恒生銀行
HANG SENG BANK

2025 Annual Report

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HANG SENG BANK LIMITED
2025 ANNUAL REPORT

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恒生銀行有限公司 Hang Seng Bank Limited
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Cautionary statement regarding forward-looking statements

This Annual Report contains certain forward-looking statements with respect to the financial condition, environmental, social and governance ('ESG')-related matters, results of operations and business of the Group, including the strategic priorities; financial, investment and capital targets; and the Group's ability to contribute to the Group's (and HSBC Group's) ESG ambitions, targets and commitments described herein.

Statements that are not historical facts, including statements about the group's beliefs and expectations, are forward-looking statements. Words such as 'expects', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', variations of these words and similar expressions are intended to identify forward-looking statements. These statements are based on current plans, estimates and projections, and therefore no undue reliance should be placed on them. Forward-looking statements apply only as of the date they are made. The group makes no commitment to revise or update any forward-looking statements to reflect events or circumstances occurring or existing after the date of any forward-looking statement.

Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct.

Forward-looking statements can be made in writing but may also be made verbally by directors, officers and employees of the group (including during management presentations) in connection with this document.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors, including ESG-related factors, could cause actual results, performance or other future events to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. This may be due to a variety of risks, uncertainties and other factors including, without limitation, those which relate to general market or economic conditions, regulatory and government policy changes, continued volatility in trade and tariff policies, increased volatility in interest rates and inflation levels and other macroeconomic risks, geopolitical tensions such as the Russia-Ukraine war or the conflict in the Middle East, the US military operation in Venezuela and potential further US action in the Western Hemisphere and, elsewhere, or the efficacy of the Group's (and the HSBC Group's) actions in managing and mitigating ESG related risks, and in progressing towards the Group's (and the HSBC Group's) ESG ambitions, targets and commitments.

For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements.

Additional risks and factors which may impact the Group's future financial condition and performance are identified in 'Risk – Top and emerging risks' on pages 23 to 24 of this Annual Report.

This Annual Report contains a number of graphics, text boxes and credentials which aim to give a high-level overview of certain elements of the group's disclosures and to improve accessibility for readers. These graphics, text boxes and credentials are designed to be read within the context of the Annual Report as a whole.

The information, statements and opinions set out in this Annual Report do not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any advice or recommendation in respect of such securities or other financial instruments.

	2025	*2024*
For the year	**HK$m**	HK$m
Net operating income before change in expected credit losses and other credit impairment charges	**42,254**	41,537
Operating profit	**18,608**	21,558
Profit before tax	**17,908**	21,014
Profit attributable to shareholders	**15,762**	18,379
	%	%
Return on average ordinary shareholders' equity	**9.4**	11.3
Cost efficiency ratio	**36.9**	36.6
	HK$	HK$
Earnings per share	**7.94**	9.33
Dividends per share	**6.80**	6.80

	At 31 December 2025	*At 31 December 2024*
At year-end	**HK$m**	HK$m
Shareholders' equity	**172,654**	169,522
Total assets	**1,819,113**	1,795,196
	%	%
Capital ratios		
– Common Equity Tier 1 ('CET1') Capital Ratio	**23.3**	17.7
– Tier 1 Capital Ratio	**25.5**	19.4
– Total Capital Ratio	**27.1**	20.8
Liquidity ratios		
– Liquidity coverage ratio	**307.20**	301.00
– Net stable funding ratio	**177.80**	181.00

Principal Place of Business

Hang Seng Bank Limited (the 'Bank') is incorporated and domiciled in Hong Kong and has its registered office and principal place of business at 83 Des Voeux Road Central, Hong Kong.

Principal Activities

The Bank and its subsidiaries (the 'Group') is engaged in the provision of banking and related financial services.

Consolidated Financial Statements

The consolidated financial statements of the Group are set out on pages 104 to 198.

Subordinated Liabilities, Share Capital and Other Equity Instruments

Details on subordinated liabilities issued by the Group are set out in Note 35. Details on share capital and other equity instruments of the Bank are set out in Notes 36 and 37 on the consolidated financial statements.

Dividends

The interim dividends paid in respect of 2025 are set out in Note 14 on the consolidated financial statements.

Directors

The Directors at the date of this Report of the Directors ('Report') are set out below:

Edward CHENG Wai Sun GBS JP

Independent Non-executive Chairman (since May 2025)*

He has been appointed as an Independent Non-executive Director of the Bank in April 2025. He is also an Independent Non-executive Director of The Hongkong and Shanghai Banking Corporation Limited. He is the Deputy Chairman and Chief Executive of Wing Tai Properties Limited and Chairman of Lanson Place Hospitality Management Limited. He holds a Bachelor of Arts (Economics and Politics) from Cornell University, United States of America, and a Bachelor of Arts in Jurisprudence and a Master of Arts from the University of Oxford, United Kingdom. He is qualified as a solicitor in England and Wales as well as in Hong Kong.

He was previously a Non-executive Director of the Securities and Futures Commission of Hong Kong, and an Independent Non-executive Director of Standard Chartered Bank (Hong Kong) Limited. He was also the former Chairman of the Urban Renewal Authority and the University Grants Committee of Hong Kong.

Luanne LIM Hui Hung MH

Executive Director and Chief Executive (since October 2025)

She is also a non-executive Chairman of Hang Seng Bank (China) Limited and Hang Seng Insurance Company Limited as well as a Director of HSBC Bank (Vietnam) Ltd. She has played an active role in advancing the financial services industry and serves as a member of the Board of Directors of Financial Services Development Council and a member of Financial Infrastructure and Market Development Sub-committee of Hong Kong Monetary Authority. She holds a Bachelor of Science in Economics from National University of Singapore.

Prior to joining the Bank, she was Chief Executive Officer of HSBC Hong Kong from February 2022, after having served as its Chief Operating Officer from 2017 to 2021.

* *re-designated as the Chairman of the Board and the Nomination Committee after the conclusion of the Bank's annual general meeting ('AGM') held on 8 May 2025*

Cordelia CHUNG MH

Independent Non-executive Director (since February 2022)

She is also an Independent Non-executive Director of Arup Group Limited, HKBN Ltd. and Hysan Development Company Limited. She is the Chairman of Maryknoll Convent School Foundation Limited, a member of the Court at City University of Hong Kong and a member of the Board of HKSTP Foundation Limited. She holds a Bachelor of Laws (Honors) from The University of Hong Kong. She was admitted as a solicitor in Hong Kong, England and Wales, Singapore and Australia.

She has received the 2024 Medal of Honour by the Hong Kong Government and is a two-time awardee of Director of the Year Award by the Hong Kong Institute of Directors in 2022 and 2025 respectively.

She previously held various leadership roles in IBM China/Hong Kong Limited.

Kathleen GAN Chieh Huey

Non-executive Director (since May 2019)

She is also Alternate Chief Executive, Chief Risk and Compliance Officer, Asia and Middle East of The Hongkong and Shanghai Banking Corporation Limited, and a Director of HSBC Asia Holdings Limited. She holds a Bachelor's Degree (Honors) in Business from Nanyang Technological University, Singapore and has completed the Executive Education in Chief Executive Officer (CEO) Program from Haas School of Business, University of California, Berkeley, United States of America.

She has previously held a number of senior positions within HSBC Holdings plc including Group Financial and Business Integration Lead and Head of Finance, Global Businesses, DBS and Functions.

Clement KWOK King Man

Independent Non-executive Director (since May 2021)

He is also an Independent Non-executive Director of Chen Hsong Holdings Limited, Shui On Land Limited and Wing Tai Properties Limited. He is a Fellow of both the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants. He holds a Bachelor of Science in Economics from The London School of Economics, United Kingdom.

He was previously the Executive Director and Advisor to the CEO after stepping down as the Managing Director and Chief Executive Officer of The Hongkong and Shanghai Hotels, Limited.

Patricia LAM Sze Wan

Independent Non-executive Director (since July 2022)

She is also an Independent Non-executive Director of Dickson Concepts (International) Limited and MGM China Holdings Limited, as well as the Non-West Kowloon Cultural District Authority Board Member for M Plus Museum Limited. She is also the Co-Founder, Partner and Director of Patti Wong & Associates Limited. She holds a Post Graduate Diploma in Asian Arts from Sotheby's School of Oriental and African Studies at The University of London, United Kingdom, as well as a Bachelor's Degree in Monetary Economics from The London School of Economics, United Kingdom.

She previously served as Sotheby's Inc. Senior International Chairman and held a number of senior positions within Sotheby's Hong Kong Limited.

David LIAO Yi Chien JP

Non-executive Director (since September 2021)

He is also Co-Chief Executive Officer of The Hongkong and Shanghai Banking Corporation Limited, a member of the Group Operating Committee of HSBC Holdings plc, Chairman and a Non-executive Director of HSBC Bank (China) Company Limited, and a Non-executive Director of Bank of Communications Co., Ltd. He holds a Bachelor of Arts from the University of London, United Kingdom.

He was previously Supervisor of HSBC Jintrust Fund Management Company Limited and Chairman of Hubei Suizhou Cengdu HSBC Rural Bank Company Limited.

LIN Huey Ru

Independent Non-executive Director (since July 2022)

She is also an Independent Non-executive Director of Bassett & Walker International, Inc. (operating as Trade Cafe Group) and a Board Observer of Nium Pte. Ltd., as well as a Non-executive and Independent Director of Singapore Exchange Limited. She serves as an advisor of both Fin Capital and Terraformation Inc.

She holds a Master's degree in Administration, Policy Analysis and Evaluation from Stanford University, United States of America, along with a Bachelor's degree in Biological Science and Psychology from Carnegie Mellon University, United States of America.

SAW Say Pin

Executive Director and Chief Financial Officer (since November 2022)

She is also a non-executive Director of Hang Seng Bank (China) Limited, Chairman of Hang Seng Investment Management Limited, a Director of various subsidiaries of the Bank and Hang Seng School of Commerce, as well as a Governor of The Hang Seng University of Hong Kong. She holds a Master of Finance from Royal Melbourne Institute of Technology, Australia, and is a Chartered Banker of Asian Institute of Chartered Banker and a Fellow of CPA Australia.

She was previously a Director of HSBC Asia Holdings Limited and served as Chief Financial Officer of HSBC Bank (China) Company Limited.

WANG Xiao Bin

Independent Non-executive Director (since February 2022)

She is also an Independent Non-executive Director of Cathay Pacific Airways Limited and Transport International Holdings Limited, as well as Director of The Kowloon Motor Bus Company (1933) Limited. She is a Chartered Accountant in Australia and a member of CPA Australia. She holds a Bachelor's Degree in Commerce from Murdoch University, Australia.

She was previously an Independent Non-executive Director of Worley Limited and was an Executive Director of China Resources Power Holdings Company Limited.

Catherine ZHOU Rong

Non-executive Director (since October 2024)

She is also Chief Information Officer, International Wealth and Premier Banking of HSBC Group Management Services Limited. She holds a Bachelor of Engineering, a Master of Engineering and a Master of Science from the University of Science and Technology Beijing, China. She also holds a Master of Business Administration from the Carnegie Mellon University, United States of America.

She was previously an Executive Director of MP Payments Group Limited and a Non-executive Director of HSBC FinTech Services (Shanghai) Company Limited.

Irene LEE Yun Lien retired from the Board of Directors (the 'Board') with effect from the conclusion of the Bank's AGM held on 8 May 2025.

Diana Ferreira CESAR stepped down from the Board with effect from 20 October 2025.

Save for Edward CHENG Wai Sun who was appointed as Independent Non-executive Director with effect from 1 April 2025, all the other Directors, who were in office on the date of this Report, had served on the Board of the Bank throughout the year.

Directors of Subsidiaries

The Directors of the Bank's subsidiaries during the period from 1 January 2025 up to the date of this Report are set out below (unless otherwise stated):

Diana Ferreira CESAR*
CHAN Ka Lok
Eddie CHAN Ping Chung*
CHEN Yu Sheng
CHEUNG Ka Chun*
Kathy CHEUNG Ka Wai
Winnie CHING Sze Wan
Vivien CHIU Wai Man
CHOW Tan Ling*
Mabel CHU Wing Lui
CHUI Ying Wai
Gordon FAN
HO Lok Sze*
Hong Mei KNIGHT
Joe LAM Hei Yin
LAM Hoi*
Gordon LAM Wai Chung
LAU Chi Hong
Jackie LEE Kit Han
LEE Man Lung
LEE Pui Shan*
Rannie LEE Wah Lun
LEUNG Chi Wai
LEUNG Kin Ping
Belle LIANG Chun Fei
Luanne LIM Hui Hung
LIN Kam Tung
LIU Yu
Raymond LUI Man Chung
MA Zhengwei
Theodore MAK Chung Wo
Anita MO Yuen Man
Edward Charles Lawrence MONCREIFFE
NIP Tak Kuen
SAW Say Pin
SHEK Yuen Leung
Paul SO Ho Ching
Dominic Adam SKEVINGTON*
Ryan SONG Yue Sheng*
Rachel SUNG Yerk Wan
Husne Ozge USTA
WANG Xiao Kun
WONG King Fung
Lincoln WONG Lut Hin
WONG Ti
WONG Wai Hung
WU Wei
YAM Chi Fai
YAM Chi Hei
YUEN Shui Fan
ZHANG Ping
ZHU Shushang

* *He/She has resigned/ceased as a Director of the relevant subsidiary(ies) of the Bank as at the date of this Report.*

Company Secretary

Maggie CHEUNG Ka Ki

Permitted Indemnity Provision

Appropriate Directors' liability insurance cover has also been arranged to indemnify the Directors against liabilities arising out of the discharge of their duties and responsibilities as the Bank's Directors. The coverage and the sum insured under the policy are reviewed annually. Further, the Bank's Articles of Association provide that Directors are entitled to be indemnified out of the Bank's assets against claims from third parties in respect of certain liabilities.

Directors' Interests in Transactions, Arrangements or Contracts

No transaction, arrangement or contract of significance, in relation to the Group's business to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank or an entity connected with a Director had, directly or indirectly, a material interest, subsisted at the end of the year or at any time during the year.

Directors' Rights to Acquire Shares or Debentures

During the year, Diana Ferreira CESAR, Kathleen GAN Chieh Huey, David LIAO Yi Chien, Luanne LIM Hui Hung, SAW Say Pin and Catherine ZHOU Rong were eligible to be granted conditional awards over ordinary shares of HSBC Holdings plc by that company (being the ultimate holding company of the Bank) under the HSBC Share Plan 2011 and/or the HSBC International Employee Share Purchase Plan.

During the year, Diana Ferreira CESAR, Kathleen GAN Chieh Huey, David LIAO Yi Chien, Luanne LIM Hui Hung, SAW Say Pin and Catherine ZHOU Rong acquired or were awarded ordinary shares of HSBC Holdings plc under the terms of the HSBC Share Plan 2011.

During the year, Luanne LIM Hui Hung acquired or was awarded ordinary shares of HSBC Holdings plc under the terms of the HSBC International Employee Share Purchase Plan.

Apart from the above, at no time during the year was the Bank or any of its holding companies or its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors of the Bank to acquire benefits by means of the acquisition of shares in or debentures of the Bank or any other body corporate.

Donations

Charitable donations made by the Group during the year amounted to HK$29m (2024: HK$29m).

Compliance with the Banking (Disclosure) Rules

The Directors are of the view that the Annual Report 2025 and the Banking Disclosure Statements 2025 to be issued fully comply with the Banking (Disclosure) Rules made under section 60A of the Banking Ordinance and the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules made under section 19(1) of the Financial Institutions (Resolution) Ordinance.

Auditor

The consolidated financial statements for the year ended 31 December 2025 have been audited by PricewaterhouseCoopers who will retire and, being eligible, offer itself for re-appointment. A resolution for the re-appointment of PricewaterhouseCoopers as auditor of the Bank will be proposed at the forthcoming AGM.

Corporate Governance

The Bank is committed to high standards of corporate governance. The Bank has followed the module on "Corporate Governance of Locally Incorporated Authorised Institutions" under the Supervisory Policy Manual issued by the Hong Kong Monetary Authority ('HKMA'). The Bank operates in accordance with the Subsidiary Accountability Framework of HSBC Holdings plc and its subsidiaries ('HSBC Group'), which sets out high-level principles to promote effective governance and improve communications and connectivity between HSBC Holdings plc and its subsidiaries.

Board of Directors

The Board, led by the Chairman, plays a leadership role under prudent and effective controls framework. Committed to high standards of integrity and ethics, the Board has collective responsibilities for promoting the long-term business sustainability and creating sustainable value to stakeholders.

The Board is responsible for the overall strategy and risk appetite for the Group and approves the financial and operating plans presented by management for the achievement of the strategic objectives it has set.

Directors

The Bank has a unitary Board. The authority of each Director is exercised in Board meetings where the Board acts collectively. As at the date of this Report, the Board comprises: the independent non-executive Chairman, executive Director(s), non-executive Directors and other independent non-executive Directors.

Independent non-executive Directors

Independent non-executive Directors do not participate in the daily business management of the Bank. They bring an external perspective, constructively challenge and help develop proposals on strategy, scrutinise the performance of management in meeting agreed goals and objectives, and monitor the risk profile and reporting of performance of the Bank. The independent non-executive Directors bring experience from a number of industries and business sector.

Chairman and Chief Executive

The roles of the Chairman and Chief Executive of the Bank are separate with a clear and well-established division of responsibilities. The Chairman of the Board is responsible for the leadership and effective running of the Board. The Chairman leads an annual evaluation of the Board performance, its Committees and individual Directors. The role also involves maintaining external relationships with key stakeholders and communicating their views to the Board. The Chief Executive, who is an Executive Director, is responsible for the day-to-day management of the Bank's business and operations. The Chief Executive chairs the Operating Committee, which was established during 2025 to support her in discharging her responsibilities to the Bank.

Board Committees

The Board has established various committees consisting of Directors and senior management. The committees include the Audit Committee, Risk Committee, Nomination Committee and Remuneration Committee. The Chairman of each Board committee that includes independent non-executive Directors report to each subsequent Board meeting on the relevant committee's proceedings. The Board and each Board committee have terms of reference to document their responsibilities and governance procedures. The key roles of the Board committees are described in the paragraphs below.

Audit Committee

The Audit Committee has responsibility for the oversight of and advice to the Board on matters relating to financial reporting and internal controls. The current members of the committee, all being independent non-executive directors, are Clement KWOK King Man (Chairman of the committee), Edward CHENG Wai Sun and WANG Xiao Bin. The committee held four regular meetings in 2025.

The Audit Committee:

- monitors the integrity of the financial statements, banking disclosure statements and disclosures relating to financial performance, the effectiveness of the internal audit function and the external audit process, and the effectiveness of internal control systems, subject to input from the Risk Committee of the Bank

- reviews the adequacy of resources and expertise as well as succession planning for the finance function

- reviews, and considers changes to, the Bank's accounting policies

- advises the Board on the appointment, re-appointment, or removal of the external auditor and reviews and monitors the external auditor's independence and objectivity

- reviews matters escalated for its attention by subsidiaries' audit committees and receives minutes of meetings of the Finance Management Meeting

Risk Committee

The Risk Committee has responsibility for oversight of and advice to the Board on risk-related matters (comprising both financial and non-financial risks) and the enterprise risks impacting the Group, risk governance and culture-related matters. The current members of the committee, all being independent non-executive directors, are WANG Xiao Bin (Chairman of the committee), Edward CHENG Wai Sun and LIN Huey Ru. The committee held four regular meetings in 2025.

The Risk Committee:

- reviews certain HSBC Group's risk management policies and procedures at least annually and advises the Board if these are appropriate for the circumstances of the Bank

- reviews local risk management policies at least annually and approves or recommends any changes to the Board for approval

- reviews any revisions to the Group's risk appetite statement at least annually and recommends any proposed changes to the Board for approval

- monitors the risk profiles for all of the risk categories within the Group's business

- monitors the effectiveness of the Bank's enterprise risk management framework and internal control systems

Risk Management Report is also presented at each Risk Committee meeting to report on the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework. The committee reviews matters escalated for its attention by subsidiaries' risk committees and receives minutes of meetings of the Risk Management Meeting.

Nomination Committee

The Nomination Committee is responsible for leading the process for Board appointments and for identifying and nominating suitable candidates for the approval by the Board to complement the Bank's corporate strategy.

The Nomination Committee:

- considers the structure, size and composition of the Board and Non-executive Board Committees
- reviews independence of independent non-executive Directors
- reviews re-election/election of Directors
- reviews succession planning of the Board and senior management
- reviews term of appointment of non-executive Directors
- reviews time commitment required from all Directors, appointment to Board Committee
- approves the appointment to the position of "manager" as defined under the Banking Ordinance

The current members of the committee are Edward CHENG Wai Sun (Chairman of the committee), Patricia LAM Sze Wan, Cordelia CHUNG, David LIAO Yi Chien and Luanne LIM Hui Hung. Except for David LIAO and Luanne LIM, who is an non-executive Director and an executive Director respectively, all members are independent non-executive Directors. The committee held two regular meetings in 2025.

Before recommending an appointment of a Director to the Board, the committee evaluates the Board composition including the balance of skills, knowledge, experience, and diversity of perspectives. In identifying suitable Board candidates, the committee also considers the required time commitment and any potential conflicts of interest by Board candidates. Appointments to the Board and certain senior management roles are subject to the approval of the HKMA.

Remuneration Committee

The HSBC Group Remuneration Committee is responsible for setting the principles, parameters and governance framework for the HSBC Group's Remuneration Strategy applicable to all HSBC Group employees, which is adopted by the Bank. The Remuneration Committee of the Bank is responsible for the oversight of matters related to remuneration impacting the Group, in particular, overseeing the implementation and operation of the HSBC Group's Remuneration Strategy and satisfying itself that the remuneration framework complies with local laws, rules or regulations; is in line with the risk appetite, business strategy, culture and values, and long-term interests of the Bank; and is appropriate to attract, retain and motivate employees to support the success of the Bank. The current members of the committee, all being independent non-executive Directors, are Cordelia CHUNG (Chairman of the committee), Edward CHENG Wai Sun and Patricia LAM Sze Wan. The committee held three regular meetings in 2025.

The following is a summary of the committee's key activities during 2025:

Senior Management*

- reviewed the remuneration proposals of senior management of the Bank and the Board approval was sought
- reviewed the performance scorecard for senior management of the Bank and the Board approval was sought

* *Senior Management includes the Executive Director(s), Chief Executive, Alternate Chief Executives and Operating Committee members of the Bank.*

All employees

- reviewed 2024/2025 performance year pay review matters
- reviewed remuneration framework effectiveness
- reviewed updates on notable events and regulatory and corporate governance matters, as appropriate
- reviewed 2025 Material Risk Takers identification approaches and outcomes
- received updates of reward and benefit changes to address regulatory updates and to enhance the employee values proposition in the markets we operate
- approved 2025 remuneration related regulatory submissions

Our Remuneration Strategy

Our approach to workforce reward is focused on enabling a high-performance culture where colleagues are at their best and focused on excellent customer outcomes. Our workforce reward principles and commitments guide our approach, strengthen our ability to attract, retain and motivate the people we need in competitive markets where employee expectations continue to evolve.

1. **We 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.

2. **We recognise colleagues' success** through our performance routines, including feedback and recognition, pay for performance, and all employee share ownership opportunities.

3. **We support our colleagues to grow** through our proposition beyond pay, with a focus on future skills and development, support for well-being, and flexibility.

In 2025, we continued to evolve our approach and made enhancements based on the lessons learned from the first year of implementation. We continued to improve our well-being and recognition offering, which help motivate employees to perform at their best.

Our approach to workforce reward forms part of our broader employee value proposition and helps us retain and engage the leaders and people we need to execute our strategy.

In 2026, a key priority will be to review the pay mix for our senior executives following changes to the Prudential Regulation Authority remuneration rules announced in October 2025. This review will ensure that our remuneration approach continues to support a high-performance culture, incentivises the achievement of our financial and strategic objectives, and promotes robust risk management and exemplary conduct standards.

