$m
At 31 Dec 2025					
Spot assets	**3,181,006**	**477,592**	**920,198**	**321,923**	**174,102**
Spot liabilities	**(3,986,733)**	**(337,383)**	**(888,068)**	**(313,756)**	**(156,083)**
Forward purchases	**16,789,546**	**469,706**	**3,131,211**	**1,670,520**	**158,444**
Forward sales	**(15,881,598)**	**(597,917)**	**(3,186,109)**	**(1,713,402)**	**(189,165)**
Net options positions	**(10,700)**	**(63)**	**4,972**	**8,603**	**(1)**
Net long (net short) position[1]	**91,521**	**11,935**	**(17,796)**	**(26,112)**	**(12,703)**

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 2025, 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 AI 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 2025, 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 2025/2026.

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 2025.

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 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 2025 were 294 members.

Table 70: REM1 – Remuneration awarded during financial year

		a	b
		2025	
	Remuneration amount and quantitative information	Senior Management	Key personnel
	Fixed remuneration[1]		
1	Number of employees	**32**	**294**
2	Total fixed remuneration (HK$m)	**256**	**1,124**
3	– of which: cash-based	**256**	**1,124**
	Variable remuneration[2]		
9	Number of employees[3]	**32**	**294**
10	Total variable remuneration (HK$m)	**386**	**1,296**
11	– of which: cash-based	**190**	**612**
12	– of which: deferred	**110**	**294**
13	– of which: shares or other share-linked instruments	**196**	**684**
14	– of which: deferred	**117**	**367**
17	**Total remuneration (HK$m)**	**642**	**2,420**

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.

Total remuneration has changed as a result of the changes to senior management and key personnel. Numbers of Key Personnel have decreased due to fewer Material Risk Takers being identified as a result of a recent Prudential Regulation Authority rules update.

Table 71: REM2 – Special payments

		e	f
		2025	
		Severance payments	
	Special payments	Number of employees	Total amount HK$m
2	Key personnel	**24**	**70**

Table 72: REM3 – Deferred remuneration

		a	b	c	d	e
		2025				
	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 explicit adjustments 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**	**714**	**714**	**—**	**167**	**148**
2	Cash	**218**	**218**	**—**	**—**	**50**
3	Shares	**496**	**496**	**—**	**167**	**98**
6	**Key personnel**	**2,164**	**2,164**	**—**	**513**	**567**
7	Cash	**664**	**664**	**—**	**—**	**161**
8	Shares	**1,500**	**1,500**	**—**	**513**	**406**
11	**Total**	**2,878**	**2,878**	**—**	**680**	**715**

Amount of outstanding deferred remuneration and the amount paid out is higher compared to prior year. This is a reflection of the personnel change in senior management and Key Management Personnel population, improved share price of HSBC Holdings plc, and a strengthening GBP over the course of the year.

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
US$m	Millions of United States dollars
A	
α	Alpha
AI	Authorised institution
AIRB	Advanced internal ratings-based approach
ASF	Available stable funding
AT1	Additional Tier 1
AVAs	Additional valuation adjustments
AVM	Automated valuation model
B	
Bank	The Hongkong and Shanghai Banking Corporation Limited
BA-CVA	Basic CVA approach
BCBS	Basel Committee on Banking Supervision
BCR	Banking (Capital) Rules
BDR	Banking (Disclosure) Rules
BI	Business Indicator
BIC	Business indicator component
BLR	Banking (Liquidity) Rules
BSC approach[1]	Basic approach
C	
CCF[1]	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
CIB	Corporate and Institutional Banking
CIS	Collective investment scheme
CRE[1]	Commercial real estate
CRM[1]	Credit risk mitigation/mitigant
CRCO	Chief Risk and Compliance Officer
CRR[1]	Customer risk rating
CSA	Credit support annex
CTP	Correlation trading portfolio
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 losses
EEPE[1]	Effective expected positive exposures
EL	Expected loss
EVE	Economic value of equity
F	
FIRB	Foundation internal ratings-based approach
Fitch	Fitch Ratings
FMM	Finance Management Meeting
FSB	Financial Stability Board
FVA	Funding Value Adjustment
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
ILM	Internal loss multiplier
IMM(CCR)	Internal models (counterparty credit risk)
IMM(CCR) approach	Internal models (counterparty credit risk) approach
IPRE	Income producing real estate
IRB[1] approach/IRB	Internal ratings-based approach
IRT	Internal Risk Transfer
IRRBB	Interest rate risk in the banking book
J	
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
M	
Mar	March
MOF	Model Oversight Forum
Moody's	Moody's Investors Service
MRC	Model Risk Committee
MRM	Model risk management
MRTs[1]	Identified Staff and Material Risk Takers
MSRs[1]	Mortgage servicing rights
N	
NII[1]	Net interest income
NMDs	Non-maturity deposits
NSFR[1]	Net stable funding ratio
NTBFX	Non-trading book foreign exchange
O	
ORC	Operational risk capital
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 entity
PVA	Prudent valuation adjustments
Q	
QRRE	Qualifying revolving retail exposures

R	
RAS	Risk appetite statement
RC	Replacement cost
RMF	Risk Management Framework
RMM	Risk Management Meeting
RMOF	Retail Model Oversight Forum
RSF	Required stable funding
RTS	Regulatory Technical Standard
RW	Risk weight
RWA[1]	Risk-weighted asset/risk-weighted amount
S	
SA-CCR approach	Standardised (counterparty credit risk) approach
SA-CVA	Standardised CVA approach
SA-DRC	Standardised default risk charge
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 approach	Standardised (credit risk) approach
STM approach	Standardised (market 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
X	
XVA	X-Value Adjustment

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

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