More details of the Bank's remuneration strategy are contained within the Annual Report and Accounts 2025 of HSBC Holdings plc.

The Bank as an Authorised Institution under the Banking Ordinance is required by HKMA Supervisory Policy Manual CG-5 “Guideline on a Sound Remuneration System” (the ‘Guideline’) to assess whether their existing remuneration systems and policy are in line with the principles in the Guideline, independently of management and at least annually. The annual review for 2024 was commissioned externally to Deloitte LLP and the results were approved by the Remuneration Committee in April 2025. The review confirmed that the Bank’s remuneration strategy as adopted from the HSBC Group is consistent with the principles set out in the Guideline.

Business Review

The Bank is exempt from the requirement to prepare a business review under section 388(3) of the Companies Ordinance Cap. 622 since it is an indirect wholly-owned subsidiary of HSBC Holdings plc.

On behalf of the Board
Edward CHENG Wai Sun
Chairman
Hong Kong, 24 February 2026

We aim to support the transition to net zero and a sustainable future in partnership with our customers and other stakeholders.

Approach to Climate Reporting

The information set out in this Task Force on Climate-related Financial Disclosures ('TCFD'), taken together with other information relating to climate issues included in this Annual Report, provides key climate information and data relevant to our operations for the year ended 31 December 2025. The data is compiled for the financial year 1 January to 31 December 2025 unless otherwise specified. Measurement techniques and calculations are explained next to data tables where necessary.

We have considered our 'comply or explain' obligation under the Hong Kong Monetary Authority's ('HKMA') Supervisory Policy Manual ('SPM') GS-1 on 'Climate Risk Management' issued in December 2021. We have made disclosures consistent with the TCFD Recommendations and Recommended Disclosures, issued in July 2017 and its updated guidance in October 2021, in this Annual Report save for certain items which are described on 'Additional Information – TCFD Explanatory Statements' section. Further details have been included in this section and the 'Climate Risk' section of this Annual Report. TCFD disclosures are highlighted with the following symbol: TCFD.

We aim to continue to evolve our reporting to recognise market developments, such as the International Sustainability Standards Board ('ISSB'), and support the efforts to harmonise the disclosures.

Understanding Our Climate Reporting

The effective measurement, governance, and reporting of progress against the Group's climate ambitions is reliant on the availability of high-quality accessible, comparable and reliable internal and external data. The Group is also reliant on its own ability to collect the process such relevant data as required in timely manner. Newer data sources and topics may be difficult to assure using traditional verification techniques. This, coupled with diverse external data sources and complex structures, further complicates data consolidation.

We continue to strengthen our environmental, social and governance ('ESG') data and analytics capability, delivering trusted data assets, dashboards, AI, and advanced analytics solutions that help support initiatives like financed emissions, climate scenario analysis, stress testing, sustainable finance and portfolio optimisation.

How Climate is Governed TCFD

The Board has primary responsibility for the oversight of the approach to managing climate risks and opportunities including approval of climate related strategies and execution of the strategy, risk management, and associated reporting. The Board was also updated regularly on the progress of climate matters at its meetings held in 2025, at which the Board discussed and reviewed the Group's developments in relation to its climate risks and strategy.

Given the wide-ranging remit of climate matters, governance activities are managed through a combination of specialist governance infrastructure and regular meetings and committees, as appropriate. These include certain Board committees, including the Audit Committee and the Risk Committee; and certain management committees, including the ESG Steering Committee. Key highlights as below:

Audit Committee

- Review and challenge climate related reporting, processes, systems and controls.

- Provide oversight of the disclosure risks in relation to climate-related reporting, amid rising stakeholder expectations.

Risk Committee

- Oversee delivery plans to ensure that the Group develops robust capabilities on management of climate-related risks.
- Oversee and review climate related initiatives to assess the risk profile.

ESG Steering Committee

- Define and implement the Group's climate strategy aiming to drive value creation, embed climate change, diversity and inclusion across businesses and operations, and establish best practices.
- Integrate climate-related considerations into the strategy, set climate-related targets, manage public policy engagement, and assess climate-related risks and opportunities.
- Oversee and monitor progress against on the Group's climate strategy.

Our Chief Executive and Operating Committee members, where applicable, have integrated relevant climate scorecard and ESG Key Performance Indicators ('KPIs') in their 2025 performance objectives. These align our strategy, initiatives and plans to support our business and customers in their transition to net zero. Variable pay awards made to the Chief Executive and Operating Committee members have reflected the assessment of their performance against the scorecard objectives on both financial and non-financial objectives, including the ESG KPIs in place.

Transition to Net Zero TCFD

We aim to achieve net zero in our own operations[1] in Hong Kong by 2030, and contribute to the HSBC Group's climate ambitions. For details of HSBC Group's climate ambitions, please refer to its Annual Report and Accounts.

The HSBC Group's first net zero transition plan published in January 2024, provides an overview of its net zero strategy and implementation plan for the first time while recognising that the approach will continue to evolve. The HSBC Group published an updated plan in November 2025, intensifying its efforts to be customer focused, commercial and agile. For how the HSBC Group incorporates net zero considerations into its approach to supporting different customer groups through the transition, see the "Supporting Our Customers" section in HSBC Group's Net Zero Transition Plan 2025.

We continue to contribute to the HSBC Group's transition plan, through supporting our customers, embedding net zero into the way we operate, and partnering for an enabling environment. Our climate strategy has been developed in alignment with and to support the HSBC Group's climate strategy with initiatives and plans to deliver the transition for our business and clients.

Supporting Our Customers TCFD

Sustainable Finance and Investment

We continue to contribute to the HSBC Group's ambition of providing and facilitating between US$750 billion and US$1 trillion of sustainable finance and investment by 2030. The HSBC Group's sustainable finance and investment ambition aims to help promote green, sustainable and socially-focused business and sustainable investment products and solutions.

[1] This includes only Scope 1 and Scope 2 emissions.

The sustainable finance and investment progress is set out below.

	2025	2024
	HK$m	HK$m
Sustainable finance and investment summary [1]		
Balance sheet-related transactions provided [2]	**42,612**	41,798
Total contribution	**42,612**	41,798

1 This table has been prepared in accordance with our sustainable finance product papers, which are in line with HSBC Group's Sustainable Finance and Investment Data Dictionary. The amounts provided include the limits agreed for balance sheet-related transactions provided. The data in the table covers Hang Seng Group, including Hang Seng Bank and all its subsidiaries.

2 In 2024, only 9 months of Wealth and Personal Banking green mortgages were included for the first time of reporting. In 2025 reporting, 12 months of transactions were included, reported a quarter in arrear (1 October 2024 to 30 September 2025) due to the time lag in sourcing supporting third party data. For future years' reporting, we will continue to report green mortgages a quarter in arrear.

Supporting customers in their sustainability journey

We have continued to provide diversified green and sustainable financing solutions to businesses across sectors with our Sustainability Power Up Fund. To complement this, we established the Sustainability Power Up Team, working in collaboration with various strategic partners to bring customers ESG know-how and hands-on-support. In 2025, we approved our first Hong Kong green loan on acquisition of electric construction equipment. This aims to help reduce pollutant emissions and minimise noise at construction sites.

Partnering for an Enabling Environment

We actively engage with government bodies, financial regulators, and industry associations to help foster an enabling environment. Our participation in key forums and initiatives, including the Hong Kong Stock Exchange ESG Academy, ReThink HK, and the Hong Kong Management Association's Sustainability Summit, helps to enhance industry engagement, drive green finance innovation, and strengthen market resilience. Through strategic partnerships and thought leadership, we aim to support the growth of sustainable finance in Hong Kong.

Embedding Net Zero TCFD

Net Zero in Our Own Operations

We aim to achieve net zero in our own operations[1] in Hong Kong by 2030, and contribute to the HSBC Group's climate ambitions. Our climate ambition on net zero in our own operation aligns with HKMA's guidance in Sustainable Finance Action Agenda.

Aligned with HSBC Group's approach, we continue to address the emissions from our own operations by focusing on reducing our consumption and replacing consumption with low carbon alternatives. Carbon credits will only be used to remove any residual emissions from our own operations that cannot otherwise be reasonably reduced.

Energy and Water Consumption

We have implemented various energy saving measures, which included the deployment of an advanced data analytics system to optimise energy consumption in our Headquarters Building and Mong Kok Office Building. In support of the government's climate action, our three office buildings and most of the branches have enrolled in the Energy Saving Charter 2025 scheme and the 4T Charter scheme. We participate in the Quality Water Supply Scheme for Buildings administered by Hong Kong's Water Supplies Department.

1 This includes only Scope 1 and Scope 2 emissions.

Renewable Energy

To support local renewable energy generation, solar panels have been installed at our Headquarters Building and Mong Kok Office Building. In 2025, we purchased an aggregate of 23,580 MWh of renewable energy certificates ('RECs') or green energy certificates ('GECs'). Each unit in a certificate represents electricity produced by renewable sources, such as solar, wind and landfill gas.

Engaging with Supply Chain

Aligned with HSBC Group's approach, we continue our work to deepen collaboration with suppliers and has increased the focus on those without public disclosures or emissions reduction plans and supported them by providing additional guidance. We have enhanced the questions asked of suppliers at onboarding, to get a better view of their transition journey, and are now including suppliers' carbon footprint as a consideration in our selection process.

Environmental Performance

Greenhouse gas ('GHG') emissions	*Unit*	*2025*	*2024*
Total Scope 1 & 2 emissions (market-based)	tonnes of CO_2e	**33**	4,856
Scope 1		**33**	117
Scope 2 (market-based)		**–**	4,739
Scope 2 (location-based)		**11,529**	12,259
Total Scope 1 & 2 emissions (market-based) per FTE	tonnes of CO_2e/FTE	**0.0**	0.7

Environmental key facts	*Unit*	*2025*	*2024*
Total energy consumption	kWh in 000s	**24,010**	24,241
Total water consumption	m^3	**52,235**	51,718
Waste disposed to landfill	tonnes	**352**	341
Waste collected for recycling	tonnes	**168**	190

Data coverage: Hang Seng Bank and its subsidiaries in Hong Kong only
Key: m^3: Cubic metres CO_2e: Carbon dioxide equivalent kWh: Kilowatt-hour
FTE: Full-time employee equivalent

Our reporting period aligns with our financial year (January – December). Due to a three-month time lag availability, we use the data from Q4 of the previous year, as an estimate for the current year's Q4 data.

Aligned with HSBC Group emissions calculation methodology, we collected data and estimate the emissions of our operations where we have operational control.

In calculating Scope 1 and 2 emissions, we applied specific emission factors provided by the local suppliers in prior years. Effective from FY2025, we have followed HSBC Group GHG emissions calculation methodology and applied the weighted average of local emission factors at market level. This enables us to ensure the consistency with HSBC Group in reporting emission metrics. For 2024, the total Scope 1 & 2 emissions (location-based) were recalculated as 11,229 tonnes of CO_2e, as compared to 12,376 tonnes of CO_2e as reported. This enhancement in calculation methodology does not have significant impact on our overall trajectory toward our reported progress.

In prior years, we disclosed Scope 2 emission on location-based only. Starting from FY2025, we have disclosed Scope 2 emissions on both location-based and market-based. This is intended to provide a better transparency around the efforts we are making to reach net zero operations.

- For location-based, Scope 2 GHG emissions from consumed electricity included emissions generated from the consumptions of electricity but exclude the adjustment due to the use of RECs or GECs.

- For market-based, Scope 2 GHG emissions from consumed electricity included emissions generated from the consumptions of electricity and include the adjustment due to the use of RECs or GECs. In 2025, we purchased an aggregate of 23,580 MWh of RECs and GECs, which was closed to our annual electricity consumption in the year.

Managing Climate Risk TCFD

Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy. We manage climate risk across all our businesses and incorporate climate considerations within traditional risk types, in line with the HSBC Group-wide risk management framework.

The Group's material exposure to climate risk relates to wholesale and retail client financing activity within our banking portfolio. The Group is also exposed to climate risk in relation to asset ownership by our insurance business and employee pension plans. Our clients are exposed to climate-related investment risk in our asset management businesses.

For further details of our approach to climate risk, see the 'Climate Risk' section in this Annual Report.

Insights from Climate Scenario Analysis TCFD

Climate scenario analysis supports the HSBC Group's strategy by assessing its potential exposures to risks and vulnerabilities under a range of climate scenarios.

The HSBC Group-wide internal climate scenario analysis exercises are sufficiently diverse to enable key physical and transition risk vulnerabilities to be explored using a wide range of potential climate outcomes. They provide insights that enhance how the HSBC Group understands the various transition and global warming pathways that may unfold, which inform how the Group manages the potential financial implications for its customers and its shareholders.

Our Climate Scenarios

The Group has contributed to the HSBC Group-wide internal climate scenario analysis exercises in 2025. The analysis is focused on the following time horizons:

- Short term: 2025-2027 (0–2 years)

- Medium term: 2027-2030 (3–5 years)

- Long term: 2030-2040 (5–15 years)

The Group has adopted a suite of diverse climate scenarios designed by HSBC Group that explore plausible pathways which can support a holistic view that supplements our current and future strategic thinking. These scenarios are underpinned by well-established industry bodies, such as the Network for Greening the Financial System ('NGFS') Phase V, the Intergovernmental Panel on Climate Change ('IPCC') and International Energy Agency ('IEA'), which are further enriched for additional granularity, to seek to ensure consistency with industry-recognised approaches and to reflect the latest climate policy and economic outlook and our portfolio vulnerabilities.

- **Below 2 Degrees**, a Paris Agreement-aligned scenario which assumes an orderly and gradual rise in the stringency of climate policies over time. Net zero is achieved but after 2050.

- **Current Commitments**, where climate action is limited to current governmental commitments and already implemented policies. This leads to a slower-than-required transition to a net-zero economy reflective of the current pace of transition.

- **Severe Climate Stress**, an extreme, short-term scenario assessing concurrent impacts of fragmented climate policies and severe physical risk events. It specifically explores disorderly climate action that has been triggered by physical events leading to a short sharp economic recession.

- **Downside Physical Risk**, where climate action is limited to currently implemented governmental policies, new decarbonisation policies fail to get introduced leading to significant global warming and physical risk events.

For further details on the assumptions used of climate scenarios, see HSBC Group's Annual Report and Accounts.

Our Methodology

The Group's climate scenario analysis models incorporate a range of climate-specific metrics, such as expected production volumes, revenue, costs, and capital expenditure that could potentially impact on our customers.

We assess how these metrics interplay with economic factors, such as carbon prices, which represent the cost effects of climate-related policies that aim to discourage carbon-emitting activities and encourage low-carbon solutions. The expected result of higher carbon prices is a reduction in emissions as high-emission activities become uneconomical.

Assessing our Resilience to Climate Risk

Within the scope and limitations of the Group's exercise, we anticipate heightened climate risk in our wholesale and retail lending portfolios. In line with expectations of increasing transition and physical risks, we expect climate-related credit risk to grow over time, with the pace determined by the severity of the assessed scenarios. Nevertheless, our portfolios remain resilient to risks arising from the transition to a low carbon economy. While exposures to other risk types may also contribute to climate related losses, their financial impacts are expected to remain minimal in the near-term.

How Climate Change is Impacting Our Portfolios

The Group's wholesale portfolio is primarily exposed to climate risk through its lending activities. The assessment focuses on the impact of transition risk, particularly within high transition risk sectors. Overall, the analysis indicates that the Group's wholesale lending portfolio is expected to remain resilient to climate-related risks throughout its assessed time horizon.

The Group's largest commercial real estate ('CRE') portfolio is located in Hong Kong and is primarily exposed to flooding risks, including coastal inundation and tropical cyclones. The severity and frequency of these events have increased in recent years. The Group's analysis indicates that strong building standards, local flood-mitigation measures, such as drainage tunnels, and insurance coverage are likely to limit the financial impact of climate change on the Hong Kong portfolio. Overall, and consistent with our previous assessments, the analysis shows that our CRE portfolio remains resilient to climate risk. The Group continues to monitor emerging risks closely and adapt its strategies to ensure the ongoing financial stability of the portfolio under evolving climate scenarios.

Climate scenario analysis on the retail mortgage portfolio indicates that, over the longer term, climate-related losses are expected to remain minimal. Although the severity of climate risk events is expected to worsen over time, our overall losses is anticipated to remain low under a severe Downside Physical Risk scenario through to the long-term, supported by the availability of insurance and the relatively low loan-to-value profile of the mortgage portfolio.

Limitations of Climate Scenario Analysis Outputs

Climate scenario analysis is an evolving discipline. While the Group is dedicated to continuously enhancing its methodology by leveraging the latest developments and best-available data, it remains the case that there are significant limitations and assumptions. As capabilities improve, climate scenario analysis outcomes may change.

Use of Climate Scenario Analysis Outputs

Scenario analysis is used to assess the HSBC Group's ability to withstand, adapt, and recover from climate-related risks. It supports the evaluation of the resilience of the Group's strategic priorities.

Climate scenario analysis informs the assessment of capital adequacy as part of the Group's Internal Capital Adequacy Assessment Process ('ICAAP'). This supports how we assess appropriate levels of capital to maintain against climate-related risks.

For further details on the outcomes, modelling assumptions, limitations and enhancements made of the HSBC Group's internal climate scenario analysis exercise, see its Annual Report and Accounts.

(Figures expressed in millions of Hong Kong dollars unless otherwise indicated)

The commentary in this financial review compares the Group's financial performance for the year ended 31 December 2025 with that for the year ended 31 December 2024.

Results Commentary

The Group reported a profit before tax of HK$17,908m, representing a decrease of HK$3,106m, or 15%.

Net interest income declined by HK$1,940m, or 6%, to HK$28,844m, primarily reflecting the impact of lower market interest rates, despite an increase in average interest-earning assets. The net interest margin contracted by 21 basis points to 1.99%, mainly due to the 15-basis-point decline in the contribution from net-free funds. The net interest spread reduced by 6 basis points to 1.72%, arising from subdued loan demand and a redeployment to financial investments with lower yields.

	2025	*2024*
Average interest-earning assets	**1,448,600**	1,396,927
Net interest spread	**1.72%**	1.78%
Net interest margin	**1.99%**	2.20%

Net fee income increased by HK$1,015m, or 19%, to HK$6,331m, primarily driven by a 39% increase in securities broking income, due to higher stock turnover in 2025, and a 24% rise in retail investment fund income, resulting from an expanding customer base and increased transaction volumes. This highlights the successful delivery of the wealth solutions strategy.

Net income/(loss) from financial instruments measured at fair value through profit or loss increased by HK$13,017m, or 169%, to HK$20,698m. Net trading income, net income/(loss) from financial instruments designated at fair value through profit or loss, and changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss together recorded a gain of HK$2,485m, compared to HK$1,044m in 2024. This was mainly due to reduced interest expenses on structured products, increased revenue generated by funding swap activities, and higher foreign exchange revenue resulting from elevated client activities.

Net income/(loss) from financial instruments measured at fair value through profit or loss attributable to the insurance business increased by HK$11,576m to HK$18,213m; mainly reflecting fair value gains on debt securities due to the decrease in interest rates (and vice versa for the prior period), along with favourable fair value movements on equity securities as driven by a strong equity market. More than 90% of the insurance business is accounted for under the variable fee approach; as such, these fair value changes will be absorbed in the insurance contract liabilities through the line of insurance finance expense to reflect the attribution to policyholders.

Insurance service results showed an increase of HK$535m, or 24%, to HK$2,806m. This increase mainly reflected the higher release of Contractual Services Margin ('CSM') due to growth in the CSM balance propelled by new business growth.

Other operating income increased by HK$606m, or 77%, to HK$1,390m, mainly due to growth in reinsurance income.

Change in expected credit losses and other credit impairment charges increased by HK$3,276m, or 69%, to HK$8,049m compared with 2024 mainly contributed by the Hong Kong CRE sector. The increase in ECL charges is primarily driven by an increase in allowances for new defaulted exposures, asset quality credit migration, the over-supply in non-residential properties which is putting downward pressure on rental and capital values, as well as updates to our models used for ECL calculations.

Operating expenses increased by HK$393m, or 3%, to HK$15,586m, primarily due to the higher staff costs, amortisation of intangible assets, and IT-related costs, reflecting our continuing investment in people and technology to support business growth.

The cost efficiency ratio slightly increased by 0.3 percentage points to 36.9%.

Net deficit on property revaluation rose by HK$72m, to HK$655m. Share of profits/(losses) of associates fell by HK$84m, mainly reflecting the reduction of revaluation of a property investment company.

Balance sheet commentary compared with 31 December 2024

The consolidated balance sheet as at 31 December 2025 is set out in the consolidated financial statements.

Gross loans and advances to customers decreased by HK$26bn, or 3%, to HK$807bn, mainly due to subdued loan demand and scheduled loan repayments. Gross impaired loans and advances increased from HK$51bn as at 31 December 2024 to HK$57bn as at 31 December 2025. This change mainly reflects downgrades net of write-offs in certain impaired corporate loans. Gross impaired loans and advances as a percentage of gross loans and advances to customers were 7.04% as of 31 December 2025, compared to 6.69% on 30 June 2025 and 6.12% at 31 December 2024.

Customer deposits increased by HK$16bn, or 1%, to HK$1,283bn from the end of 2024. Current, savings and other deposit accounts as a percentage of total customer deposits increased from 49.5% at 2024 year-end to 54.9% at 31 December 2025, reflecting the growth of our customer base. At 31 December 2025, the advances-to-deposits ratio was 61.4%, compared with 64.7% at 31 December 2024.

	At 31 December 2025	*At 31 December 2024*
Customer loans and advances (net of allowances for ECL)	**787,349**	819,136
Customer deposits, including structured deposits	**1,283,341**	1,267,021
Advances-to-deposits ratio	**61.4%**	64.7%

Total shareholders' equity increased by HK$3bn, or 2%, to HK$173bn, primarily attributable to the current year's profit, net of dividend payments and the share buy-back programme during the year. Other reserves increased by HK$2bn, or 10%, mainly reflecting the positive movement in cash flow hedge reserve.

Our approach to risk (unaudited)

Our risk appetite

Our risk appetite is defined as the aggregate risk that we are willing to take in pursuit of our strategic objectives as well the risks that cannot be tolerated in order to operate effectively. Risk appetite provides a mechanism for the Board and senior management to collectively establish the Group's willingness to engage in certain activities and continually assess these activities.

The Board reviews and approves the Group's risk appetite regularly to make sure it remains fit for purpose.

Our risk appetite is expressed in both quantitative and qualitative terms and is formally articulated through our Risk Appetite Statement ('RAS').

The risk appetite is established considering:

- alignment with our strategy, purpose, values, external risk environment, reputational and customer needs;
- compliance with applicable laws, regulations and regulatory priorities;
- forward-looking insights into future risk exposure;
- sufficiency of available capital, liquidity and balance sheet leverage to absorb risks;
- capacity and capabilities of people to manage the risk landscape;
- functionality, capacity and resilience of available systems to manage the risk landscape;
- effectiveness of the applicable control environment to mitigate risk; and
- internally and externally disclosed commitments.

Performance against the RAS is reported to the Risk Management Meeting ('RMM') regularly to support targeted insight and discussion on breaches of risk appetite and any associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture.

Risk Management

We recognise that the primary role of risk management is to help protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth.

In addition, we recognise the importance of a strong culture, which refers to our shared attitudes, beliefs, values and standards that shape behaviours including those related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with ultimate supervisory oversight residing with the Board.

The implementation of our business strategy remains a key focus. As we deliver change initiatives, we actively manage execution risks. We also perform periodic risk assessments, including against strategies, to help ensure retention of key personnel for our continued safe operation.

Our approach to risk (unaudited) *(continued)*

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, including the key principles and practices that we employ in managing material risks, both financial and non-financial.

The Risk Management Framework ('RMF') sets out in a consistent way how we identify, assess and manage the risks that matter the most with respect to our ability to operate, grow, meet external commitments.

Risk governance

The Board has ultimate supervisory responsibility for the effective management of risk and approves our risk appetite. It is advised on risk-related matters by the Regulatory Compliance ('RC'). Through review and independent challenge of reports presented by management at RC meetings, the RC oversees the effectiveness of monitoring, assessment and management of the risk environment as well as the risk management framework.

The Chief Risk and Compliance Officer, supported by members of the RMM, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework.

Day-to-day responsibility for risk management is delegated to senior managers with individual accountability for decision making.

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

Our roles and responsibilities

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structure.

Three lines of defence

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

This model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance of the first line of defence to help ensure it is managing risk effectively.
- The third line of defence is our Internal Audit function, which provides independent assurance as to whether our risk management approach and processes are designed and operating effectively.

Our approach to risk (unaudited) *(continued)*

Our roles and responsibilities *(continued)*

Independent risk and compliance function

The Group's Risk and Compliance function, headed by the Chief Risk and Compliance Officer, is responsible for the Group's risk management framework. Independent from the business segments, including sales and trading functions, it provides challenge, oversight and appropriate balance of risk and reward in decision-making. Their responsibility includes monitoring risk profiles, and identifying and managing forward-looking risk.

Responsibility for managing both financial and non-financial risk lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible.

We maintain adequate oversight of our risks through various specialist Risk Stewards and the collective accountability held by the Chief Risk and Compliance Officer and global businesses. We seek to maintain a sound control environment and regularly test and monitor our controls, which aim to prevent risks from materialising, detect when they do, and recover and learn from issues in a timely manner within our risk appetite.

Risk management tools (unaudited)

The Group uses a range of tools to identify, monitor and manage risk. The key tools are summarised below.

Risk appetite

Please refer to the above 'Our risk appetite' section.

Risk map

The Group uses a risk map to provide a point-in-time second line of defence assessment of the residual risk profile against the Board-approved Qualitative Statements across the risk taxonomy. Risk stewards must make a Red-Amber-Green ('RAG') assessment of the current residual risk status, which maps the status of the mitigating actions (the Action Plan) put in place to address the risk, to corresponding RAG and Risk Appetite Status levels. Risk stewards must also provide commentary on the remediation actions (Action Plan) in their Risk Map reporting.

Top and emerging risks

We use a top and emerging risks process to provide a forward-looking view of issues with the potential to threaten our operations or the execution of our strategy over the medium to long term.

We proactively assess the internal and external risk environment, and review the themes identified across our organisation and global businesses, for any risks that may require escalation. We update our top and emerging risks as necessary.

During 2025, a number of areas were identified and considered as part of our top and emerging risks because of the effect they may have on the Group. We place particular focus on geopolitical and macroeconomic risks, technology and cybersecurity risk, financial crime risk and climate related risks.

Risk management tools (unaudited) *(continued)*

Top and emerging risks *(continued)*

Risks	*Trend* [1]	*Description*
Externally driven		
Geopolitical and macroeconomic risks	▲	Our operations and portfolios are subject to risks associated with political instability, civil unrest and military conflict, which may lead to disruption of our operations, physical risk to our staff and/or physical damage to our assets. We are also subject to macroeconomic risks, which may drive changes to our income growth and asset quality. Heightened geopolitical and macroeconomic risk globally, including uncertainty in international trade policy, is subject to close monitoring and review. We continue to closely monitor market conditions in the Hong Kong and mainland China commercial real estate ('CRE') markets. In Hong Kong, market sentiment and the economic outlook continue to show signs of improvement, supported by interest rate cuts, the positive wealth effect from a buoyant equities market and improving economic conditions. Nevertheless, recovery is likely to take time, with liquidity and valuation pressures expected to continue in the near term, particularly for mid-sized and sub-investment grade corporates. In mainland China, market fundamentals remain weak and refinancing risks continue.
Technology and cybersecurity risk	▲	There is a risk of service disruption or loss of data resulting from technology failures or malicious activities from internal or external threats. We continue to monitor changes to the threat landscape, including those arising from ongoing geopolitical and macroeconomic events alongside third-party breaches and the impact this may have on risk management. We operate a continuous improvement programme to help support the resilience and stability of our technology operations and counter a fast evolving and heightened cyber threat environment.
Climate related risk	▲	We are subject to climate related risk and this risk has increased due to the increasing frequency of severe weather events, diverging national and political agendas and a more complex and prescriptive regulatory environment in certain jurisdictions. Financial institutions' actions and investment decisions in respect of climate matters continue to be subject to heightened scrutiny by stakeholders. Failure to meet these evolving expectations may result in financial and non-financial risks, including reputational, legal and regulatory compliance risks.
Financial crime risk	▲	We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity. The financial crime risk environment is heightened due to increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and dynamic nature of sanctions compliance, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud. As a result, we will continue to face the possibility of regulatory enforcement and reputational risk.

[1] ▲ *Risk heightened during 2025* ▶ *Risk remained at the same level as full year 2024* ▼ *Risk decreased during 2025*

Risk management tools (unaudited) *(continued)*

Stress testing

Our stress testing programme assesses potential financial risks to our business model, and forms part of our risk management and capital and liquidity planning. 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, 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 indication to regulators of the Group's resilience to shocks and any consequences for financial stability.

Our internal capital assessment uses a range of stress scenarios that explore systemic risks, as well as other potential events that are idiosyncratic to the Group.

During 2025, we completed a Group-wide Internal Stress Test of the Bank's strategy and corporate plan. The stress scenario assessed the impact of the ongoing trade policy uncertainty including tariffs and geopolitical conflicts which remain key risks for the global economy.

In addition to the Group-wide stress testing scenarios, we conduct regular macroeconomic and event-driven scenario analysis specific to the market. We also participate in the regulatory stress testing programmes of the jurisdictions in which they operate, such as stress tests required by the Hong Kong Monetary Authority ('HKMA').

We also conduct reverse stress tests each year at the Group level and, where required, at a subsidiary entity level to understand potential extreme conditions that would make our business model non-viable. Reverse stress testing identifies potential stresses and vulnerabilities we might face, and helps inform early warning triggers, management actions and contingency plans designed to mitigate risks.

The Group stress testing programme is overseen by the RC and results are reported, where appropriate, to the Finance Management Meeting ('FMM')/RMM, RC and the Board.

Key developments in 2025

We have continued to manage risks related to macroeconomic and geopolitical uncertainties, as well as commercial real estate ('CRE') sector and other key risks described in this section.

In 2025, we enhanced our risk management in the following areas:

- We enhanced our processes, framework and controls to improve the oversight of our third parties. We have strengthened our due diligence and monitoring capabilities, with respect to financial stability to better manage our supply chain and operational resilience. We will continue to assess and manage our operational resilience.

- We made progress on our comprehensive regulatory reporting programme, which seeks to strengthen our processes, enhance consistency and improve controls across regulatory reports. This programme remains a priority and continues to enhance data, transform the reporting systems and uplift the control environment over the report production process.

- We have further enhanced the way we manage climate considerations across the organisation. This has been achieved through policy and guidance updates, including the climate risk approach document, and further development of our risk metrics and assessments to help monitor and manage exposures. A number of climate models have been reviewed and have sought to enhance our internal climate scenario analysis capabilities.

- We deployed advanced technology and analytics capabilities to improve our ability to identify suspicious activities and prevent financial crime. We will continue to evaluate technological solutions to improve our capabilities in the detection and prevention of financial crime.

Our material banking and insurance risks

The material risk types associated with our banking and insurance manufacturing operations are described in the following tables.

Description of risks – banking operations (unaudited)

Risks	*Arising from*	*Measurement, monitoring and management of risk*
Credit risk Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from certain other products such as guarantees and derivatives.	Credit risk is: – measured as the amount which could be lost if a customer or counterparty fails to make repayments; – monitored using various internal risk management measures and within limits, approved by individuals within a framework of delegated authorities; and – managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers, and by setting limits and appetite across geographical markets, portfolios or sectors.
Treasury risk Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural and transactional foreign exchange exposures and changes in market interest rates, together with pensions risk and insurance risk.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions, or the external environment.	Treasury risk is: – measured through risk appetite and more granular limits, set to provide an early warning of increasing risk, minimum ratios of relevant regulatory metrics, and metrics to monitor the key risk drivers impacting treasury resources; – monitored and projected against appetites and by using operating plans based on strategic objectives together with stress and scenario testing; and – managed through control of resources in conjunction with risk profiles, strategic objectives and cash flows.

Our material banking and insurance risks *(continued)*

Description of risks – banking operations (unaudited) *(continued)*

Risks	*Arising from*	*Measurement, monitoring and management of risk*
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 rates, asset prices, volatilities, correlations and credit spreads.	Market risk arises from both trading portfolios and non-trading portfolios. Market risk for non-trading portfolios is discussed in the 'Treasury risk' section. Market risk exposures arising from our insurance operations are discussed in 'Insurance manufacturing operation risk' section.	Market risk is: – measured using sensitivities, value at risk ('VaR') and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; – monitored using VaR, stress testing and other measures; and – managed using risk limits approved by the Board and various risk management meetings.
Climate risk Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy.	Climate risk is likely to materialise through: – physical risk, which arises from the increased frequency and severity of weather events, such as hurricanes and floods, or chronic gradual shifts in weather patterns or rises in the sea level; – transition risk, which arises from the process of moving to a low-carbon economy, including changes in government policy and legislation, technology, market demand, and reputational implications triggered by a change in stakeholder expectations, action or inaction; and – risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to stakeholders.	Climate risk is: – measured using risk metrics and stress testing; – monitored against risk appetite statements; and – managed through adherence to risk appetite thresholds, through specific policies, and through enhancements to processes and development of tools including the development of product market controls to manage the risk of greenwashing and the development of portfolio steering capabilities to manage the net zero ambitions.

Our material banking and insurance risks *(continued)*

Description of risks – banking operations (unaudited) *(continued)*

Risks	*Arising from*	*Measurement, monitoring and management of risk*
Resilience risk Resilience risk is the risk of sustained and significant business disruption causing the inability to provide critical services to our customers, affiliates and counterparties	Resilience risk arises from failures or inadequacies in processes, people, systems or external events.	Resilience risk is: – measured through a range of metrics and against our agreed risk appetite; – monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and – managed by continual monitoring and thematic reviews.
Regulatory compliance risk Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards.	Regulatory compliance risk arises from the failure to observe the relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.	Regulatory compliance risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Our material banking and insurance risks *(continued)*

Description of risks – banking operations (unaudited) *(continued)*

Risks	*Arising from*	*Measurement, monitoring and management of risk*
Financial crime risk Financial crime risk is the risk that the Group's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.	Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.	Financial crime risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Our material banking and insurance risks *(continued)*

Description of risks – banking operations (unaudited) *(continued)*

Risks	*Arising from*	*Measurement, monitoring and management of risk*
Model risk Model risk is the risk of the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: – measured by reference to model performance tracking and the output of detailed technical reviews and regulatory feedback, with key metrics including model validation outcomes and monitoring results; – monitored against model risk appetite statements, insight from the independent validations completed by the model risk management team; and – managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to help ensure operational effectiveness, and ensuring models are approval for use.

Description of risks – insurance manufacturing operations (unaudited)

Our insurance manufacturing subsidiary is separately regulated from our banking operations. Risks in the insurance entities are managed using methodologies and processes appropriate to insurance manufacturing operations, but remain subject to oversight at Group level. Our insurance operations are also subject to some of the same risks as our banking operations, which are covered by the Group's respective risk management processes.

Our material banking and insurance risks *(continued)*

Description of risks – insurance manufacturing operations (unaudited) *(continued)*

Risks	*Arising from*	*Measurement, monitoring and management of risk*
Insurance underwriting risk		
Insurance underwriting risk is the risk that, over time, the cost of acquiring and administering an insurance contract, and paying claims and benefits may exceed the total amount of premiums received and investment income.	The cost of claims and benefits can be influenced by many factors, including mortality and morbidity experience, as well as lapse and surrender rates.	Insurance underwriting risk is: – measured in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; – monitored through a framework of approved limits and delegated authorities; and – managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.
Financial risk		

Financial risk includes the risk of not being able to match liabilities arising under insurance contracts with appropriate investments and that the expected sharing of financial performance with policyholders under certain contracts is not possible.	Exposure to financial risks arises from:
	– market risk of changes in the fair values of financial assets or their future cash flows;
	– credit risk; and
	– liquidity risk of entities being unable to make payments to policyholders as they fall due.
		Financial risk is:
		– measured separately for each type of risk:
		  – market risk is measured in terms of economic capital, internal metrics and fluctuations in key financial variables;
		  – credit risk is measured in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; and
		  – liquidity risk is measured in terms of internal metrics including stressed operational cash flow projections;
		– monitored through a framework of approved limits and delegated authorities; and
		– managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance. This includes using product design, asset liability matching and bonus rates.

The following information describes the Group's management and control of risks, in particular, those associated with its use of financial instruments ('financial risks'). Major types of risks to which the Group is exposed include credit risk, treasury risk, market risk, climate risk, resilience risk, regulatory compliance risk, financial crime risk, model risk, and insurance risk.

(a) Credit Risk

See page 26 for our definition of Credit risk.

Credit risk management

Key developments in 2025 (unaudited)

There were no material changes to the policies and practices for the management of credit risk in 2025. We continued to apply the requirements of HKFRS 9 *'Financial Instruments'* within Credit Risk sub-function.

We actively managed the risks related to macroeconomic uncertainties, including interest rate, inflation, fiscal and monetary policy, broader geopolitical uncertainties and conflicts.

Governance and structure (unaudited)

We have established credit risk management and related HKFRS 9 processes. We continue to assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, we take mitigating actions, including the revision of risk appetites or limits and tenors, as appropriate. In addition, we continue to evaluate the terms under which we provide credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

Credit risk sub-function (audited)

Credit approval authorities are delegated by the Board to the Chief Risk and Compliance Officer together with the authority to sub-delegate them. The Credit Risk sub-function is responsible for the key policies and processes for managing credit risk, which include formulating the Group's credit policies and risk rating frameworks, guiding the Group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios while fostering a culture of responsible lending.

Key risk management processes

HKFRS 9 'Financial Instruments' process (unaudited)

The HKFRS 9 process comprises three main areas: modelling and data; implementation; and governance.

Modelling and data (unaudited)

We have established HKFRS 9 modelling and data processes, which are subject to model risk governance including independent review of significant model developments.

We have a centralised process for generating unbiased and independent global economic scenarios. Scenarios are subject to a process of review and challenge by HSBC Group as well as the Bank. Each quarter, the scenarios and probability weights are reviewed and checked for consistency with the economic conjuncture and current economic and financial risks. These are subject to final review and approval by senior management in our Impairment Committee.

(a) Credit Risk *(continued)*

Credit risk management (continued)

Key risk management processes *(continued)*

Implementation (unaudited)

A centralised impairment engine performs the expected credit losses ('ECL') calculation using data, which is subject to a number of validation checks and enhancements, from a variety of client, finance and risk systems. Where possible, these checks and processes are performed in a globally consistent and centralised manner within HSBC Group.

Governance (unaudited)

Management review forums are established in order to review and approve the impairment results. Management review forums have representatives from Business, Credit Risk and Finance. The approvals are subsequently reported up to the Impairment Committee for final approval of the Group's ECL for the period. Required members of the Impairment Committee are the Chief Risk and Compliance Officer, the Chief Financial Officer and the Financial Controller, as well as the Head of Wholesale Credit Risk Management and the Head of Retail Banking & Wealth Risk.

Concentration of exposure (audited)

Concentrations of credit risk occurs when a number of counterparties share similar economic traiits, or operate in the same sectors, geographies, making them collectively vulnerable to changes in economic or political conditions. We have business segments with a broad range of products. We use a number of controls such as portfolio and counterparty limits, approval and review processes, and stress testing across industries, markets and business segments.

Credit quality of financial instruments (audited)

Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group to support the calculation of our minimum credit regulatory capital requirement.

The five credit quality classifications each encompass a range of granular internal credit rating grades assigned to wholesale customers and retail facilities.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related customer risk rating ('CRR') to external credit rating.

Wholesale lending (unaudited)

A CRR 10-grade scale summarises a more granular underlying 23-grade scale of obligor probability of default ('PD'). All corporate customers are rated using the 10 or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

(a) Credit Risk *(continued)*

Credit risk management (continued)

Key risk management processes *(continued)*

Retail lending (unaudited)

Retail lending credit quality is based on a 12-month probability-weighted PD.

Credit quality classification (unaudited)

	Sovereign debt securities and bills	*Other debt securities and bills*	*Wholesale lending*		*Retail lending*	
Credit Quality classification [1, 2]	*External credit rating*	*External credit rating*	*Internal credit rating*	*12-month Basel probability of default %*	*Internal credit rating*	*12-month probability-weighted PD %*
Strong	BBB and above	A- and above	CRR1 to CRR2	0–0.169	Band 1 and 2	0–0.500
Good	BBB- to BB	BBB+ to BBB–	CRR3	0.170–0.740	Band 3	0.501–1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914	Band 4 and 5	1.501–20.000
Sub-standard	B- to C	B- to C	CRR6 to CRR8	4.915–99.999	Band 6	20.001–99.999
Credit-impaired	Default	Default	CRR9 to CRR10	100	Band 7	100

1 *Customer risk rating ('CRR').*

2 *12-month point-in-time ('PIT') probability-weighted probability of default ('PD').*

Quality classification definitions:

– Strong exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default and/or low levels of expected loss.

– Good exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk.

– Satisfactory exposures require closer monitoring and demonstrate an average-to-fair capacity to meet financial commitments, with moderate default risk.

– Sub-standard exposures require varying degrees of special attention and default risk is of greater concern.

– Credit-impaired exposures have been assessed as described on note 2(j) on the Consolidated Financial Statements.

Forborne loans and forbearance (audited)

Forbearance measures consist of concessions towards an obligor that is experiencing or is about to experience difficulties in meeting its financial commitments.

We continue to classify loans as forborne when we modify the contractual payment terms due to having concerns about the borrowers' ability to meet contractual payments when they were due. Our definition of forborne captures non-payment-related concessions, such as covenant waivers.

For details of our policy on derecognition of forborne loans, see note 2(j) on the Consolidated Financial Statements.

(a) Credit Risk *(continued)*

Credit risk management (continued)

Key risk management processes *(continued)*

Credit quality of forborne loans (unaudited)

For wholesale lending, where payment-related forbearance measures result in a diminished financial obligation, or if there are other indicators of impairment, the loan will be classified as credit impaired if it is not already so classified. All facilities with a customer, including loans that have not been modified, are considered credit impaired following the identification of a payment-related forborne loan. For retail lending, where a material payment-related concession has been granted, the loan will be classified as credit impaired.

In isolation, non-payment forbearance measures may not result in the loan being classified as credit impaired unless combined with other indicators of credit impairment. These are classed as performing forborne loans for both wholesale and retail lending.

Wholesale and retail lending forborne loans are classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Any forborne loans not considered credit-impaired will remain forborne for a minimum of two years from the date that credit impairment no longer applies. For wholesale and retail lending, any forbearance measures granted on a loan already classified as forborne and not cure results in the customer being classified as credit impaired.

Forborne loans and recognition of expected credit losses (audited)

Forborne loans expected credit loss assessments reflect the higher rates of losses typically experienced with these types of loans such that they are in stage 2 or stage 3. The higher rates are more pronounced in unsecured retail lending requiring further segmentation. For wholesale lending, forborne loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in forborne loans.

Impairment assessment (audited)

For details of our impairment policies on loans and advances and financial investments, see note 2(j) on the Consolidated Financial Statements.

Write-off of loans and advances (audited)

For our policy on the write-off of loans and advances, see note 2(j) on the Consolidated Financial Statements.

Under the HKFRS 9 standard, write-off should occur when there is no reasonable expectation of recovering further cash flows from the financial asset. This principle does not prohibit early write-off which is defined in local policies to ensure effectiveness in the management of customers in the collections process.

Unsecured personal facilities, including credit cards, are generally written off at 180 days contractually delinquent. Write-off periods may be earlier, e.g. bankruptcy. However, in exceptional circumstances, to avoid unfair customer outcomes, deliver customer duty or meet regulatory expectations, the period may be extended further.

For secured personal facilities, write-off should occur upon repossession of collateral, receipt of proceeds via settlement, or determination that recovery of the collateral will not be pursued. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write off may be earlier.

Any secured assets maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default or unsecured facilities that exceed 180 days, the prospect of recovery is re-assessed.

(a) Credit Risk *(continued)*

Credit risk management (continued)

Key risk management processes *(continued)*

Write-off of loans and advances (audited) *(continued)*

Recovery activity, on both secured and unsecured assets, may continue after write-off.

Any unsecured exposures that are not written off at 180 days past due, and any secured exposures that are in 'default' status for 60 months or greater but are not written off, are subject to additional monitoring via the appropriate governance forums.

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

Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.

Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.

Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The disclosure below presents the aging of stage 2 loans and advances to customers by those less than 30 and greater than 30 days past due and therefore presents those amounts classified as stage 2 due to aging (30 days past due) and those identified at an earlier stage (less than 30 days past due).

(a) Credit Risk *(continued)*

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

	Gross carrying/nominal amount [1]					Allowance for ECL					ECL coverage (%)				
	Stage 1	Stage 2	Stage 3	POCI [2]	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
Loans and advances to customers at amortised cost	653,569	96,160	56,605	204	806,538	(662)	(2,760)	(15,639)	(128)	(19,189)	0.10%	2.87%	27.63%	62.75%	2.38%
– personal	373,041	13,291	1,443	–	387,775	(384)	(1,019)	(253)	–	(1,656)	0.10%	7.67%	17.53%	N/A	0.43%
– corporate and commercial	251,687	82,850	55,162	204	389,903	(253)	(1,741)	(15,386)	(128)	(17,508)	0.10%	2.10%	27.89%	62.75%	4.49%
– non-bank financial institutions	28,841	19	–	–	28,860	(25)	–	–	–	(25)	0.09%	0.00%	N/A	N/A	0.09%
Placings with and advances to banks at amortised cost	85,357	–	–	–	85,357	(1)	–	–	–	(1)	0.00%	N/A	N/A	N/A	0.00%
Other financial assets measured at amortised cost	237,519	767	14	–	238,300	(34)	(1)	(5)	–	(40)	0.01%	0.13%	35.71%	N/A	0.02%
Loans and other credit-related commitments	289,659	8,533	37	–	298,229	(68)	(29)	–	–	(97)	0.02%	0.34%	0.00%	N/A	0.03%
– personal	240,556	2,803	10	–	243,369	(5)	–	–	–	(5)	0.00%	0.00%	0.00%	N/A	0.00%
– corporate and commercial	42,469	5,719	27	–	48,215	(61)	(29)	–	–	(90)	0.14%	0.51%	0.00%	N/A	0.19%
– non-bank financial institutions	6,634	11	–	–	6,645	(2)	–	–	–	(2)	0.03%	0.00%	N/A	N/A	0.03%
Financial guarantee and similar contracts	431	181	–	–	612	–	(2)	–	–	(2)	0.00%	1.10%	N/A	N/A	0.33%
– personal	1	–	–	–	1	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	41	181	–	–	222	–	(2)	–	–	(2)	0.00%	1.10%	N/A	N/A	0.90%
– non-bank financial institutions	389	–	–	–	389	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2025	1,266,535	105,641	56,656	204	1,429,036	(765)	(2,792)	(15,644)	(128)	(19,329)	0.06%	2.64%	27.61%	62.75%	1.35%

[1] *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

[2] *Purchased or originated credit-impaired ('POCI').*

Stage 2 days past due analysis for loans and advances to customers (audited)

	At 31 December 2025											
	Gross carrying amount				Allowance for ECL				ECL coverage (%)			
	Stage 2	Of which: Up-to-date	Of which: 1 to 29 DPD[1]	Of which: 30 and > DPD	Stage 2	Of which: Up-to-date	Of which: 1 to 29 DPD	Of which: 30 and > DPD	Stage 2	Of which: Up-to-date	Of which: 1 to 29 DPD	Of which: 30 and > DPD
Loans and advances to customers at amortised cost												
– personal	13,291	10,754	1,592	945	(1,019)	(798)	(80)	(141)	7.67%	7.42%	5.03%	14.92%
– corporate and commercial	82,850	82,542	252	56	(1,741)	(1,732)	(5)	(4)	2.10%	2.10%	1.98%	7.14%
– non-bank financial institutions	19	19	–	–	–	–	–	–	0.00%	0.00%	N/A	N/A
	96,160	93,315	1,844	1,001	(2,760)	(2,530)	(85)	(145)	2.87%	2.71%	4.61%	14.49%

[1] *Days past due ('DPD').*

(a) **Credit Risk** *(continued)*

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

	Gross carrying/nominal amount[1]					*Allowances for ECL*					*ECL coverage (%)*				
	Stage 1	*Stage 2*	*Stage 3*	*POCI*[2]	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*	*Stage 1*	*Stage 2*	*Stage 3*	*POCI*	*Total*
Loans and advances to customers at amortised cost	706,478	74,667	50,822	142	832,109	(683)	(2,472)	(9,764)	(54)	(12,973)	0.10%	3.31%	19.21%	38.03%	1.56%
– personal	373,719	11,418	1,220	–	386,357	(355)	(922)	(209)	–	(1,486)	0.09%	8.07%	17.13%	N/A	0.38%
– corporate and commercial	298,586	63,184	49,602	142	411,514	(291)	(1,550)	(9,555)	(54)	(11,450)	0.10%	2.45%	19.26%	38.03%	2.78%
– non-bank financial institutions	34,173	65	–	–	34,238	(37)	–	–	–	(37)	0.11%	0.00%	N/A	N/A	0.11%
Placings with and advances to banks at amortised cost	76,007	216	–	–	76,223	(2)	–	–	–	(2)	0.00%	0.00%	N/A	N/A	0.00%
Other financial assets measured at amortised cost	201,352	1,078	6	–	202,436	(20)	(3)	–	–	(23)	0.01%	0.28%	0.00%	N/A	0.01%
Loans and other credit-related commitments	336,998	13,135	181	–	350,314	(65)	(61)	–	–	(126)	0.02%	0.46%	0.00%	N/A	0.04%
– personal	241,539	4,998	5	–	246,542	(5)	–	–	–	(5)	0.00%	0.00%	0.00%	N/A	0.00%
– corporate and commercial	81,378	8,137	176	–	89,691	(57)	(61)	–	–	(118)	0.07%	0.75%	0.00%	N/A	0.13%
– non-bank financial institutions	14,081	–	–	–	14,081	(3)	–	–	–	(3)	0.02%	N/A	N/A	N/A	0.02%
Financial guarantee and similar contracts	1,550	348	–	–	1,898	(1)	(2)	–	–	(3)	0.06%	0.57%	N/A	N/A	0.16%
– personal	1	–	–	–	1	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
– corporate and commercial	1,161	348	–	–	1,509	(1)	(2)	–	–	(3)	0.09%	0.57%	N/A	N/A	0.20%
– non-bank financial institutions	388	–	–	–	388	–	–	–	–	–	0.00%	N/A	N/A	N/A	0.00%
At 31 December 2024	1,322,385	89,444	51,009	142	1,462,980	(771)	(2,538)	(9,764)	(54)	(13,127)	0.06%	2.84%	19.14%	38.03%	0.90%

[1] *Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.*

[2] *Purchased or originated credit-impaired ('POCI').*

Stage 2 days past due analysis for loans and advances to customers (audited)

	At 31 December 2024											
	Gross carrying amount				*Allowance for ECL*				*ECL coverage (%)*			
	Stage 2	*Of which: Up-to-date*	*Of which: 1 to 29 DPD*[1]	*Of which: 30 and > DPD*	*Stage 2*	*Of which: Up-to-date*	*Of which: 1 to 29 DPD*	*Of which: 30 and > DPD*	*Stage 2*	*Of which: Up-to-date*	*Of which: 1 to 29 DPD*	*Of which: 30 and > DPD*
Loans and advances to customers at amortised cost												
– personal	11,418	8,405	1,918	1,095	(922)	(701)	(74)	(147)	8.07%	8.34%	3.86%	13.42%
– corporate and commercial	63,184	62,769	362	53	(1,550)	(1,538)	(11)	(1)	2.45%	2.45%	3.04%	1.89%
– non-bank financial institutions	65	65	–	–	–	–	–	–	0.00%	0.00%	N/A	N/A
	74,667	71,239	2,280	1,148	(2,472)	(2,239)	(85)	(148)	3.31%	3.14%	3.73%	12.89%

[1] *Days past due ('DPD').*

(a) Credit Risk *(continued)*

Maximum exposure to credit risk before collateral held or other credit enhancements (audited)

Our credit exposure is spread across a broad range of asset classes, including but not limited to derivatives, trading assets, loans and advances and financial investments. The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that we would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

	2025	*2024*
Cash and balances at central banks	**10,290**	10,433
Trading assets	**52,668**	39,613
Derivative financial instruments	**12,528**	20,201
Financial assets mandatorily measured at fair value through profit or loss	**126,961**	114,368
Reverse repurchase agreements – non-trading	**80,814**	33,479
Placings with and advances to banks	**85,356**	76,221
Loans and advances to customers	**787,349**	819,136
Financial investments	**479,207**	536,745
Other assets	**33,906**	28,815
Financial guarantees and other credit related contingent liabilities[1]	**21,459**	22,848
Loan commitments and other credit related commitments	**495,708**	495,092
	2,186,246	2,196,951

1 *Performance and other guarantees were included.*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited)

The recognition and measurement of ECL involve the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts and distributional estimates and apply these assumptions to credit risk models to estimate future credit losses. The results are then probability-weighted to determine an unbiased ECL estimate.

Management assessed the current economic environment, reviewed the latest economic forecasts and discussed key risks before selecting economic scenarios and their weightings.

Management judgemental adjustments are used where modelled allowance for ECL does not fully reflect the identified risks and related uncertainty, or to capture significant late breaking events.

Methodology

At 31 December 2025, four scenarios were used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Scenarios are created using the latest economic forecasts and distributional estimates, each quarter.

Three scenarios, the Upside, Central and Downside, are drawn from external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. Consensus and market estimates are then used as conditioning assumptions in a modelled expansion of other variables. The fourth scenario, Downside 2, represents management's view of severe downside risks.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

Methodology *(continued)*

The consensus Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting. The consensus outer scenarios represent short-term cyclical deviations from the Central scenario, where variable paths converge back to long-term trend expectations. They are calibrated to a 10% probability.

HSBC Group's Central Scenario, constructed from a consensus of external forecasts, assumes that the effects of announced climate measures, carbon pricing and green levies are incorporated into economic forecasts where their short-term effects are known from enacted legislation, or may be reasonably projected from current trends and statutory targets.

Variable paths and projections aligned with long-term climate outcomes, but which are dependent on additional policy adjustments, carry greater uncertainty. These are examined through specific climate scenarios. For further details, please refer to the 'Insights from Climate Scenario Analysis' section.

The Downside 2, explores a more extreme economic outcome than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations and may instead explore alternative states of equilibrium, where economic variables moves permanently away from past trends.It is calibrated to a 5% probability.

In most circumstances, the alignment of weightings with the calibrated probability of scenarios is deemed appropriate for the unbiased estimation of ECL. However, management may depart from this probability-based scenario weighting approach when the economic outlook and forecasts are determined to be particularly uncertain and risks are elevated.

Description of Economic Scenarios

The economic assumptions presented in this section are formed by HSBC Group with reference to external forecasts and estimates for the purpose of calculating ECL.

Forecasts may change and remain subject to uncertainty. Outer scenarios are designed to capture potential crystallisation of key economic and financial risks and alternative paths for economic variables.

The scenarios used to calculate ECL in the 2025 Annual Report are described below.

The consensus Central scenario

The Central scenario incorporates higher growth forecasts for 2026 relative to the forecasts conducted in the fourth quarter of 2024, in our key markets. The change in forecasts for 2027 is more mixed, reflecting differing regional dynamics. The scenario is modelled consistent with a US tariff rate, measured as an effective trade-weighted average, of 15% at the start of 2026. That rate has fallen in recent months as it reflects the lowering of US tariff rates on imports from mainland China and targeted tariff exemptions on key products.

Forecasts for mainland China and Hong Kong have improved relative to the forecasts conducted in the fourth quarter of 2024, when projections were weighed down by expectations that the imposition of US tariffs would result in much slower growth. Growth expectations have since been revised upwards, supported by China's success in redirecting trade away from the US, and expected further official policy support. In Hong Kong, further increases in the residential property sector transactions and improvements in domestic consumption are expected to be driven by a lowering of interest rates.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

The consensus Central scenario *(continued)*

Forecast US GDP growth has also improved relative to the forecasts conducted in the fourth quarter of 2024 despite trade policy uncertainty, the persistence of higher inflation and a weaker labour market. The economy has proved more resilient to tariffs than had been expected, and robust growth in private sector investment, related to the technology sector, has further supported growth.

Hong Kong GDP is expected to grow by 2.3% in 2026 in the Central scenario, and the average rate of Hong Kong GDP growth is forecast to be 2.3% over the five-year forecast period.

The key features of our Central scenario are:

– Forecast GDP growth has improved since the forecasts conducted in the fourth quarter of 2024, although the outlook still envisages either a slowdown or stabilisation in growth in 2026, relative to 2025, for Hong Kong and mainland China.

– Hong Kong unemployment is expected rise moderately in 2026 in line with slower economic activity and subdued hiring. It will remain relatively low by historical standards.

– In mainland China, inflation is expected to remain subdued due to soft consumer demand and continued manufacturing growth.

– House prices in mainland China are expected to continue to fall. In Hong Kong, prices are forecast to see further moderate improvements due to a revival in buyer interest, spurred by lower interest rates.

– Challenging conditions are also forecast to continue in certain segments of the commercial property sector in our key markets. Structural changes to demand in the office segment in particular have driven lower valuations.

– Policy interest rates in key markets are forecast to gradually decline further in 2026. In the longer term, they are expected to remain at a higher level than in recent years.

The Central scenario was created with forecasts available in late November, and reviewed continually until end December 2025. In accordance with HSBC Group's scenario framework, a probability weight of 75% has been assigned to the Central scenario.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

The consensus Central scenario *(continued)*

The following table describes key macroeconomic variables assigned in the consensus Central scenario.

Central scenario	***Hong Kong*** %	***Mainland China*** %
GDP (annual average growth rate)		
2026	2.3	4.4
2027	2.3	4.2
2028	2.3	4.0
2029	2.4	3.8
2030	2.4	3.8
5-year average[1]	2.3	4.0
Unemployment rate (annual average rate)		
2026	3.6	5.2
2027	3.4	5.2
2028	3.1	5.1
2029	3.0	5.0
2030	3.0	5.0
5-year average[1]	3.2	5.1
House price (annual average growth rate)		
2026	0.5	(1.6)
2027	1.5	2.1
2028	2.5	3.5
2029	2.1	3.4
2030	2.1	2.3
5-year average[1]	1.8	1.9

[1] *The 5-year average is computed by using the projection of time period from 1Q 2026 to 4Q 2030.*

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

The consensus Upside scenario

Compared with the Central scenario, the consensus Upside scenario features stronger economic activity in the near term, before converging to long-run trend expectations. It also incorporates lower unemployment and higher asset prices than incorporated in the Central scenario. Inflation accelerates modestly, driven by increased investment and higher consumption spending.

The scenario is consistent with a number of key upside risk themes. These include a partial rollback of tariff measures, deregulation, an improvement in the US-China relationship, and a de-escalation in geopolitical tensions.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario.

Consensus Upside scenario best outcome

	Hong Kong		***Mainland China***	
	%		***%***	
GDP growth (%, Start-to-peak)[1]	20.7	4Q30	28.6	4Q30
Unemployment rate (%, Min)[2]	2.8	2Q28	4.7	4Q27
House price index (%, Start-to-peak)[1]	19.4	4Q30	14.9	4Q30

1 *'Start-to-peak' is the cumulative change to the highest level of the series during the 20-quarter projection from 1Q26 to 4Q30. '%, Min' is the lowest projected unemployment rate in the scenario.*

2 *The lowest projected unemployment or policy rate in the scenario.*

Downside scenarios

Downside scenarios explore the intensification and crystallisation of key risk themes and are modelled so that economic shocks drive consumption and investment lower and commodity prices fall. For most markets, inflation and interest rates are lower compared with the Central scenario.

Key downside risks include:

– an increase in protectionist policies. This lowers investment, complicates international supply chains, and impedes trade flows;

– abrupt asset repricing given elevated valuations, particularly in the tech sector, eroding wealth effects and ultimately increasing credit risks;

– a broader and more prolonged conflict in the Middle East and the Russia-Ukraine war, which undermine confidence and investment; and

– continued differences between the US and China, which could affect economic confidence, the global goods trade and supply chains for critical technologies.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

The consensus Downside scenario

In the consensus Downside scenario, the effects of tariffs on the global economy are worse than expected, leading to weaker economic activity compared with the Central scenario. The scenario is consistent with the tariff rate, measured as an effective trade-weighted average, rising to 19% in 2026, and remaining at that level in 2027. The key driver of that increase is the application of sector-specific tariff rates.

In this scenario, GDP declines and unemployment rates rise, while asset prices and commodity prices fall. The scenario features an escalation in geopolitical tensions and an increase in tariffs over and above those assumed in the Central scenario. Existing and recently approved trade agreements are assumed to hold. In most markets, inflation declines relative to the Central scenario, as tariffs are assumed to drive a drop in export demand from the US.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Downside scenario.

Consensus Downside scenario worst outcome

	Hong Kong		***Mainland China***	
	%		*%*	
GDP growth (%, Start-to-trough)[1]	(1.7)	4Q27	(1.7)	3Q26
Unemployment rate (%, Max)[2]	4.8	4Q26	6.8	4Q27
House price index (%, Start-to-trough)[1]	(3.8)	1Q27	(5.6)	1Q27

1 *'Start-to-trough' is the cumulative change to the lowest level of the series during the 20-quarter projection from 1Q26 to 4Q30. '%, Max' is the highest projected unemployment rate in the scenario.*

2 *The highest projected unemployment or policy rate in the scenario.*

Downside 2 scenario

The Downside 2 scenario reflects management's view of the tail of the economic distribution. It incorporates the simultaneous crystallisation of a number of risks that lead to a deep global recession. The subsequent drop in demand leads to a steep fall in commodity prices, and a rapid increase in unemployment.

The narrative features an escalation in tariff actions, resulting in a global trade war, and further intensification of geopolitical crises. Asset prices fall steeply, with technology related stocks expected to experience the most significant price adjustments. The scenario is consistent with the US tariff rate, measured as an effective trade-weighted average, rising to 25% in 2026, and remaining at that level in 2027.

The following table describes key macroeconomic variables and the probabilities assigned in the Downside 2 scenario.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

Downside 2 scenario worst outcome

	Hong Kong **%**		***Mainland China*** **%**	
GDP growth (%, Start-to-trough)[1]	(9.3)	3Q27	(6.0)	1Q27
Unemployment rate (%, Max)[2]	7.0	4Q26	7.0	4Q27
House price index (%, Start-to-trough)[1]	(19.6)	2Q29	(23.1)	4Q27

1 *'Start-to-trough' is the cumulative change to the lowest level of the series during the 20-quarter projection from 1Q26 to 4Q30. '%, Max' is the highest projected unemployment rate in the scenario.*

2 *The highest projected unemployment/policy rate in the scenario.*

Scenario weightings

Scenarios weightings are calibrated to probabilities that are determined with reference to consensus forecast probability distributions. Management may then choose to vary weights if they assess that the calibration lags more recent events, or does not reflect their view of the distribution of economic and geopolitical risk. Management's view of the scenarios and probability distribution takes into consideration the relationship of the consensus scenarios to both internal and external assessments of risk.

In the fourth quarter of 2025, forecast and distributional estimates were assessed to have incorporated available information around tariffs and policy uncertainties and no major events had occurred since scenario production that changed the outlook materially. Forecast dispersion, financial market volatility and other measures of uncertainty remained close to their long-term average.

Consequently, there was no variation in scenario weights and they were aligned to the calibrated probabilities of the scenarios. The consensus Central scenario was assigned a 75% probability weighting in our major markets. The consensus Upside scenario was assigned a 10% weighting, and the consensus Downside scenario was given 10%. The Downside 2 was assigned a 5% weighting.

In light of the US intervention in the political leadership and energy assets of Venezuela during early January 2026, management assessed the potential implications, including to oil prices, and concluded that expected spillovers remain within the scope of existing scenarios, including potentially significantly lower oil prices. Therefore, no additional action was deemed necessary for economic scenarios or weights.

The following table describes the probabilities assigned in each scenario.

Scenario weightings, %

	Standard weights	***Hong Kong***	***Mainland China***
4Q25			
Upside scenario	10	10	10
Central scenario	75	75	75
Downside scenario	10	10	10
Downside 2 scenario	5	5	5

At 31 December 2025, the consensus Upside and Central scenarios for all markets had a combined weighting of 85%, unchanged as at 31 December 2024. Weightings assigned to the Downside scenarios also remained unchanged.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

Critical accounting estimates and judgements

The HKFRS 9 Expected Credit Losses ('ECL') calculation involves significant judgements, assumptions and estimates. These include selecting and configuring economic scenarios amid changing economic conditions and risks and estimating their effects on ECL, especially when historical conditions are not fully captured by credit risk models.

How economic scenarios are reflected in the calculation of ECL

Models are used to reflect economic scenarios on ECL estimates. We follow globally consistent methodologies which developed by HSBC Group for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk.

The HSBC Group has developed a globally consistent methodology for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. The Group has continued to follow the HSBC Group methodology. These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2025.

For our wholesale portfolios, we estimate the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a market. For LGD calculations we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular market and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, allowance for ECL estimates are based on discounted cash flow ('DCF') calculations for internal forward-looking scenarios specific to individual borrower circumstances. Probability weighted outcomes are applied, and depending on materiality and the status of the borrower, the number of scenarios considered will change. Where relevant for the case being assessed, forward economic guidance is incorporated as part of these scenarios. LGD driven ECL estimates are used for certain less material cases.

For our retail portfolios, the models are predominantly based on historical observations and correlations with default rates and collateral values.

For PD, the impact of economic scenarios is modelled for each portfolio, using historical relationships between default rates and macroeconomic variables. These are included within HKFRS 9 ECL estimates using either economic response models or models which contain internal, external and macroeconomic variables. The macroeconomic impact on PD is modelled over the period equal to the remaining maturity of the underlying assets.

For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value profiles for the remaining maturity of the asset, using market level house price index forecast and applying the corresponding LGD expectation relative to the updated forecast collateral values. For unsecured portfolios historically observed recovery rates are leveraged to measure loss. For mortgages, a limited number of portfolios utilise a stressed LGD applied to the Downside 2 scenario.

(a) **Credit Risk** *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

Management judgemental adjustments and other adjustments

HKFRS 9 management judgemental adjustments and other adjustments are typically short-term increases or decreases to the modelled allowance for ECL at either a customer, segment or portfolio level, where management believes allowance do not sufficiently reflect the ECL at the reporting date. These relate to risks or uncertainties which are not reflected in the models and/or to any late-breaking events with significant uncertainty, subject to management review and challenge.

Management judgmental adjustments and other adjustments impacts are considered for both gross balances and allowance for ECL when determining whether a significant increase in credit risk has occurred and are allocated to an appropriate stage in accordance with the internal adjustments' framework.

Management judgemental adjustments and other adjustments are reviewed under the governance process for HKFRS 9. Management's review and challenge focuses on the rationale and adjustments amounts and, where significant, is subject to a further review by the second line of defense. Internal frameworks establish the conditions where some management judgemental adjustments should no longer be required and as such are considered as part of the governance process.

The internal governance process regularly reviews management judgemental adjustments and, where possible, mitigates these through a model recalibration or redevelopment.

Management judgemental adjustment drivers evolve as the economic environment changes and new risks emerge. In addition to management judgemental adjustments there are also 'Other adjustments', which are made to address process limitations, data or model deficiencies and can also include, where appropriate, the impact of new models where governance has sufficiently progressed to allow an accurate estimate of ECL allowance to be incorporated into the total reported ECL.

For the wholesale portfolio, management judgemental adjustments apply to the performing portfolio only as defaulted exposures are individually assessed.

At 31 December 2025, management judgement adjustments reduced by HK$0.3bn compared with 31 December 2024.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

Management judgemental adjustments and other adjustments *(continued)*

'Management judgemental adjustments' and 'Other adjustments' made in estimating the scenario-weighted reported allowance for ECL at 31 December 2025 are set out in the following table.

	31 December 2025			*31 December 2024*		
	Retail	***Wholesale[2]***	***Total***	*Retail*	*Wholesale[2]*	*Total*
Modelled ECL (A)[3]	**1,676**	**1,746**	**3,422**	1,434	2,120	3,554
Corporate lending adjustments	**–**	**36**	**36**	–	(268)	(268)
Other credit judgements	**20**	**–**	**20**	23	–	23
Total management judgemental adjustments (B)[4]	**20**	**36**	**56**	23	(268)	(245)
Other adjustments (C)[5]	**–**	**385**	**385**	34	206	240
Final ECL (A+B+C)[6]	**1,696**	**2,167**	**3,863**	1,491	2,058	3,549

1 *Management judgemental adjustments presented in the table reflect increases or (decreases) to ECL, respectively.*

2 *The wholesale portfolio corresponds to adjustments to the performing portfolio (Stage 1 and Stage 2).*

3 *Modelled ECL (A) refers to probability-weighted allowance for ECL before any adjustments are applied.*

4 *Refers to adjustments that are applied where management believes allowance for ECL does not sufficiently reflect the credit risk/ECL of any given portfolio at the reporting date. These can relate to risks or uncertainties that are not reflected in the model, and/or to any late-breaking events.*

5 *Other adjustments (C) refers to adjustments to allowance for ECL made to address process limitations and data/model deficiencies and can also include, where appropriate, the impact of new models where governance has sufficiently progressed to allow an accurate estimate of ECL allowance to be incorporated into the total reported ECL.*

6 *As presented within our internal credit risk governance in 'Credit risk management' section.*

At 31 December 2025, wholesale management judgemental adjustments were an increase to allowance for ECL of HK$0.3bn. These were mainly to corporate exposures to reflect the uncertainty in the real estate sector.

For retail portfolio, the management judgmental adjustments are mainly related to China mortgages, with an increase of ECL of HK$20m for stage migration impact after considering the latest quarterly macro-economic forecast and property price volatility.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

Management judgemental adjustments and other adjustments *(continued)*

Economic scenarios sensitivity analysis of ECL estimates

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

The allowance for ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating allowance for loans at the balance sheet date.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes allowance for ECL and financial instruments related to defaulted (stage 3) obligors. The measurement of stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and therefore the effects of macroeconomic factors are not necessarily the key consideration when performing individual assessments of allowance for obligors in default. Loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Due to the range and specificity of the credit factors to which the ECL is sensitive, it is not possible to provide a meaningful alternative sensitivity analysis for a consistent set of risks across all defaulted obligors.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for unsecured portfolios including loans in stages 1/2 is sensitive to macroeconomic variables.

Wholesale and Retail sensitivity

The wholesale and retail sensitivity tables present the 100% weighted results. These exclude portfolios held by the insurance business and small portfolios and as such cannot be directly compared to personal and wholesale lending presented in other credit risk tables. In both the wholesale and retail analysis, the comparative period results for Downside 2 scenarios are also not directly comparable with the current period, because they reflect different risks relative to the consensus scenarios for the period end.

The wholesale and retail sensitivity analysis is stated inclusive of management judgemental adjustments, as appropriate to each scenario.

For both retail and wholesale portfolios, the gross carrying amount of financial instruments are the same under each scenario. For exposures with similar risk profile and product characteristics, the sensitivity impact is therefore largely the result of changes in macroeconomic assumptions.

(a) Credit Risk *(continued)*

Measurement uncertainty and sensitivity analysis of ECL estimates (audited) (continued)

Wholesale and Retail sensitivity *(continued)*

Wholesale analysis

HKFRS 9 ECL sensitivity to future economic conditions[1]

ECL of financial instruments subject to significant measurement uncertainty[2]	**31 December 2025**		31 December 2024	
	Hong Kong	***Mainland China***	*Hong Kong*	*Mainland China*
Reported ECL	**1,470**	**692**	1,636	404
Central scenario	**1,402**	**671**	1,501	346
Upside scenario	**1,118**	**563**	1,071	237
Downside scenario	**1,748**	**835**	2,541	668
Downside 2 scenario	**3,125**	**1,050**	4,513	1,429

1 *Excludes defaulted obligors .*

2 *Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.*

Compared with 31 December 2024, the Downside 2 ECL impact was lower in Hong Kong and mainland China, mostly due to the crystallisation of defaults for certain high-risk exposures and decrease of the associated downside uncertainty.

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions[1,3]

ECL of loans and advances to customers[2]	**31 December 2025**		31 December 2024	
	Hong Kong	***Mainland China***	*Hong Kong*	*Mainland China*
Reported ECL	**1,496**	**79**	1,311	57
Central scenario	**1,460**	**75**	1,239	46
Upside scenario	**1,433**	**73**	1,213	45
Downside scenario	**1,549**	**85**	1,336	63
Downside 2 scenario	**2,170**	**191**	3,564	155

1 *ECL sensitivities exclude portfolios utilising less complex modelling approaches.*

2 *ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.*

3 *ECL sensitivity is calculated by applying a 100% weighting to each scenario described above, and then applying judgemental overlays where determined appropriate.*

At 31 December 2025, the most significant level of ECL sensitivity was observed in Hong Kong driven by the relative size of the portfolio.

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees (audited)

The following disclosure provides a reconciliation by stage of the Group's gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees. Movements are calculated on a year-to-date basis and therefore reflect the opening and closing position of the financial instruments.

The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying CRR/PD movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'changes in risk parameters – credit quality' line item.

Changes in 'New financial assets originated and purchased', 'Assets derecognised (including final repayments)' and 'Changes to risk parameters – further lending/repayments' represent the impact from volume movements within the Group's lending portfolio.

	Non credit – impaired				*Credit – impaired*				*Total*	
	Stage 1		*Stage 2*		*Stage 3*		*POCI*[1]			
	Gross carrying/ nominal amount	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*
At 1 January 2025	1,121,033	(751)	88,366	(2,535)	51,003	(9,764)	142	(54)	1,260,544	(13,104)
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(74,328)	98	74,328	(98)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	12,125	(227)	(12,125)	227	–	–	–	–	–	–
– transfers to Stage 3	(2,630)	5	(12,111)	641	14,741	(646)	–	–	–	–
– transfers from Stage 3	27	(4)	62	(2)	(89)	6	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	156	–	(197)	–	(9)	–	–	–	(50)
Changes due to modifications not derecognised	–	–	–	–	(11)	–	–	–	(11)	–
New financial assets originated and purchased[2]	297,353	(205)	15,119	(271)	–	–	52	–	312,524	(476)
Assets derecognised (including final repayments)	(219,570)	102	(30,014)	378	(1,651)	116	–	–	(251,235)	596
Changes to risk parameters – further lending/(repayments)	(64,640)	111	(13,729)	155	(7,052)	405	1	–	(85,420)	671
Changes to risk parameters – credit quality	–	153	–	(1,267)	–	(7,127)	–	(65)	–	(8,306)
Changes to model used for ECL calculation	–	(164)	–	198	–	–	–	–	–	34
Assets written off	–	–	–	–	(2,766)	2,766	–	–	(2,766)	2,766
Foreign exchange and others	(43,329)	(5)	(5,022)	(20)	2,467	(1,386)	9	(9)	(45,875)	(1,420)
At 31 December 2025	1,026,041	(731)	104,874	(2,791)	56,642	(15,639)	204	(128)	1,187,761	(19,289)

	Total
Change in ECL in income statement (charge)/ release for the year	(7,531)
Add: Recoveries	236
Add: Modification losses on contractual cash flows that did not result in derecognition	(11)
Add/(less): Others	(735)
Total ECL (charge)/release for the year	(8,041)

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees (audited) (continued)

	At 31 December 2025		For the year ended 31 December 2025
	Gross carrying/ nominal amount	Allowance for ECL	ECL (charge)/ release
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,187,761	(19,289)	(8,041)
Other financial assets measured at amortised cost	238,300	(40)	8
Forward forward deposit placed	2,975	–	–
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	1,429,036	(19,329)	(8,033)
Debt instruments measured at FVOCI[3]	365,196	(5)	1
Performance and other guarantees	19,135	(39)	(17)
Total allowances for ECL/total consolidated income statement ECL charge for the year	1,813,367	(19,373)	(8,049)

1 *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*

2 *Includes the new financial assets originated and purchased during the year, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2025.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees (audited) (continued)

	Non credit – impaired				*Credit – impaired*				*Total*	
	Stage 1		*Stage 2*		*Stage 3*		*POCI*[1]			
	Gross carrying/ nominal amount	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*	*Gross carrying/ nominal amount*	*Allowance for ECL*
At 1 January 2024	1,125,306	(798)	155,555	(3,840)	24,635	(9,158)	117	–	1,305,613	(13,796)
Transfers of financial instruments:										
– transfers from Stage 1 to Stage 2	(42,560)	63	42,560	(63)	–	–	–	–	–	–
– transfers from Stage 2 to Stage 1	37,999	(539)	(37,999)	539	–	–	–	–	–	–
– transfers to Stage 3	(4,801)	48	(32,477)	1,245	37,278	(1,293)	–	–	–	–
– transfers from Stage 3	1	–	29	(3)	(30)	3	–	–	–	–
Net remeasurement of ECL arising from transfer of stage	–	207	–	(113)	–	(11)	–	–	–	83
Changes due to modifications not derecognised	–	–	–	–	(45)	–	–	–	(45)	–
New financial assets originated and purchased[2]	272,609	(223)	6,313	(209)	–	–	–	–	278,922	(432)
Assets derecognised (including final repayments)	(224,777)	134	(58,959)	488	(970)	13	–	–	(284,706)	635
Changes to risk parameters – further lending/(repayments)	(38,592)	163	13,783	156	(6,233)	371	3	–	(31,039)	690
Changes in risk parameters – credit quality	–	95	–	(621)	–	(4,714)	–	(33)	–	(5,273)
Changes to model used for ECL calculation	–	35	–	(125)	–	–	–	–	–	(90)
Assets written off	–	–	–	–	(6,317)	6,317	–	–	(6,317)	6,317
Foreign exchange and others	(4,152)	64	(439)	11	2,685	(1,292)	22	(21)	(1,884)	(1,238)
At 31 December 2024	1,121,033	(751)	88,366	(2,535)	51,003	(9,764)	142	(54)	1,260,544	(13,104)

	Total
Change in ECL in income statement (charge)/release for the year	(4,387)
Add: Recoveries	179
Add: Modification losses on contractual cash flows that did not result in derecognition	(45)
Add/(less): Others	(553)
Total ECL (charge)/release for the year	(4,806)

(a) Credit Risk *(continued)*

Reconciliation of changes in gross carrying/nominal amount and allowances for placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees (audited) (continued)

	At 31 December 2024		*For the year ended 31 December 2024*
	Gross carrying/ nominal amount	*Allowance for ECL*	*ECL (charge)/ release*
Placings with and advances to banks and loans and advances to customers, including loan commitments and financial guarantees	1,260,544	(13,104)	(4,806)
Other financial assets measured at amortised cost	202,436	(23)	28
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied	1,462,980	(13,127)	(4,778)
Debt instruments measured at FVOCI[3]	407,065	(5)	(2)
Performance and other guarantees	20,950	(21)	7
Total allowances for ECL/total consolidated income statement ECL charge for the year	1,890,995	(13,153)	(4,773)

1 *Purchased or originated credit-impaired ('POCI') represented distressed restructuring.*

2 *Includes the new financial assets originated and purchased during the year, but subsequently transferred from stage 1 to stage 2 or stage 3 at 31 December 2024.*

3 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

Credit quality of financial instruments

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of the probability of default of financial instruments, whereas HKFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessments and HKFRS 9 stages 1 and 2, though typically the lowered credit quality bands exhibit a higher proportion in stage 2.

(a) Credit Risk *(continued)*

Credit quality of financial instruments (continued)

Distribution of financial instruments by credit quality at 31 December 2025 (audited)

	Gross carrying/notional amount[3]							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowance for ECL*	*Net*
In-scope for HKFRS 9 impairment								
Loans and advances to customers at amortised cost	442,690	127,049	158,840	21,150	56,809	806,538	(19,189)	787,349
– personal	358,102	11,016	16,713	501	1,443	387,775	(1,656)	386,119
– corporate and commercial	73,271	105,043	135,574	20,649	55,366	389,903	(17,508)	372,395
– non-bank financial institutions	11,317	10,990	6,553	–	–	28,860	(25)	28,835
Placings with and advances to banks at amortised cost	84,156	1,199	2	–	–	85,357	(1)	85,356
Cash and balances at central banks	10,290	–	–	–	–	10,290	–	10,290
Reverse repurchase agreements – non-trading	65,785	14,221	808	–	–	80,814	–	80,814
Financial investments measured at amortised cost	112,814	722	–	–	–	113,536	(15)	113,521
Other assets	20,787	4,008	8,801	50	14	33,660	(25)	33,635
Debt instruments measured at fair value through other comprehensive income[1]	365,196	–	–	–	–	365,196	(5)	365,191
	1,101,718	147,199	168,451	21,200	56,823	1,495,391	(19,235)	1,476,156
Out-of-scope for HKFRS 9 impairment								
Trading assets	51,748	405	266	–	249	52,668	–	52,668
Other financial assets mandatorily measured at fair value through profit or loss	104,694	20,695	510	910	152	126,961	–	126,961
Derivative financial instruments	12,164	256	67	41	–	12,528	–	12,528
	168,606	21,356	843	951	401	192,157	–	192,157
	1,270,324	168,555	169,294	22,151	57,224	1,687,548	(19,235)	1,668,313
Percentage of total credit quality	75%	10%	10%	1%	3%	100%		
Loan and other credit related commitments[2]	259,950	25,465	12,340	437	37	298,229	(97)	298,132
Financial guarantee and similar contracts[2]	391	31	190	–	–	612	(2)	610

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 38 on the Consolidated Financial Statements.*

3 *For financial assets under 'In-scope for HKFRS 9 impairment', gross carrying amount is disclosed; for financial assets under 'Out-of-scope for HKFRS 9 impairment', carrying amount (i.e. fair value) is disclosed; for off-balance sheet credit commitments, notional amount is disclosed.*

(a) **Credit Risk** *(continued)*

Credit quality of financial instruments (continued)

Distribution of financial instruments by credit quality at 31 December 2024 (audited)

	Gross carrying/notional amount[3]							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowance for ECL*	*Net*
In-scope for HKFRS 9 impairment								
Loans and advances to customers at amortised cost	465,309	122,793	165,397	27,646	50,964	832,109	(12,973)	819,136
– personal	360,576	10,050	13,996	515	1,220	386,357	(1,486)	384,871
– corporate and commercial	88,414	100,968	145,257	27,131	49,744	411,514	(11,450)	400,064
– non-bank financial institutions	16,319	11,775	6,144	–	–	34,238	(37)	34,201
Placings with and advances to banks at amortised cost	75,953	248	22	–	–	76,223	(2)	76,221
Cash and balances at central banks	10,433	–	–	–	–	10,433	–	10,433
Reverse repurchase agreements – non-trading	26,171	7,308	–	–	–	33,479	–	33,479
Financial investments measured at amortised cost	129,965	77	–	–	–	130,042	(3)	130,039
Other assets	17,944	3,907	6,581	44	6	28,482	(20)	28,462
Debt instruments measured at fair value through other comprehensive income[1]	407,063	2	–	–	–	407,065	(5)	407,060
	1,132,838	134,335	172,000	27,690	50,970	1,517,833	(13,003)	1,504,830
Out-of-scope for HKFRS 9 impairment								
Trading assets	39,352	192	62	–	7	39,613	–	39,613
Other financial assets mandatorily measured at fair value through profit or loss	88,814	21,377	4,094	–	83	114,368	–	114,368
Derivative financial instruments	19,772	396	10	23	–	20,201	–	20,201
	147,938	21,965	4,166	23	90	174,182	–	174,182
	1,280,776	156,300	176,166	27,713	51,060	1,692,015	(13,003)	1,679,012
Percentage of total credit quality	76%	9%	10%	2%	3%	100%		
Loan and other credit related commitments[2]	261,586	44,551	43,211	785	181	350,314	(126)	350,188
Financial guarantee and similar contracts[2]	550	458	738	152	–	1,898	(3)	1,895

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowance. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the Consolidated Balance Sheet as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 38 on the Consolidated Financial Statements.*

3 *For financial assets under 'In-scope for HKFRS 9 impairment', gross carrying amount is disclosed; for financial assets under 'Out-of-scope for HKFRS 9 impairment', carrying amount (i.e. fair value) is disclosed; for off-balance sheet credit commitments, notional amount is disclosed.*

(a) Credit Risk *(continued)*

Credit quality of financial instruments (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution (audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit-impaired	Total	Allowance for ECL	Net
Loans and advances to customers at amortised cost	442,690	127,049	158,840	21,150	56,809	806,538	(19,189)	787,349
– Stage 1	440,804	111,381	100,748	636	–	653,569	(662)	652,907
– Stage 2	1,886	15,668	58,092	20,514	–	96,160	(2,760)	93,400
– Stage 3	–	–	–	–	56,605	56,605	(15,639)	40,966
– POCI	–	–	–	–	204	204	(128)	76
Placings with and advances to banks at amortised cost	84,156	1,199	2	–	–	85,357	(1)	85,356
– Stage 1	84,156	1,199	2	–	–	85,357	(1)	85,356
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	209,676	18,951	9,609	50	14	238,300	(40)	238,260
– Stage 1	209,643	18,920	8,939	17	–	237,519	(34)	237,485
– Stage 2	33	31	670	33	–	767	(1)	766
– Stage 3	–	–	–	–	14	14	(5)	9
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	259,950	25,465	12,340	437	37	298,229	(97)	298,132
– Stage 1	259,914	19,581	10,162	2	–	289,659	(68)	289,591
– Stage 2	36	5,884	2,178	435	–	8,533	(29)	8,504
– Stage 3	–	–	–	–	37	37	–	37
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	391	31	190	–	–	612	(2)	610
– Stage 1	390	27	14	–	–	431	–	431
– Stage 2	1	4	176	–	–	181	(2)	179
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2025	996,863	172,695	180,981	21,637	56,860	1,429,036	(19,329)	1,409,707
Debt instruments at FVOCI[1]								
– Stage 1	365,196	–	–	–	–	365,196	(5)	365,191
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2025	365,196	–	–	–	–	365,196	(5)	365,191

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Consolidated Balance Sheet as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 38 on the Consolidated Financial Statements.*

(a) **Credit Risk** *(continued)*

Credit quality of financial instruments (continued)

Distribution of financial instruments to which the impairment requirements in HKFRS 9 are applied, by credit quality and stage distribution (audited) *(continued)*

	Gross carrying/notional amount							
	Strong	*Good*	*Satisfactory*	*Sub-standard*	*Credit-impaired*	*Total*	*Allowance for ECL*	*Net*
Loans and advances to customers at amortised cost	465,309	122,793	165,397	27,646	50,964	832,109	(12,973)	819,136
– Stage 1	461,564	118,603	125,317	994	–	706,478	(683)	705,795
– Stage 2	3,745	4,190	40,080	26,652	–	74,667	(2,472)	72,195
– Stage 3	–	–	–	–	50,822	50,822	(9,764)	41,058
– POCI	–	–	–	–	142	142	(54)	88
Placings with and advances to banks at amortised cost	75,953	248	22	–	–	76,223	(2)	76,221
– Stage 1	75,737	248	22	–	–	76,007	(2)	76,005
– Stage 2	216	–	–	–	–	216	–	216
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	184,513	11,292	6,581	44	6	202,436	(23)	202,413
– Stage 1	184,505	11,232	5,615	–	–	201,352	(20)	201,332
– Stage 2	8	60	966	44	–	1,078	(3)	1,075
– Stage 3	–	–	–	–	6	6	–	6
– POCI	–	–	–	–	–	–	–	–
Loan and other credit-related commitments[2]	261,586	44,551	43,211	785	181	350,314	(126)	350,188
– Stage 1	260,224	40,846	35,545	383	–	336,998	(65)	336,933
– Stage 2	1,362	3,705	7,666	402	–	13,135	(61)	13,074
– Stage 3	–	–	–	–	181	181	–	181
– POCI	–	–	–	–	–	–	–	–
Financial guarantees and similar contracts[2]	550	458	738	152	–	1,898	(3)	1,895
– Stage 1	550	454	546	–	–	1,550	(1)	1,549
– Stage 2	–	4	192	152	–	348	(2)	346
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2024	987,911	179,342	215,949	28,627	51,151	1,462,980	(13,127)	1,449,853
Debt instruments at FVOCI[1]								
– Stage 1	407,063	2	–	–	–	407,065	(5)	407,060
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
– POCI	–	–	–	–	–	–	–	–
At 31 December 2024	407,063	2	–	–	–	407,065	(5)	407,060

1 *For the purposes of this disclosure, gross carrying value is defined as the amortised cost of a financial asset, before adjusting for any loss allowances. As such, the gross carrying value of debt instruments at FVOCI as presented above will not reconcile to the figure shown in Consolidated Balance Sheet as it excludes fair value gains and losses.*

2 *Figures do not include commitments and financial guarantee contracts not subject to impairment requirements under HKFRS 9. As such, the amounts do not agree with the figures shown in note 38 on the Consolidated Financial Statements.*

(a) **Credit Risk** *(continued)*

Credit quality of financial instruments (continued)

Hong Kong Commercial Real Estate (unaudited)

The following table presents the Group's commercial real estate ('CRE') lending booked in Hong Kong and not fall under the mainland China CRE sector. The exposures are split by stage and credit quality.

	At 31 December 2025	At 31 December 2024
Gross loans and advances to customers by stage		
– Stage 1	**39,538**	81,274
– Stage 2	**49,941**	29,438
– Stage 3	**26,984**	19,806
– POCI	**–**	–
Total	**116,463**	130,518
Allowance for ECL	**5,090**	1,654
Gross loans and advances to customers by credit quality		
– Strong	**12,942**	20,161
– Good	**26,848**	33,911
– Satisfactory	**36,092**	39,880
– Sub-standard	**13,597**	16,760
– Credit-impaired	**26,984**	19,806
Total	**116,463**	130,518

The Hong Kong CRE portfolio (excluding exposure to mainland China borrowers) saw an increase in allowances for ECL in 2025, driven by a combination of negative credit migration and pressure on collateral value. Negative credit migration was mainly driven by secured portfolio, which accounts for 62% of the total portfolio (31 December 2024: 61%), although the pace of migration slowed in the fourth quarter.

'Sub-standard' and 'credit-impaired' exposures increased to HK$40.6bn (31 December 2024: HK$36.6bn), of which 96% was secured (31 December 2024: 94%). As at 31 December 2025, the weighted average loan-to-value ('LTV'):

– Of performing exposures rated 'sub-standard' was 42% (31 December 2024: 49%). There was nil exposure with an LTV of greater than 70% (31 December 2024: HK$1.1bn); and

– Of 'credit impaired' exposures was 74% (31 December 2024: 60%). Within this portfolio, HK$8.9bn had an LTV of greater than 70% (31 December 2024: HK$5.9bn).

Collateral information and LTV calculations were based on total limits, inclusive of off-balance sheet commitments of HK$142bn as of 31 December 2025 (31 December 2024: HK$164bn).

The unsecured portfolio remains largely stable, with some migration between performing credit grades and 88% rated 'strong' or 'good' (31 December 2024: 93%). 'Credit impaired' levels are limited. Unsecured exposures are typically granted to strong, listed Hong Kong CRE developers, which are commonly members of conglomerate groups with diverse cashflows.

(a) **Credit Risk** *(continued)*

Credit quality of financial instruments (continued)

Hong Kong Commercial Real Estate (unaudited) *(continued)*

Market conditions remain challenging with valuation pressures and liquidity constraints likely to continue in near term, particularly for mid-sized and sub-investment grade corporates. The recent improvement in sentiment is nevertheless expected to gradually translate into improved cashflows and liquidity, with signs of a recovery beginning to emerge. In particular, the residential property sector showed positive momentum in 2025 driven by government support measures and lower interest rates. This, together with the associated positive wealth effect from a buoyant equities market, has supported a rebound in retail sales and improved leasing activity in the second half of 2025. However, a full recovery in the retail property sector will take time as landlords adapt to changing consumer behaviours, whilst oversupply in the office property sector is expected to keep pressure on rents and capital values in 2026. The broader Hong Kong economy nevertheless remains resilient, providing a supportive backdrop for stabilisation in the property market.

We continue to closely assess and manage the risk in the portfolio, including through portfolio reviews and stress testing. Vulnerable borrowers, including those with debt serviceability challenges and higher LTV levels, are subject to heightened monitoring and management.

Mainland China Commercial Real Estate (unaudited)

The following table presents the Group's total exposure to borrowers classified in the mainland China CRE sector where the ultimate parent is based in mainland China, as well as all CRE exposures booked on mainland China balance sheets.

CRE lending includes the financing of corporate and institutional customers who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development. The exposures in the table are related to companies whose primary activities are focused on these activities. However, in addition to our normal definition of CRE, this table includes financing provided to a corporate or financial entity for the purchase or financing of a property which supports the overall operations of the business. This provides a more comprehensive view of our mainland China CRE exposures. The exposures at 31 December 2025 are split by country/territory and credit quality including allowances for ECL by stage.

(a) **Credit Risk** *(continued)*

Credit quality of financial instruments (continued)

Mainland China Commercial Real Estate (unaudited) *(continued)*

	At 31 December 2025			*At 31 December 2024*		
	Hong Kong	***Mainland China***	***Total***	*Hong Kong*	*Mainland China*	*Total*
Loans and advances to customers[1]	**7,761**	**6,303**	**14,064**	10,975	7,002	17,977
Guarantees issued and others[2]	**–**	**–**	**–**	–	–	–
Total mainland China CRE exposure	**7,761**	**6,303**	**14,064**	10,975	7,002	17,977
Distribution of mainland China CRE exposure by credit quality						
– Strong	**–**	**1,961**	**1,961**	94	1,137	1,231
– Good	**37**	**971**	**1,008**	755	1,046	1,801
– Satisfactory	**669**	**1,175**	**1,844**	776	3,245	4,021
– Sub-standard	**–**	**1,323**	**1,323**	983	409	1,392
– Credit-impaired	**7,055**	**873**	**7,928**	8,367	1,165	9,532
	7,761	**6,303**	**14,064**	10,975	7,002	17,977
Allowance by ECL by credit quality						
– Strong	**–**	**3**	**3**	–	2	2
– Good	**–**	**2**	**2**	–	6	6
– Satisfactory	**2**	**10**	**12**	1	48	49
– Sub-standard	**–**	**540**	**540**	196	158	354
– Credit-impaired	**3,339**	**326**	**3,665**	3,101	393	3,494
	3,341	**881**	**4,222**	3,298	607	3,905
Allowance by ECL by stage						
– Stage 1	**–**	**12**	**12**	–	26	26
– Stage 2	**2**	**543**	**545**	197	188	385
– Stage 3	**3,211**	**326**	**3,537**	3,047	393	3,440
– POCI	**128**	**–**	**128**	54	–	54
	3,341	**881**	**4,222**	3,298	607	3,905
ECL coverage %	**43.0**	**14.0**	**30.0**	30.1	8.7	21.7

1 *Amounts represent gross carrying amount.*

2 *Amounts represent nominal amount.*

(a) Credit Risk *(continued)*

Credit quality of financial instruments (continued)

Mainland China Commercial Real Estate (unaudited) *(continued)*

We continue to closely monitor the mainland China CRE market. The portfolio of loans booked in Hong Kong continues to be impacted by the challenges in this sector, with further migration observed in the fourth quarter of 2025. This portfolio nevertheless continues to reduce due to repayments and write-offs while allowances for ECL increased to HK$4.2bn as of 31 December 2025 (31 December 2024: HK$3.9bn), mainly held against unsecured exposures.

Of the residual portfolio of mainland China CRE loans booked in Hong Kong, over 60% of the performing exposure is lending to state-owned enterprises and relatively strong private-owned enterprises. This is reflected in the relatively low ECL allowance in this part of the portfolio.

The onshore portfolio booked in mainland China remains of higher credit quality, with lower allowance for ECL reflecting collateral held. The portfolio continues to rebalance in favor of Strong-rated borrowers.

Market fundamentals in the mainland China property sector remain weak. Despite some stabilisation in certain cities, property values continued to decline in 2025 and are expected to remain under pressure in 2026 reflecting ongoing weakness in demand. Liquidity constraints are therefore likely to continue, with ongoing polarisation in the operating performance of corporates operating in this sector, as state-owned enterprises continue to benefit from better access to funding and liquidity. A full recovery remains dependent on further government support as well as a sustained improvement in underlying sentiment.

Collateral and other credit enhancements (audited)

Although collateral can be an important mitigant of credit risk, it is the Group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. However, for certain lending decisions a charge over collateral is usually obtained, and is important for the credit decision and pricing. Collateral realisation is one of the sources of repayment in the event of default.

Such collateral has a significant financial effect in mitigating our exposure to credit risk and the objective of the disclosure below is to quantify these forms. We may also manage our risk by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified in the loans shown below.

We have quantified below the value of fixed charges we hold over a specific asset (or assets) of a borrower for which we have a practical ability and history of enforcing in satisfying a debt in the event of a borrower failing to meet their contractual obligations and where the asset is cash or can be realised in the form of cash by sale in an established market.

Personal lending (unaudited)

For personal lending, the collateral held has been analysed below separately for residential mortgages and other personal lending due to the different nature of collateral held on the portfolios.

(a) Credit Risk *(continued)*

Collateral and other credit enhancements (audited) (continued)

Residential mortgages (audited)

The following table shows residential mortgage lending including off-balance sheet loan commitments by level of collateralisation.

	At 31 December 2025			*At 31 December 2024*		
	Gross carrying/ nominal amount	***ECL***	***ECL coverage %***	*Gross carrying/ nominal amount*	*ECL*	*ECL coverage %*
Stage 1						
Fully collateralised	**298,938**	**(3)**	**0.00**	270,931	(6)	0.00
LTV ratio:						
– Less than 70%	**206,517**	**(2)**	**0.00**	196,614	(6)	0.00
– 71% to 90%	**59,272**	**(1)**	**–**	40,955	–	–
– 91% to 100%	**33,149**	**–**	**–**	33,362	–	–
Partially collateralised (A)	**16,419**	**–**	**0.00**	45,396	(1)	0.00
Total	**315,357**	**(3)**	**0.00**	316,327	(7)	0.00
– Collateral value on A	**15,839**			42,487		
Stage 2						
Fully collateralised	**6,586**	**(17)**	**0.26**	4,195	(12)	0.29
LTV ratio:						
– Less than 70%	**4,548**	**(3)**	**0.07**	3,046	(4)	0.13
– 71% to 90%	**1,297**	**(9)**	**0.69**	889	(8)	0.90
– 91% to 100%	**741**	**(5)**	**0.67**	260	–	–
Partially collateralised (B)	**392**	**(3)**	**0.77**	500	–	0.00
Total	**6,978**	**(20)**	**0.29**	4,695	(12)	0.26
– Collateral value on B	**374**			465		
Stage 3						
Fully collateralised	**907**	**(45)**	**4.96**	848	(48)	5.66
LTV ratio:						
– Less than 70%	**655**	**(23)**	**3.51**	663	(25)	3.77
– 71% to 90%	**175**	**(11)**	**6.29**	141	(16)	11.35
– 91% to 100%	**77**	**(11)**	**14.29**	44	(7)	15.91
Partially collateralised (C)	**160**	**(24)**	**15.00**	78	(19)	24.36
Total	**1,067**	**(69)**	**6.47**	926	(67)	7.24
– Collateral value on C	**136**			69		
	323,402	**(92)**	**0.03**	321,948	(86)	0.03

(a) Credit Risk *(continued)*

Collateral and other credit enhancements (audited) (continued)

Residential mortgages (audited) *(continued)*

The ECL coverage represents the actual ECL divided by gross carrying/nominal amount.

The collateral included in the table above consists of fixed first charges on residential real estate.

The LTV ratio in the table above is calculated as the gross on-balance sheet carrying amount of the loan and any off-balance sheet loan commitment at the balance sheet date as a percentage of the current value of collateral. The current value of collateral is determined through a combination of professional valuations, physical inspections or house price indices. Valuations are updated on a regular basis and more frequently when market conditions or portfolio performance are subject to significant change or where a loan is identified and assessed as impaired. The collateral valuation excludes any adjustments for obtaining and selling the collateral.

Other personal lending (audited)

Other personal lending consists primarily of personal loans, overdrafts and credit cards, all of which are generally unsecured, except lending to private banking customers which are generally secured.

Corporate and commercial and financial (non-bank) lending (unaudited)

For corporate and commercial and financial (non-bank) lending, the collateral held has been analysed below separately for commercial real estate and other corporate and commercial and financial (non-bank) lending due to the different nature of collateral held on the portfolios.

(a) Credit Risk *(continued)*

Collateral and other credit enhancements (audited) (continued)

Commercial real estate (audited)

Commercial real estate ('CRE') lending includes the financing of corporate and institutional customers who are investing primarily in income-producing assets and, to a lesser extent, in their construction and development.

The following table shows commercial real estate lending including off-balance sheet loan commitments by level of collateralisation.

	At 31 December 2025			*At 31 December 2024*		
	Gross carrying/ nominal amount	***ECL***	***ECL coverage %***	*Gross carrying/ nominal amount*	*ECL*	*ECL coverage %*
Stage 1						
Not collateralised	**41,145**	**(16)**	**0.04**	52,637	(11)	0.02
Fully collateralised	**19,443**	**(29)**	**0.15**	60,634	(65)	0.11
LTV ratio:						
– less than 50%	**11,107**	**(14)**	**0.13**	40,159	(32)	0.08
– 51% to 75%	**5,130**	**(13)**	**0.25**	17,008	(18)	0.11
– 76% to 90%	**74**	**–**	**0.00**	652	(3)	0.46
– 91% to 100%	**3,132**	**(2)**	**0.06**	2,815	(12)	0.43
Partially collateralised (A)	**1,330**	**–**	**–**	995	–	–
Total	**61,918**	**(45)**	**0.07**	114,266	(76)	0.07
– Collateral value on A	**1,066**			746		
Stage 2						
Not collateralised	**7,730**	**(162)**	**2.10**	5,467	(449)	8.21
Fully collateralised	**49,239**	**(1,038)**	**2.11**	30,370	(457)	1.50
LTV ratio:						
– less than 50%	**35,742**	**(707)**	**1.98**	12,525	(191)	1.52
– 51% to 75%	**12,053**	**(287)**	**2.38**	6,108	(91)	1.49
– 76% to 90%	**1,196**	**(39)**	**3.26**	8,343	(111)	1.33
– 91% to 100%	**248**	**(5)**	**2.02**	3,394	(64)	1.89
Partially collateralised (B)	**239**	**(51)**	**21.34**	483	(9)	1.86
Total	**57,208**	**(1,251)**	**2.19**	36,320	(915)	2.52
– Collateral value on B	**153**			321		

(a) Credit Risk *(continued)*

Collateral and other credit enhancements (audited) (continued)

Commercial real estate (audited) *(continued)*

	At 31 December 2025			At 31 December 2024		
	Gross carrying/ nominal amount	ECL	ECL coverage %	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 3						
Not collateralised	3,206	(2,099)	65.47	4,673	(2,390)	51.14
Fully collateralised	24,803	(3,220)	12.98	19,969	(1,443)	7.23
LTV ratio:						
– less than 50%	8,267	(1,088)	13.16	8,126	(621)	7.64
– 51% to 75%	9,979	(967)	9.69	7,654	(422)	5.51
– 76% to 90%	3,128	(293)	9.37	3,717	(387)	10.41
– 91% to 100%	3,429	(872)	25.43	472	(13)	2.75
Partially collateralised (C)	6,595	(2,519)	38.20	4,228	(748)	17.69
Total	34,604	(7,838)	22.65	28,870	(4,581)	15.87
– Collateral value on C	4,668			3,035		
POCI						
Not collateralised	16	–	–	–	–	–
Fully collateralised	99	–	–	–	–	–
LTV ratio:						
– less than 50%	99	–	–	–	–	–
– 51% to 75%	–	–	–	–	–	–
– 76% to 90%	–	–	–	–	–	–
– 91% to 100%	–	–	–	–	–	–
Partially collateralised (D)	151	(128)	84.77	142	(54)	38.03
Total	266	(128)	48.12	142	(54)	38.03
– Collateral value on D	24			24		
	153,996	(9,262)	6.01	179,598	(5,626)	3.13

The collateral included in the table above consists of fixed first charges on real estate and charges over cash for the commercial real estate sector. The table includes lending to major property developers which is typically secured by guarantees or is unsecured.

The value of commercial real estate collateral is determined through a combination of professional and internal valuations and physical inspection. Due to the complexity of collateral valuations for commercial real estate, local valuation policies determine the frequency of review based on local market conditions. Revaluations are sought with greater frequency where, as part of the regular credit assessment of the obligor, material concerns arise in relation to the transaction which may reflect on the underlying performance of the collateral, or 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 (i.e. the obligor's credit quality classification indicates it is at the lower end e.g. sub-standard, or approaching impaired).

(a) Credit Risk *(continued)*

Collateral and other credit enhancements (audited) (continued)

Other corporate and commercial and financial (non-bank) lending (audited)

The following table shows other corporate, commercial and financial (non-bank) lending including off-balance sheet loan commitments by level of collateralisation.

	At 31 December 2025			At 31 December 2024		
	Gross carrying/ nominal amount	ECL	ECL coverage %	Gross carrying/ nominal amount	ECL	ECL coverage %
Stage 1						
Not collateralised	339,527	(223)	0.07	324,723	(221)	0.07
Fully collateralised	54,024	(62)	0.11	73,338	(75)	0.10
Partially collateralised (A)	25,516	(11)	0.04	30,557	(16)	0.05
Total	419,067	(296)	0.07	428,618	(312)	0.07
– Collateral value on A	10,348			13,885		
Stage 2						
Not collateralised	23,810	(68)	0.29	25,162	(137)	0.54
Fully collateralised	26,609	(437)	1.64	21,923	(527)	2.40
Partially collateralised (B)	4,722	(14)	0.30	5,102	(32)	0.63
Total	55,141	(519)	0.94	52,187	(696)	1.33
– Collateral value on B	1,708			1,768		
Stage 3						
Not collateralised	2,864	(2,302)	80.38	3,079	(1,621)	52.65
Fully collateralised	10,625	(1,633)	15.37	11,792	(598)	5.07
Partially collateralised (C)	7,157	(3,613)	50.48	6,037	(2,755)	45.64
Total	20,646	(7,548)	36.56	20,908	(4,974)	23.79
– Collateral value on C	4,080			3,624		
	494,854	(8,363)	1.69	501,713	(5,982)	1.19

The collateral used in the assessment of the above primarily includes first legal charges over real estate and charges over cash in the commercial and industrial sector and charges over cash and marketable financial instruments in the financial sector.

It should be noted that the table above excludes other types of collateral which are commonly taken for corporate and commercial lending such as unsupported guarantees and floating charges over the assets of a customer's business. While such mitigants have value, often providing rights in insolvency, their assignable value is insufficiently certain. They are assigned no value for disclosure purposes.

(a) **Credit Risk** *(continued)*

Collateral and other credit enhancements (audited) (continued)

Other corporate and commercial and financial (non-bank) lending (audited) *(continued)*

As with commercial real estate the value of real estate collateral included in the table above is generally determined through a combination of professional and internal valuations and physical inspection. The frequency of revaluation is undertaken on a similar basis to commercial real estate loans and advances; however, for financing activities in corporate and commercial lending that are not predominantly commercial real estate-oriented, collateral value is not as strongly correlated to principal repayment performance. Collateral value will generally be refreshed when an obligor's general credit performance deteriorates and it is necessary to assess the likely performance of secondary sources of repayment should reliance upon them prove necessary. For the purposes of the table above, cash is valued at its nominal value and marketable securities at their fair value.

Placings with and advances to banks (audited)

Placings with and advances to banks are typically unsecured. At 31 December 2025, HK$85,356m (2024: HK$76,221m) of placings with and advances to banks rated CRR 1 to 5, including loan commitments, are uncollateralised.

Derivatives (unaudited)

The ISDA Master Agreement is our preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over-the-counter ('OTC') products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and the Group's preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of our CSAs are with financial institutional clients. Please refer to note 40 'Offsetting of financial assets and financial liabilities' for further details.

Other credit risk exposures (unaudited)

In addition to collateralised lending described above, other credit enhancements are employed and methods used to mitigate credit risk arising from financial assets. These are described in more detail below.

Government, bank and other financial institution-issued securities may benefit from additional credit enhancement, notably through government guarantees that reference these assets. Corporate-issued debt securities are primarily unsecured. Debt securities issued by banks and financial institutions include asset-backed securities ('ABS') and similar instruments, which are supported by underlying pools of financial assets. Credit risk associated with ABS is reduced through the purchase of credit default swap ('CDS') protection.

The Group's maximum exposure to credit risk includes financial guarantees and similar arrangements that it issues or enters into, and loan commitments to which it is irrevocably committed. Depending on the terms of the arrangement, the Group may have recourse to additional credit mitigation in the event that a guarantee is called upon or a loan commitment is drawn and subsequently defaults. The risks and exposures from these are captured and managed in accordance with the Group's overall credit risk management policies and procedures.

Collateral and other credit enhancements obtained (audited)

The Group obtained assets by taking possession of collateral held as security, or calling other credit enhancement. The nature of these assets held as at 31 December 2025 are residential properties with carrying amount of HK$165m (2024: HK$220m), commercial properties of HK$5m (2024: HK$5m) and nil from vehicles (2024: HK$4m).

(b) Treasury Risk

See page 26 for our definition of Treasury risk.

Approach and policy (unaudited)

Main objective in the management of treasury risk is to maintain appropriate levels of capital, liquidity, funding, foreign exchange and market risk to support business strategy, and meet regulatory and stress testing-related requirements.

The approach to treasury management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment. We aim to maintain a strong capital and liquidity base to support the risks inherent in our business and invest in accordance with our strategy, meeting both group and local regulatory requirements at all times.

Our policy is underpinned by our comprehensive risk management framework.

Treasury risk management

Key developments in 2025 (unaudited)

- Initiatives and readiness activities were undertaken to prepare for the implementation of the Basel III Reform package from 1 January 2025. Our Structural FX risk management strategy was revisited accordingly under the new regulatory regime.

- Continued to enhance our recovery and resolution capabilities, in line with our preferred resolution strategy and regulatory expectations.

- Continued to take initiatives to strengthen our regulatory reporting process through enhancing consistency and improving controls. This multifaceted programme includes data enhancement, transformation of the reporting systems and uplift to the control environment over the report production process.

- Continued to increase the stabilisation of our net interest income ('NII') in line with strategy.

Governance and structure (unaudited)

The Board approves the policy and risk appetite for capital risk, liquidity and funding risk, and Interest Rate Risk in the Banking Book ('IRRBB'). It is supported and advised by the RC.

The Asset, Liability and Capital Management ('ALCM') team actively manages capital, liquidity risk and funding risk and structural foreign exchange risk on an on-going basis and provides support to FMM, and is overseen by the Treasury Risk Management function and RMM. Markets Treasury has the responsibility for cash and liquidity management.

The ALCM team further manages interest rate risk in the banking book, maintaining the transfer pricing framework and informing the FMM the overall banking book interest rate exposure. Banking book interest rate positions may be transferred to be managed by Markets Treasury, within the market risk limits approved by the RMM.

Treasury Risk Management function carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and Markets Treasury.

Internal Audit provides independent assurance that risk is managed effectively.

(b) Treasury Risk *(continued)*

Capital Risk

Framework

Our capital management approach is underpinned by a Global Capital Risk Policy, guided by frameworks for recovery and resolution planning and stress testing. The policy sets out our approach to determining key capital risk appetites for Common Equity Tier 1 ('CET1'), Tier 1 ('T1'), Total capital, loss-absorbing capacity ('LAC') and leverage ratio. Regulatory capital and economic capital are the two primary measures used for the management and control of capital.

Capital measures:

– regulatory capital is the capital which we are required to hold in accordance with the rules established by regulators; and

– economic capital is the internally calculated capital requirement to support risks to which the Group is exposed to and forms a core part of the internal capital adequacy assessment process ('ICAAP').

Our ICAAP evaluates the Group's capital position, considering both regulatory and internal capital resources and requirements, as well as material risks faced by the Group. Climate risk is integrated into the ICAAP, and the Group continues to develop the approach for climate risk management. Banking subsidiary aligns its ICAAP with global guidance, while considering local regulatory regimes to establish its own risk appetites and ratios.

An annual Group capital plan is prepared and approved by the Board with the objectives of maintaining both an appropriate amount of capital and an optimal mix between different components of capital. Capital and risk-weighted asset ('RWA') are monitored and managed against the plan, with capital forecasts reported to relevant governance committees. Each subsidiary manages its own capital to support its planned business growth and meet its local regulatory requirements within the context of the approved annual Group capital plan. In accordance with the Group's capital management objectives, capital generated by subsidiaries in excess of planned requirements is returned to the Bank, normally by way of dividends.

The Bank provides equity capital to its subsidiaries. These investments are substantially funded by the Bank's own capital, issuance and profit retention. As part of its capital management process, the Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the Consolidated Balance Sheet: share capital, retained profits, other equity instruments and other reserves. Capital also includes impairment allowances and regulatory reserve for general banking risks as allowed under Banking (Capital) Rules.

Regulatory capital requirements (audited)

The HKMA supervises the Group on a consolidated and solo-consolidated basis and therefore receives information on the capital adequacy of, and sets capital requirements for, the Group as a whole and on a solo-consolidated basis. Individual banking subsidiaries and branches are directly regulated by their local banking supervisors, who set and monitor their capital adequacy requirements. Certain non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

(b) Treasury Risk *(continued)*

Capital Risk (continued)

Regulatory capital requirements (audited) *(continued)*

In accordance with the Banking (Capital) Rules under Basel III final reform package which took effect on 1 January 2025, the Group uses the advanced internal ratings-based ('IRB') approach and the foundation IRB approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme exposures, the Group uses the look-through approach to calculate the risk-weighted amount. For counterparty credit risk, the Group uses standardised (counterparty credit risk) approach to calculate its default risk exposures for derivatives and the comprehensive approach for securities financing transactions. For credit valuation adjustment ('CVA'), the Group uses the reduced basic CVA approach to calculate CVA risk capital charge. The Group uses the standardised (market risk) approach to calculate its market risk capital charge and the standardised operational risk approach to calculate its operational risk capital charge.

During the year, the Group complied with all the capital requirements of the HKMA on both consolidated and solo-consolidated bases.

Capital Rules (unaudited)

The Banking (Capital) Rules set out the minimum CET1 capital requirement of 4.5% and total capital requirement of 8%.

At 31 December 2025, the capital buffers applicable to the Group include the Capital Conservation Buffer ('CCB'), the Countercyclical Capital Buffer ('CCyB') and the Higher Loss Absorbency ('HLA') requirements for Domestic Systemically Important Banks ('D-SIB'). The CCB is 2.5% and is designed to ensure banks build up capital outside periods of stress. The CCyB is set on an individual country/territory basis and is built up during periods of excess credit growth to protect against future losses. The CCyB for Hong Kong and the list of D-SIB are regularly reviewed by the HKMA. The CCyB for Hong Kong is 0.5% and remains unchanged in 2025. The HKMA has also maintained the D-SIB designation and the HLA requirement at 1.0% for the Group based on the announcement on 31 December 2025.

Loss-absorbing capacity requirements (unaudited)

The HKMA classified the Bank as a material subsidiary of HSBC's Asian resolution group in 2019 and required the Bank to comply with internal loss-absorbing capacity requirements under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules.

Leverage ratio (unaudited)

Basel III introduces a simple non-risk-based leverage ratio as a complementary measure to the risk-based capital requirements. It aims to constrain the build-up of excess leverage in the banking sector, introducing additional safeguards against model risk and measurement errors. The ratio is a volume-based measure calculated as Tier 1 capital divided by total exposures (both on-balance sheet and off-balance sheet).

Capital adequacy at 31 December 2025 (unaudited)

The following tables show the capital base, RWAs and capital ratios as contained in the 'Capital Adequacy Ratio' return required to be submitted to the HKMA by the Bank on a consolidated basis under the requirements of section 3C(1) of the Banking (Capital) Rules. The basis is different from that for accounting purposes. Further information on the regulatory consolidation basis is set out in the Banking Disclosure Statement that will be available in the Regulatory Disclosures section of our website www.hangseng.com.

(b) Treasury Risk *(continued)*

Capital Risk (continued)

Capital adequacy at 31 December 2025 (unaudited) *(continued)*

The Bank and its subsidiaries may need to maintain a regulatory reserve to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes. At 31 December 2025, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$350m (31 December 2024: HK$734m).

The Basel III final reform package was implemented in Hong Kong on 1 January 2025, covering credit risk, operational risk, market risk, credit valuation adjustment and the output floor. The approaches outlined in the above Regulatory capital requirements have been revised to align with the new standards. The RWA output floor with a phase-in period of five years was introduced under the Basel III final reform package from initial implementation. Any impact from the output floor would be towards the end of the phase in period.

Capital Base (unaudited)

The following table sets out the composition of the Group's capital base under Basel III at 31 December 2025 and 31 December 2024. A more detailed breakdown of the capital position and a full reconciliation between the Group's accounting and regulatory balance sheets will be available in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

(b) Treasury Risk *(continued)*

Capital Risk (continued)

Capital Base (unaudited) *(continued)*

	2025	2024
Common Equity Tier 1 ('CET1') Capital		
Shareholders' equity	**155,637**	152,799
– Shareholders' equity per balance sheet	**172,654**	169,522
– Additional Tier 1 ('AT1') perpetual capital instruments	**(11,587)**	(11,587)
– Unconsolidated subsidiaries	**(5,430)**	(5,136)
Non-controlling interests	**–**	–
– Non-controlling interests per balance sheet	**38**	42
– Non-controlling interests in unconsolidated subsidiaries	**(38)**	(42)
Regulatory deductions to CET1 capital	**(31,893)**	(32,394)
– Cash flow hedge reserve	**(1,342)**	134
– Changes in own credit risk on fair valued liabilities	**8**	(1)
– Property revaluation reserves*	**(20,917)**	(22,736)
– Regulatory reserve	**(350)**	(734)
– Intangible assets	**(3,516)**	(3,498)
– Defined benefit pension fund assets	**(357)**	(269)
– Deferred tax assets net of deferred tax liabilities	**(500)**	(389)
– Valuation adjustments	**(93)**	(161)
– Excess of total expected loss amount over total eligible provisions under the IRB approach	**(4,826)**	(4,740)
Total CET1 Capital	**123,744**	120,405
AT1 Capital		
Total AT1 capital before and after regulatory deductions	**11,587**	11,587
– Perpetual capital instruments	**11,587**	11,587
Total AT1 Capital	**11,587**	11,587
Total Tier 1 ('T1') Capital	**135,331**	131,992
Tier 2 ('T2') Capital		
Total T2 capital before regulatory deductions	**9,607**	10,507
– Property revaluation reserves*	**9,413**	10,231
– Impairment allowances and regulatory reserve eligible for inclusion in T2 capital	**194**	276
Regulatory deductions to T2 capital	**(1,045)**	(1,045)
– Significant capital investments in unconsolidated financial sector entities	**(1,045)**	(1,045)
Total T2 Capital	**8,562**	9,462
Total Capital	**143,893**	141,454

* *Includes the revaluation surplus on investment properties which is reported as part of retained profits and related adjustments made in accordance with the Banking (Capital) Rules issued by the HKMA.*

(b) Treasury Risk *(continued)*

Capital Risk (continued)

Risk-weighted assets by risk type (unaudited)

	2025	2024
Credit risk	**468,693**	595,975
Market risk	**13,847**	14,749
Operational risk	**48,975**	69,358
Total	**531,515**	680,082

Capital ratios (as a percentage of risk-weighted assets) (unaudited)

The capital ratios on consolidated basis calculated in accordance with the Banking (Capital) Rules are as follows:

	2025	2024
CET1 capital ratio	**23.3%**	17.7%
T1 capital ratio	**25.5%**	19.4%
Total capital ratio	**27.1%**	20.8%

Leverage ratio (unaudited)

	2025	2024
Leverage ratio	**8.3%**	8.0%
T1 capital	**135,331**	131,992
Exposure measure	**1,639,012**	1,657,571

Detailed breakdown of the Group's leverage exposure measure and a summary comparison table reconciling the assets of the Group's accounting balance sheet with the leverage exposure measure using the standard templates as specified by the HKMA will be available in the Banking Disclosure Statement in the Regulatory Disclosures section of our website www.hangseng.com.

Other financial information

Other financial information required under the Banking (Disclosure) Rules and Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules can be viewed in the Banking Disclosure Statement that will be available in the Regulatory Disclosures section of our website www.hangseng.com.

(b) Treasury Risk *(continued)*

Capital Risk (continued)

Non-trading book foreign exchange exposures

Structural foreign exchange exposures (unaudited)

Structural foreign exchange exposures occur when capital is invested or net assets are held in a foreign operation, such as a subsidiary, branch operating in a different country or currency than the reporting entity. The functional currency of an entity typically aligns with the primary economic environment in which the entity operates.

Exchange differences on structural exposures are recognised in other comprehensive income ('OCI'). The Group presents our consolidated financial statements in Hong Kong Dollars. Consequently, our consolidated balance sheet is affected by exchange differences between Hong Kong dollar and all the non-Hong Kong dollar functional currencies of our foreign operations.

Our main goal in managing these exposures is to protect our consolidated capital ratios and the capital ratios of foreign operations subject to minimum regulatory capital requirements from exchange rates fluctuations.

The Group's foreign exchange exposures are prepared in accordance with the HKMA 'Return of Foreign Currency Position – (MA(BS)6)'.

For details of the Group's structural and non-structural foreign currency positions, please refer to the Banking Disclosure Statement that will be available in the 'Regulatory Disclosures' section of the Bank's website.

Transactional foreign exchange exposures (unaudited)

Transactional foreign exchange exposures arise from day-to-day transactions in the banking book generating profit and loss or fair value through other comprehensive income reserves in a currency different from the entity's reporting currency. Transactional foreign exchange exposure generated through profit and loss is periodically transferred to Markets and Securities Services and managed within limits. Transactional foreign exchange exposure generated through other comprehensive income reserves is managed within approved appetite.

Liquidity and funding risk

Management oversight of liquidity and funding risks is ensured through governance arrangements aligned with the risk management framework. Liquidity and funding risks are managed at the operating entity level making sure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group while adhering to globally consistent polices procedures and reporting standards.

The Group is required to consistently meet internal and applicable regulatory requirements related to liquidity and funding risk management at all times. Our Internal Liquidity Adequacy Assessment Process ('ILAAP'), ensures that we have robust strategies, processes and systems for the identification, measurement, management and monitoring of liquidity and funding risk across various time horizons, including intra-day. The ILAAP supports determination of liquidity and funding risk appetite and assesses the capability to manage liquidity and funding effectively. Liquidity and funding risk metrics are set and managed locally but are subject to global review and challenge to ensure consistency with the Group's policies and controls.

(b) Treasury Risk *(continued)*

Liquidity and funding risk (continued)

Framework (audited)

ALCM teams are responsible for the application of policies and controls at a local operating entity level. The elements of liquidity and funding risk management framework are underpinned by a robust governance framework.

The Group is required to prepare an ILAAP document at appropriate frequency. Compliance with liquidity and funding requirements is monitored and reported to FMM, RMM and Operating Committee on a regular basis. Liquidity and Funding Risk management processes include:

– maintaining compliance with relevant regulatory requirements of the reporting entity;

– projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;

– monitoring liquidity and funding ratios against internal and regulatory requirements;

– maintaining a diverse range of funding sources with adequate back-up facilities;

– managing the concentration and profile of term funding;

– managing contingent liquidity commitment exposures within pre-determined limits;

– maintaining debt financing plans;

– monitoring depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile; and

– maintaining liquidity and funding contingency plans.

Governance (unaudited)

ALCM teams apply the Group's policies and controls at both an individual entity and Group level, and are responsible for the implementation of Group-wide and local regulatory policy at a legal entity level. Markets Treasury has responsibility for cash and liquidity management.

Treasury Risk Management carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by ALCM and Markets Treasury. Their work includes setting control standards, advising on policy implementation, and reviewing and challenging of reporting.

Internal Audit provides independent assurance that risk is managed effectively.

(b) Treasury Risk *(continued)*

Liquidity and funding risk (continued)

Management of liquidity and funding risk (audited)

Funding and liquidity plans are part of the Board approved financial resource plan. The Board-level risk appetite measures are the LCR, ILM and NSFR. An appropriate funding and liquidity profile is managed through a wider set of measures:

- a minimum LCR requirement;
- a minimum NSFR requirement or other appropriate metric;
- an ILM requirement;
- a minimum liquidity requirement in material currencies;
- a depositor concentration limit;
- cumulative term funding maturity concentration limit;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

Liquidity coverage ratio (unaudited)

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar-day liquidity stress scenario.

At 31 December 2025, the LCR of all the Group's principal operating entities were well above regulatory minimums and above the internally expected levels established by the Board.

Net stable funding ratio (unaudited)

The Group 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 minimum amount of stable funding based on assumptions of asset liquidity.

At 31 December 2025, the NSFR of all the Group's principal operating entities were above the internally expected levels established by the Board.

Depositor concentration and term funding maturity concentration (unaudited)

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is challenged if the portfolio of depositors is not large enough to avoid depositor concentration. Operating entities are exposed to term refinancing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

At 31 December 2025, the depositor concentration and term funding maturity concentration of all the Group's principal operating entities were within the internally expected levels established by the Board.

(b) Treasury Risk *(continued)*

Liquidity and funding risk (continued)

Management of liquidity and funding risk (audited) *(continued)*

Sources of funding (unaudited)

Our primary sources of funding are customer deposits. We issue wholesale securities to supplement our customer deposits and change the currency mix or maturity profile of our liabilities.

Currency mismatch (unaudited)

Group policy requires all operating entities to manage currency mismatch risk for material currencies. Limits are set to ensure that outflows can be met, given assumptions on stressed capacity in the FX swap markets.

Additional collateral obligations (unaudited)

Under the terms of our current collateral obligations under derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant CSA contracts), the additional collateral required to post in the event of downgrade in credit ratings is nil.

Liquidity and funding risk in 2025 (unaudited)

The Group is required to calculate its LCR and NSFR on a consolidated basis in accordance with rule 11(1) of The Banking (Liquidity) Rules ('BLR') and to maintain both LCR and NSFR of not less than 100%.

The average LCRs for the reportable periods are as follows:

	Quarter ended	
	31 December 2025	*31 December 2024*
Average LCR	**306.2%**	335.2%

The liquidity position of the Group remained strong and above the statutory requirement of 100%. The average LCR decreased from 335.2% for the quarter ended 31 December 2024 to 306.2% for the quarter ended 31 December 2025, mainly as a result of the reduction in HQLA with an increase in reverse repo transactions.

The composition of the Group's HQLA as defined under Schedule 2 of the BLR is shown as below. The majority of the HQLA held by the Group are Level 1 assets which consist mainly of government debt securities.

	Weighted amount (average value) at quarter ended	
	31 December 2025	*31 December 2024*
Level 1 assets	**427,011**	484,743
Level 2A assets	**52,506**	11,355
Level 2B assets	**6,654**	3,486
Total	**486,171**	499,584

(b) **Treasury Risk** *(continued)*

Liquidity and funding risk (continued)

Management of liquidity and funding risk (audited) *(continued)*

Liquidity and funding risk in 2025 (unaudited) *(continued)*

The NSFR for the reportable periods are as follows:

	At quarter ended	
	31 December 2025	31 December 2024
NSFR	177.8%	181.0%

The funding position of the Group remained strong and stable in 2025. The NSFR was 177.8% at the quarter ended 31 December 2025 (181.0% as at 31 December 2024), highlighting a surplus of available stable funding relative to the required stable funding requirement.

To comply with the Banking (Disclosure) Rules, the details of liquidity information will be found in the Regulatory Disclosures section of our website www.hangseng.com.

Analysis of cash flows payable under financial liabilities by remaining contractual maturities (audited)

	Within 1 month	Over 1 month but within 3 months	Over 3 months but within 1 year	Over 1 year but within 5 years	Over 5 years	Total
At 31 December 2025						
Deposits from banks	8,002	21	–	–	–	8,023
Current, savings and other deposit accounts	906,409	266,860	90,387	605	–	1,264,261
Repurchase agreements – non-trading	14,131	6,389	1,336	–	–	21,856
Trading liabilities	13,014	–	–	–	–	13,014
Derivative financial instruments	9,591	224	481	720	20	11,036
Financial liabilities designated at fair value	16,214	9,669	3,738	7,382	218	37,221
Certificates of deposit in issue	–	2,226	1,225	–	–	3,451
Other financial liabilities	17,569	6,311	6,407	1,092	40	31,419
Subordinated liabilities	–	250	5,799	17,178	–	23,227
	984,930	291,950	109,373	26,977	278	1,413,508
Loan commitments	495,708	–	–	–	–	495,708
Contingent liabilities and financial guarantee contracts	21,461	–	–	–	–	21,461
	517,169	–	–	–	–	517,169

(b) Treasury Risk *(continued)*

Liquidity and funding risk (continued)

Analysis of cash flows payable under financial liabilities by remaining contractual maturities (audited) *(continued)*

	Within 1 month	*Over 1 month but within 3 months*	*Over 3 months but within 1 year*	*Over 1 year but within 5 years*	*Over 5 years*	*Total*
At 31 December 2024						
Deposits from banks	14,261	21	–	–	–	14,282
Current, savings and other deposit accounts	837,711	307,991	95,288	5,326	–	1,246,316
Repurchase agreements – non-trading	18,416	994	–	–	–	19,410
Trading liabilities	18,093	–	–	–	–	18,093
Derivative financial instruments	13,159	155	(51)	220	–	13,483
Financial liabilities designated at fair value	14,871	13,311	9,401	1,525	242	39,350
Certificates of deposit in issue	471	4,502	22	–	–	4,995
Other financial liabilities	39,371	5,760	4,048	661	24	49,864
Subordinated liabilities	–	402	7,346	23,572	–	31,320
	956,353	333,136	116,054	31,304	266	1,437,113
Loan commitments	495,092	–	–	–	–	495,092
Contingent liabilities and financial guarantee contracts	22,848	–	–	–	–	22,848
	517,940	–	–	–	–	517,940

The balances in the above tables incorporate all cash flows relating to principal and future coupon payments on an undiscounted basis. Trading liabilities and trading derivatives have been included in the 'Within one month' time bucket as they are typically held for short periods of time. The undiscounted cash flows payable under hedging derivative liabilities are classified according to their contractual maturity. Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Over 5 years' time bucket. The undiscounted cash flows potentially payable under loan commitments and financial guarantee contracts are classified on the basis of the earliest date they can be called. Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice.

(b) Treasury Risk *(continued)*

Interest Rate Risk in the Banking Book

Assessment and risk appetite (unaudited)

Interest rate risk in the banking book ('IRRBB') refers to 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.

To help manage this risk and provide more stable earnings, we use a structural hedge, which is a portfolio of fixed rate assets such as bonds, derivatives and customer loans. The size and duration of this hedge may be limited in certain currencies and locations, depending on available financial resource and market conditions. To reduce accounting mismatches, the hedges are mostly held at amortised cost, including relevant hedge-accounted derivatives. However, bonds measured at fair value through other comprehensive income are also used.

Our IRRBB risk management framework is designed to identify, measure, manage and monitor all material sources of IRRBB, with policies and frameworks established to ensure comprehensive oversight.

A number of key measures are used by ALCM and Markets Treasury functions to monitor and manage interest rate risk in the banking book, supporting the overall monitoring against risk appetite. They include:

– net interest income ('NII') sensitivity;

– economic value of equity ('EVE') sensitivity;

– hold-to-collect-and-sell stressed value at risk ('SVaR'); and

– hold-to-collect-and-sell present value of a basis point ('PV01').

Net interest income sensitivity (unaudited)

A principal part of our management of non-traded interest rate risk is to monitor the sensitivity of expected NII under varying interest rate scenarios over the next 12 months. All other economic variables are held constant, assuming a static balance sheet (specifically no assumed migration from current account to term deposits), and no management actions from ALCM and Markets Treasury functions. It also incorporates the effect of interest rate behaviouralisation and commercial margins.

Economic value of equity sensitivity (unaudited)

Economic value of equity ('EVE') sensitivity measures the impact to the present value of banking book assets and liabilities excluding equity, based on a run-off balance sheet, from a movement in interest rates, including the assumed term profile of non-maturing deposits having adjusted for stability and price sensitivity.

The Group's EVE sensitivity is prepared in accordance with the HKMA 'Return of Interest Rate Risk Exposure -(MA(BS)12A)'. For details of the Group's EVE sensitivity, please refer to the Banking Disclosure Statement that will be available in the 'Regulatory Disclosures' section of the Bank's website.

(c) Market Risk

See page 27 for our definition of Market risk.

Key developments in 2025 (unaudited)

There were no material changes to our policies and practices for the management of market risk in 2025.

Governance and structure (unaudited)

The following diagram summarises the main business areas where trading market risks reside and the market risk measures used to monitor and limit exposures.

Risk Type	**Trading Risk**
	– Foreign exchange & commodities – Interest rates – Credit spreads – Equities
Risk Measure	Value at risk/Sensitivity/Stress testing

The objective of the Group's risk management policies and measurement techniques is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with the established risk appetite.

Market risk is managed and controlled through limits approved by the Group Chief Risk and Compliance Officer. These limits are allocated across business lines and to the Group's legal entities. Each major operating entity has an independent market risk management and control sub-function, which is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. Each operating entity is required to assess the market risks arising in its business and to transfer them either to Markets and Securities Services or Markets Treasury unit for management, or to separate books managed under the supervision of the local FMM. The Traded Risk function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow completion of the new product approval process. Traded Risk also restricts trading in the more complex derivative products to only those offices with appropriate levels of product expertise and control systems.

Key risk management processes

Monitoring and limiting market risk exposures (unaudited)

The Group's objective is to manage and control market risk exposures while maintaining a market profile consistent with the Group's risk appetite.

The Group uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk ('VaR') and stress testing.

Sensitivity analysis (unaudited)

Sensitivity analysis measures the impact of movements in individual market factors on specific instruments or portfolios including interest rates, foreign exchange rates and equity prices. The Group uses sensitivity measures to monitor the market risk positions within each risk type. Granular sensitivity limits are set for trading desks with consideration of market liquidity, customer demand and capital constraints, among other factors.

(c) Market Risk *(continued)*

Key risk management processes (continued)

Value at risk ('VaR') (audited)

VaR is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all trading positions regardless of how the Group capitalises them. Where VaR is not calculated explicitly, the Group uses alternative tools as summarised in the 'Stress testing' section below.

The VaR models are predominantly based on historical simulation that incorporates the following features:

– historical market rates and prices, which are calculated with reference to foreign exchange rates, commodity prices, interest rates, equity prices and the associated volatilities;

– potential market movements that are calculated with reference to data from the past two years;

– Standard VaR is calculated to a 99% confidence level and using a one-day holding period; and

– Stressed VaR uses a 10-day holding period and a 99% confidence interval based on a continuous one-year historical significant stress period.

The models also incorporate the effect of the option features on the underlying exposures. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

VaR model limitations (audited)

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 market moves may not encompass all potential market events, particularly those that are extreme in nature. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to a change in the market regime;

– the use of a one-day holding period for risk management purposes of trading books 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; and

– VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not reflect intra-day exposures.

Stress testing (unaudited)

Stress testing is an important procedure that is integrated into the Group's market risk management framework to evaluate the potential impact on portfolio values of more extreme, although plausible, 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.

(c) Market Risk *(continued)*

Key risk management processes (continued)

Stress testing (unaudited) *(continued)*

Stress testing is implemented at legal entity and overall Group levels. A set of scenarios is used consistently across the Group. The market risk stress testing incorporates both historical and hypothetical events. Market risk reverse stress tests are designed to identify vulnerabilities in the 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.

The risk appetite around potential stress losses for the Group is set and monitored against limits.

Key developments in 2025 (unaudited)

There were no material changes to our policies and practices for the management of market risk in 2025.

We continued to manage market risk prudently during 2025. Sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers. Market risk was managed using a complementary set of risk measures and limits, including stress testing and scenario analysis.

VaR of the trading portfolios (unaudited)

Trading VaR predominantly resides within Markets and Securities Services and Markets Treasury business. Interest rate risks were the main drivers of trading VaR. The VaR for trading activity on 31 December 2025 was lower comparing to that on 31 December 2024, mainly driven by interest rate trading portfolio.

The table below shows the Group's trading VaR for the following periods.

Trading value at risk, 99% 1 day[1] (unaudited)

VaR	***At 31 December 2025***	***Maximum during the year***	***Average for the year***	*At 31 December 2024*	*Maximum during the year*	*Average for the year*
Total	**23**	**43**	**24**	26	55	40
Foreign exchange trading	**10**	**19**	**9**	14	35	18
Interest rate trading	**19**	**38**	**22**	32	74	51
Credit spread trading	**1**	**3**	**1**	1	3	1
Portfolio diversification[2]	**(7)**	**N/A**	**(8)**	(21)	N/A	(30)

1 *Portfolio diversification is the market risk dispersion effect of holding a portfolio containing different risk types. It represents the reduction in unsystematic market risk that occurs when combining a number of different risk types, for example, interest rate and foreign exchange, together in one portfolio. It is measured as the difference between the sum of the VaR by individual risk type and the combined total VaR. A negative number represents the benefit of portfolio diversification. As the maximum and minimum occur on different days for different risk types, it is not meaningful to calculate a portfolio diversification benefit for these measures.*

2 *The total VaR is non-additive across risk types due to diversification effects.*

Equities exposures (audited)

The Group's equities exposures in 2025 and 2024 are reported as 'Financial assets mandatorily measured at fair value through profit or loss', 'Financial investments' and 'Trading assets' in the consolidated financial statements. These are subject to trading limit and risk management control procedures and other market risk regime.

(d) Climate risk TCFD (unaudited)

We adopted HSBC Group's climate risk approach which two primary drivers of climate risk have been identified:

– physical risk, which arises from the increased frequency and severity of extreme weather events, such as typhoons and floods, or chronic shifts in weather patterns or sea level risk; and

– transition risk, which arises from the process of moving to a net zero economy, including changes in government policy and legislation, technology, market demand and reputational implications triggered by a change in stakeholder expectations, actions or inaction.

Climate risk continues to be identified as a thematic issue that could manifest as reputational, regulatory compliance and litigation risks: the risk of greenwashing. This risk arises from knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to the stakeholders. Net zero alignment risk had previously been identified as a thematic issue and is now replaced and managed under the HSBC Group's new risk type, Sustainability Execution Risk, to help identify and manage the risks associated with the delivery and execution of the HSBC Group's sustainability strategy.

See page 27 for our definition of Climate risk.

Approach

The tables below provide an overview of the risk drivers and thematic issue considered within the climate risk approach.

Climate Risk – Primary Risk

Risk Drivers		***Details***	***Potential Impacts***	***Time horizons***
Physical	Acute	Increased frequency and severity of weather events causing disruption to business operations	– Decreased real estate value or stranded assets – Decreased household income and wealth – Increased costs of legal and compliance – Increased public scrutiny – Decreased profitability – Lower asset performance	Short term Medium term Long term
	Chronic	Longer-term shifts in climate patterns (e.g. sustained higher temperatures, sea level rise, shifting monsoons or chronic heat waves)		
Transition	Policy and legal	Mandates for, and regulation of products and services and/or policy support for low carbon alternatives. Litigation from parties who have suffered loss and damage from climate impacts		
	Technology	Replacement of existing products with lower emission options		
	End-demand (market)	Changing consumer demand from individuals and corporates		
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction		

(d) Climate risk TCFD (unaudited) *(continued)*

Approach (continued)

Climate risk – thematic issue

Risk of greenwashing	Firm	Making inaccurate, unclear, misleading or unsubstantiated claims in relation to HSBC Group's sustainability ambitions, targets and commitments, as well as the reporting of its performance towards them.
	Product	Making inaccurate, unclear, misleading or unsubstantiated claims in relation to products or services offered to clients that have stated sustainability objectives, characteristics, impacts or features.
	Client	Making inaccurate, unclear, misleading or unsubstantiated claims as a consequence of our relationships with clients or transactions undertakes with them, where their sustainability commitments or related performance are misrepresented or are not aligned to HSBC Group's own commitments.

It has been acknowledged that the physical effects of climate change and the transition towards a net zero economy may pose substantial financial risks to companies, investors and the financial systems. The Group may encounter climate risks directly or indirectly through its customer relationships, potentially leading to both financial and non-financial consequences.

The climate risk approach aims to effectively manage the material climate risks that could impact the Group's operations, financial performance and stability, and reputation. The approach is informed by the evolving expectations of the regulators and is aligned to the HSBC Group-wide risk management framework, which sets out how the Group identifies, assesses and manages its risks across its three lines of defence. For further details of the three lines of defence framework, see page 22.

Continuous development on our climate risk capabilities across our businesses, by prioritising sectors, portfolios and counterparties with the highest impacts. Recognising this as a long-term, iterative process, the Group aims to expand its coverage and integrate more advanced data, climate analytics, frameworks and tools, while adapting to emerging industry best practices and climate-related regulations.

This involves continuously reflecting on the evolving nature of climate risk in the real world and improving the integration of climate risk factors into strategic planning, transactions, and decision-making across its operations.

The Group's annual climate risk materiality assessment helps it to understand how climate risk may impact across HSBC's Group risk taxonomy. It assesses the type of impact, likelihood and severity over a 12-month period, and also considers forward looking risk impacts. It is used to support policy, control enhancements, and scenario analysis. For further details of scenario analysis, see pages 16 to 17.

(d) Climate risk TCFD (unaudited) *(continued)*

Approach (continued)

The table below provides a summary of how climate risk may impact a subset of the Group's principal risks.

Climate risk drivers	*Credit risk*	*Traded risk*	*Reputational risk*	*Regulatory compliance risk*	*Resilience risk*	*Other financial and non-financial risk types*
Physical risk	◆	◆			◆	◆
Transition risk	◆	◆	◆	◆	◆	◆

Climate risk management

Key developments in 2025

The following outlines our key developments in 2025:

– Enhanced approach in assessing the impact of climate change on capital, focusing on credit, traded and operational risk.

– Further embedded climate risk considerations into credit risk assessments by leveraging the revised climate risk guidelines for relationship managers.

While we have made progress in enhancing our climate risk management capabilities, further work remains. This includes the need to develop additional metrics and tools to measure the Group's exposures to climate-related risks.

Governance and structure

The Board takes overall supervisory responsibility for the Group's climate strategy, overseeing executive management in developing the approach, execution and associated reporting.

The Chief Risk and Compliance Officer is responsible for the management of climate-related risks.

The Risk Management Meeting and Risk Committee receive regular updates on the climate risk profile and progress of the climate risk management.

Risk appetite

The Group's climate risk appetite statement forms part of the Group's risk appetite statement ('RAS') and is approved and overseen by the Board. This supports the business in delivering the Group's climate strategy effectively and sustainably.

Climate risk appetite and associated metrics are reported for oversight by the Risk Management Meeting and the Risk Committee.

Policies, processes and controls

Climate risk has been integrated into policies, processes and controls across many areas of the organisation, and they will continue to be updated.

(d) Climate risk TCFD (unaudited) *(continued)*

Embedding the climate risk approach

The below details how the management of climate risk has been embedded across key risk types.

Wholesale Credit Risk

The Group has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors which are: automotive; chemicals; construction, contracting and building materials; metals and mining; oil and gas; and power and utilities.

The relationship managers engage with their key wholesale customers, including those in higher transition risk sectors, through a transition engagement questionnaire ('TEQ'). The TEQ helps to gather information and assess our wholesale customers' business models alignment to a net zero transition and their exposure to physical and transition risks. The Group uses the responses to the questionnaire to risk-assess its key wholesale customers.

The Group's credit policies require relationship managers to comment on climate risk factors in credit applications for new money requests and annual credit reviews. The credit policies also require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating.

In 2025, the Group continued to develop its approach towards credit risk management, and refine climate risk guidelines for relationship managers to further embed climate risk considerations into credit risk assessments.

Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate physical risk data to assess impacts to the wholesale customers.

Retail Credit Risk

Climate risk may impact retail credit risk through an increase in credit losses on our retail mortgage portfolio, primarily due to the impact of physical risk. The HSBC Group's climate scenario analysis conducted over last 2 years shows that climate-related risk is not expected to become significant for credit default in the medium term to 2030 due to relatively low loan-to-value ('LTV') profile of properties, their locations and availability of property insurance for our customers. While property insurance continues to serve as a risk mitigant, increasing climate risks and uncertainties regarding the future of the insurance market suggest that impacts are likely to intensify beyond 2030. Results are considered directional and will evolve over time as our approach continues to mature. Within the mortgage portfolios, properties or areas with potential heightened physical risk are identified and assessed locally with exposure monitored. A reduction in property value, higher insurance costs and insurance availability are potential future negative financial impacts for higher risk properties. Additionally, retail credit risk has followed the HSBC Group's guidance to implement physical risk assessment at mortgage origination for retail customer in 2025.

Treasury Risk

Climate risk may impact Treasury Risk through increased regulatory requirements and from changes to customer behaviours, which may result in increased deposit outflows.

From a capital risk perspective, the impact of climate change on capital has been considered as part of the internal capital adequacy assessment ('ICAAP'), focusing on credit risk, traded risk and operational risk.

Internal Liquidity Adequacy Assessment Process ('ILAAP') included assessment of how climate risk may impact the key liquidity risk drivers and liquidity position.

(d) Climate risk TCFD (unaudited) *(continued)*

Embedding the climate risk approach (continued)

Traded Risk

Climate risk may result in trading losses due to increases in market volatility and widening spreads from the macro and microeconomic impacts of transition and physical risk. We monitor climate sensitive exposures against limits in our entity mandates, including for vulnerable countries and high-transition risk sectors.

Climate scenarios are included in the HSBC Group stress testing scenario library and run every month to identify the vulnerabilities of the trading book in a climate-stressed context. The scenarios are updated annually in light of the most recent developments in terms of policy and climate events, with exposures and stress testing results reported to senior management.

Reputational Risk

Reputational impact of climate risk is managed through the Group's broader reputational risk framework, which plays a role in managing the risk of greenwashing, and is supported by the Group's sustainability risk policies and metrics.

Sustainability execution risk

Sustainability Execution Risk ('SER') has been formally defined as a new risk type to help identify and manage the risks around the delivery and execution of HSBC Group's sustainability strategy. SER has been embedded in HSBC Group's risk taxonomy to help enable effective end-to-end risk management of HSBC Group's sustainability ambitions, targets and commitments through risk stewardship to support monitoring and assessing controls and emerging risks.

Regulatory compliance risk

Regulatory Compliance oversees and supports the business in the management of climate-related risks that could cause breaches of the regulatory duties to customers and inappropriate market conduct. The Group's policies include sustainability considerations, particularly in relation to new and ongoing product management, sales outcomes, conflict of interest and product marketing. The Group and the Bank continue to enhance the associated control framework, processes and customer outcomes.

Resilience Risk

Climate risk may influence resilience risks through impacts on the Group's buildings or through physical and/or transition disruption to third party supplier relationships.

The Group reviews how physical climate risk scenarios may affect properties by contributing to and using the results of the Group-wide Internal Climate Scenario Analysis exercise. This process helps the Group identify potential regional challenges and supports decision-making and planning.

Model Risk

Model risk in a climate-related context refers to the uncertainties and complexities inherent in the modelling of the financial impact translation of climate-related changes and scenarios.

Climate risk models are used for climate scenario analysis and risk management among other use cases. Key challenges, shared across the industry, include the quality and consistency of data, and assumptions required to mitigate these inherent model limitations.

Model risk policy and procedures continue to evolve in line with regulation, setting out the minimum control requirements for identifying, measuring and managing model risk for climate-related models.

(d) **Climate risk** TCFD (unaudited) *(continued)*

Embedding the climate risk approach (continued)

Challenges

Key challenges include:

- the diverse range of internal and external data sources and data structures needed for climate-related reporting, which introduces data accuracy and reliability risks;
- industry-wide data gaps on customer emissions and transition plan and methodology gaps, which limit the Group's ability to assess transition risks accurately; and
- data limitations on customer assets and supply chains, and methodology gaps, which hinder the Group's ability to assess physical risks accurately.

(e) **Resilience risk** (unaudited)

See page 28 for our definition of Resilience risk.

Resilience risk management

Key developments in 2025

During the year, we conducted several initiatives to keep pace with geopolitical, regulatory and technology changes and strengthened the management of resilience risk:

- We continued to recognise that our customers are impacted by service disruptions, responded to these urgently and aimed to recover with minimum delay and minimal customer impact. Following any operational disruption, we conduct post-incident reviews to identify lessons learnt and strengthen our operations.
- Where we identified that enhancements are required to the Group's operational resilience capabilities, these are fed into the Group's business and investment planning, helping to ensure we continue to meet the expectations of our customers and our regulators.
- We continued to monitor markets affected by geopolitical events, for any potential impact they may have on our colleagues and operations, enhancing response playbooks to reflect the local positions as they evolved.
- We provided analysis and easy-to-access risk and control information and metrics to enable management to focus on non-financial risks in their decision-making and appetite setting.
- We prioritse our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

Governance and structure

The Enterprise Risk Management target operating model provides a consistent view across resilience risks, strengthening our risk management oversight.

We view resilience risk across seven sub-risk types related to: technology and cyber security risk; third party risk; transaction and payment processing risk; business interruption and incident risk; data risk; facilities availability, safety and security risk; and operational and resilience regulatory reporting risk.

Risk appetite and key escalations for resilience risk are reported to the Risk Management Meeting, chaired by the Chief Risk and Compliance Officer, with an escalation path to the Risk Committee.

(e) Resilience risk (unaudited) *(continued)*

Resilience risk management (continued)

Operational Resilience

We operate processes to support our operational resilience according to our risk management framework. Operational resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from internal or external disruption, and provide critical operations and Important Business Services ('IBS') to customers and clients, while minimising impact on the wider financial system when disruption occurs. This is achieved via day-to-day oversight and ongoing assurance. We have invested to improve the response and recovery strategies for our critical operations, and IBS to meet the regulatory and customer expectations.

Business operations continuity

We continue to monitor potential disruption events, such as geopolitical volatility, adverse weather conditions and cyber attacks, and remain ready to take measures to ensure business continuity in affected markets should the situations require. There have been no related significant disruptions to our services, although businesses and functions in our markets continually review their continuity plans and response plans to minimise any potential impacts should disruption occur.

(f) Regulatory compliance risk (unaudited)

See page 28 for our definition of Regulatory compliance risk.

Regulatory compliance risk management

Key developments in 2025

Work is undertaken to enhance our processes, framework, and governance capabilities to improve the controls and oversight of regulatory compliance risks. Regulatory horizon scanning and mapping capabilities continue to evolve with a focus on enhanced connectivity to Risk management systems to support better traceability of regulatory obligations. Work is underway to transition from event driven technology to incorporate Cloud and analytics capability to enhance our oversight abilities in areas such as surveillance.

Governance and structure

The Head of Regulatory Compliance continues to report to the Chief Risk and Compliance Officer. Regulatory Compliance and Financial Crime teams work together and with relevant stakeholders to achieve good conduct outcomes, and provide enterprise-wide support on the compliance risk agenda in close collaboration with colleagues from the Risk and Compliance function.

Key risk management processes

The HSBC Group's Regulatory Compliance capability is responsible for establishing global policies, standards, risk appetite, frameworks and tools to guide the Group's management of regulatory compliance risk. It also devises the required frameworks, support processes and tooling to protect against regulatory compliance risks. HASE Regulatory Compliance provides oversight, review and challenge to the business, aiding them in identifying, assessing and mitigating regulatory compliance risks.

Relevant events and issues are escalated in line with the HSBC Group's Risk Management Framework including reporting to the Risk Management Meeting, the Risk Committee, executive and non-executive risk governance committees for transparency, accountability and informed decision making.

(g) **Financial crime risk** (unaudited)

See page 29 for our definition of Financial crime risk.

Financial crime risk management

Key developments in 2025

We regularly review the effectiveness of our financial crime risk management framework, which includes continued consideration of the complex and dynamic nature of sanctions compliance and export control risk. We continued to respond to the various financial sanctions and trade restrictions, including methods used to limit sanctions evasion.

We continued to make progress with several key financial crime risk management initiatives, including:

- Utilization of our intelligence-led, dynamic risk assessment capability for customer account monitoring in Retail Banking & Wealth ('RBW') and Commercial Banking ('CMB').
- Enhancing our fraud controls and continue to invest in, and monitor, technological developments.
- Introduced the required changes to our transaction screening capability to accommodate the global change to payment systems formatting under ISO 20022 requirements.

Governance and structure

The structure of the Financial Crime function remained substantively unchanged in 2025, although we continued to review the effectiveness of our governance framework to manage financial crime risk. The Head of Financial Crime and Money Laundering Reporting Officer continues to report to the Chief Risk and Compliance Officer, while the Risk Management Meeting retains oversight of matters relating to fraud, bribery and corruption, tax evasion, sanctions and export control breaches, money laundering, terrorist financing and proliferation financing.

Key risk management processes

We will not tolerate knowingly conducting business with individuals or entities believed to be engaged in criminal activity. We require everybody in the Bank to play their role in maintaining effective systems and controls to prevent and detect financial crime. Where we believe we have identified suspected criminal activity or vulnerabilities in our control framework, we will take appropriate mitigating action.

We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We operate in a highly regulated industry in which these same policy goals are codified in law and regulation.

We are committed to complying with the laws and regulations of all the markets in which we operate and applying a consistently high financial crime standard globally.

We continue to assess the effectiveness of our end-to-end financial crime risk management framework and invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. We have simplified our framework and consolidated previously separate, financial crime policies into a single global financial crime policy to drive consistency and provide a more holistic assessment of financial crime risk. We further strengthened our financial crime risk taxonomy and control libraries and our monitoring capabilities through technology deployments. We developed more targeted metrics, and continued to seek to enhance our governance and reporting.

We are committed to working in partnership with the wider industry and the public sector in managing financial crime risk and we participate in numerous public-private partnerships and information-sharing initiatives. In 2025, our focus remained on measures to improve the overall effectiveness of the financial crime framework.

(h) Model risk (unaudited)

See page 30 for our definition of Model risk.

Model risk remains a key area of focus, with local regulatory exams taking place and uplifted requirements from the UK's Prudential Regulation Authority ('PRA') supervisory statement 1/23 (SS1/23) being implemented.

We continue to prioritise the redevelopment of internal rating-based ('IRB') models as part of the IRB repair and Basel 3.1 programmes. We have a key focus on enhancing the quality of data used as model inputs and ensuring that models adhere to both the letter and spirit of the regulation. We are a year into a major project to (re)develop Wholesale IRB models which are expected to be submitted for regulatory approval over the next two years.

Focus remains on Artificial Intelligence ('AI') and Machine Learning models given that the rapid pace of technological advances, including the development of generative AI, is driving significant changes in modelling techniques, and regulators are beginning to publish regulations and guidance.

Key developments in 2025

In 2025, we continue to invest in the redevelopment of IRB models used in wholesale businesses to enhance modelling capability and help ensure to meet regulatory expectations for the adoption of Basel 3.1 requirements.

Initiatives during the year included:

- Further enhancing Model Risk Management Framework to meet the enriched regulatory requirements, with a programme of work in progress to implement these changes across model landscape.

- Identifying the tools that meet the definition of Deterministic Quantitative Methods ('DQMs'), which are complex and material calculators which present similar risks as models. A programme for uplifting the controls for these DQMs has commenced.

- Working closely with Businesses to help develop IRB/International Financial Reporting Standard ('IFRS') 9/ stress testing models to meet risk management, pricing, capital management, and credit risk measurement needs.

- Models using AI or generative AI techniques are reviewed by the relevant risk teams and monitored by the businesses to help ensure that identified risks have adequate oversight and review. A global framework has been adopted to manage the range of risks that are generated by these advanced techniques and to recognise the multidisciplinary nature of these risks.

Governance

Model oversight forums provide oversight of models used in the Group and focus on local delivery and requirements, which oversee model risk management activities based on associated types of models.

Key risk management processes

A variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards are used for a range of business applications. These include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting.

Model risk management policies and procedures are regularly reviewed, and required the first line of defence to demonstrate comprehensive and effective controls based on a library of model risk controls.

We report on model risk to senior management on a regular basis through the use of the risk map, risk appetite and regular key updates.

(h) Model risk (unaudited) *(continued)*

Key risk management processes (continued)

The effectiveness of these processes, including model oversight structure, are regularly reviewed to ensure clear authority, coverage and escalations. This contributes to fostering appropriate understanding and ownership of model risk within the businesses and infrastructure teams.

(i) Insurance manufacturing operation risk

Overview (unaudited)

The majority of the risk in the insurance business derives from manufacturing activities and can be categorised as insurance underwriting risk and financial risk. Insurance underwriting risk is the risk that, over time, the cost of insurance policies written, including claims and benefits, may exceed the total amount of premiums and investment income received. Financial risk includes the risk of not being able to match liabilities arising under insurance contracts with appropriate investments and that the expected sharing of financial performance with policyholders under certain contracts is not possible, exposure of which arises from market risk, credit risk and liquidity risk.

Group's insurance business (unaudited)

We sell insurance products through a range of channels including our branches, direct channels and third-party distributors. The majority of sales are through an integrated bancassurance model that provides insurance products principally for customers with whom we have a banking relationship, although the proportion of sales through other sources such as independent brokers and digital platforms is increasing.

For the insurance products we manufacture, the majority of sales are savings and protection contracts.

We choose to manufacture these insurance products through a Group's subsidiary based on an assessment of operational scale and risk appetite. Manufacturing insurance allows us to retain the risks and rewards associated with writing insurance contracts by keeping part of the underwriting profit and investment income within the Group.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a handful of leading external insurance companies in order to provide insurance products to our customers through our banking network and direct channels. These arrangements are generally structured with our exclusive strategic partners and earn the Group a combination of commissions, fees and a share of profits. We distribute insurance products in Hong Kong, mainland China and Macau.

Insurance products are sold predominantly by WPB through our branches and direct channels.

Governance (unaudited)

Risks are managed to a defined risk appetite, which is aligned to the Group's risk appetite and risk management framework (including the three lines of defence model). The Insurance Risk Management Meeting oversees the control framework and is accountable to the Group's Risk Management Meeting on risk matters relating to insurance business.

The monitoring of the risks within the insurance operations is carried out by the Insurance Risk teams. Specific risk functions, including wholesale credit & market risk, operational risk, information security risk and compliance, support Insurance Risk teams in their respective areas of expertise.

In addition, our insurance manufacturing subsidiary performs annually an Own Risk and Solvency Assessment ('ORSA') to assess its risk profile, the adequacy of risk management and also its current, and likely future, solvency and liquidity positions according to local regulation.

(i) **Insurance manufacturing operation risk** *(continued)*

Measurement (audited)

The following table shows the composition of assets and liabilities by type of contract:

Balance sheet of insurance manufacturing subsidiary by type of contract[5] (audited)

	Life direct participating contracts[1]	Life other contracts[2]	Other contracts[3]	Shareholders' assets and liabilities	Total
At 31 December 2025					
Financial assets:					
– financial assets mandatorily measured at fair value through profit or loss	189,947	8,856	55	1,452	200,310
– derivative	80	4	–	–	84
– financial investments	–	–	156	6,756	6,912
– other financial assets[4]	12,228	570	30	1,299	14,127
Total financial assets	202,255	9,430	241	9,507	221,433
Insurance contract assets	–	9	–	–	9
Reinsurance contract assets	–	13,419	–	–	13,419
Other assets and investment properties	5,673	278	2	5,333	11,286
Total assets	207,928	23,136	243	14,840	246,147
Liabilities under investment contracts designated at fair value	–	–	220	–	220
Insurance contract liabilities	217,981	10,163	–	–	228,144
Reinsurance contract liabilities	–	1,100	–	–	1,100
Deferred tax	–	–	–	11	11
Derivative financial instruments	204	10	–	–	214
Other liabilities	1,969	94	1	2,895	4,959
Total liabilities	220,154	11,367	221	2,906	234,648
Total equity	–	–	–	11,499	11,499
Total liabilities and equity	220,154	11,367	221	14,405	246,147

(i) Insurance manufacturing operation risk *(continued)*

Measurement (audited) (continued)

Balance sheet of insurance manufacturing subsidiary by type of contract[5] (audited) *(continued)*

	Life direct participating contracts[1]	*Life other contracts*[2]	*Other contracts*[3]	*Shareholders' assets and liabilities*	*Total*
At 31 December 2024					
Financial assets:					
– financial assets mandatorily measured at fair value through profit or loss	155,400	8,680	43	100	164,223
– derivative	152	8	–	1	161
– financial investments	–	–	186	8,698	8,884
– other financial assets[4]	9,576	535	40	1,071	11,222
Total financial assets	165,128	9,223	269	9,870	184,490
Insurance contract assets	–	3	–	–	3
Reinsurance contract assets	–	12,867	–	–	12,867
Other assets and investment properties	5,843	318	3	3,966	10,130
Total assets	170,971	22,411	272	13,836	207,490
Liabilities under investment contracts designated at fair value	–	–	245	–	245
Insurance contract liabilities	178,475	9,970	–	–	188,445
Reinsurance contract liabilities	–	1,002	–	–	1,002
Deferred tax	–	–	–	10	10
Derivative financial instruments	151	9	–	–	160
Other liabilities	3,382	187	1	2,914	6,484
Total liabilities	182,008	11,168	246	2,924	196,346
Total equity	–	–	–	11,144	11,144
Total liabilities and equity	182,008	11,168	246	14,068	207,490

1 *Life direct participating contracts are measured under the variable fee approach measurement model.*

2 *Life other contracts are measured under the general measurement model. Life other contracts mainly include protection type contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life direct participating contracts.*

3 *Other contracts includes investment contracts for which the Group does not bear significant insurance risk.*

4 *Comprise mainly loans and advances to banks, cash and inter-company balances with other non-insurance legal entities.*

5 *Balance sheet of insurance manufacturing operations is shown before elimination of inter-company transactions with the Bank's non-insurance operations.*

(i) Insurance manufacturing operation risk *(continued)*

Stress and Scenario Testing (unaudited)

Stress testing forms a key part of the risk management framework for our insurance business. The Group's insurance manufacturing subsidiary participates in regulatory stress tests, as well as internally developed stress and scenario tests. The results of these stress tests and the adequacy of management action plans to mitigate these risks are considered in our insurance manufacturing subsidiary's regulatory ORSA as required under Hong Kong Risk-Based Capital ('HKRBC') Regime.

Key Risk Types

The key risks for the insurance operations are market risks (in particular interest rate and equity), and credit risks, followed by insurance underwriting risk and operational risks.

Market risk (insurance) (audited)

Market risk is the risk of changes in market factors affecting the Group's manufacturing subsidiary's capital or profit. Market factors include interest rates, equity and growth assets, spread risk and foreign exchange rates.

Exposure of our insurance business varies depending on the type of contract issued. Most significant life insurance products of our insurance business are contracts with discretionary participating features ('DPF') issued in Hong Kong. These products typically include some form of capital guarantee or guaranteed return, on the sums invested by the policyholders, to which bonuses are added if allowed by the overall performance of the funds. For contracts without DPF, some form of guarantee may still exist but the Hang Seng Insurance Company Limited's ability to share risks with policyholders will be reduced. These funds are primarily invested in fixed income assets with a proportion allocated to other asset classes, to provide customers with the potential for enhanced returns. Contracts with DPF are further classified into Life direct participating contracts and Life other contracts under HKFRS 17.

DPF products expose our insurance business to the risk of variation in asset returns, which will impact our participation in the investment performance. In addition, in some scenarios the asset returns can become insufficient to cover the policyholders' financial guarantees, in which case the shortfall has to be met by the Group's insurance manufacturing subsidiary.

For unit-linked contracts, market risk is substantially borne by the policyholders, but some market risk exposure typically remains as fees earned are related to the market value of the linked assets.

Our insurance manufacturing subsidiary has market risk mandates which specify the investment instruments in which it is permitted to invest and the maximum quantum of market risk which they may retain. It manages market risk by using, among others, some or all of the techniques listed below, depending on the nature of the contracts written:

- for products with DPF, adjusting bonus rates to manage the liabilities to policyholders and the effect is that a significant portion of the market risk is borne by the policyholders;
- asset and liability matching where asset portfolios are structured to support projected liability cash flows;
- using derivatives and other financial instruments to protect against adverse market movements; and
- designing new products to mitigate market risk, such as changing the investment return sharing portion between policyholders and the shareholder.

(i) Insurance manufacturing operation risk *(continued)*

Key Risk Types (continued)

Market risk (insurance) (audited) *(continued)*

Sensitivity of the Group's insurance manufacturing subsidiary to market risk factors

	2025			2024		
	Effect on CSM	Effect on profit after tax	Effect on total equity	Effect on CSM	Effect on profit after tax	Effect on total equity
+100 basis point parallel shift in yield curves[1]	323	215	215	136	39	39
–100 basis point parallel shift in yield curves[1]	(1,125)	(259)	(259)	(637)	(74)	(74)
+100 basis point shift in credit spreads[1]	(1,257)	(198)	(198)	(1,153)	(236)	(236)
–100 basis point shift in credit spreads[1]	1,141	283	283	1,187	316	316
10% increase in growth assets[2]	706	97	97	713	94	94
10% decrease in growth assets[2]	(779)	(103)	(103)	(785)	(101)	(101)
10% appreciation in US dollar exchange rate against local functional currency[3]	131	34	34	33	(1)	(1)
10% depreciation in US dollar exchange rate against local functional currency[3]	(131)	(34)	(34)	(33)	1	1

1 *For the sensitivity to parallel shift in yield curves and shift in credit spreads, an absolute +/- 100 basis points of the discount rate is used.*

2 *For the sensitivity to growth assets, a relative +/- 10% (i.e. multiply the assumption by 110% or 90%) is used.*

3 *For the sensitivity to USD exchange rate, the extent of change is limited by the impact of the HKD to USD peg.*

Growth assets primarily comprise equities securities, collective investment schemes, derivatives (other than exchange rate contracts) and investment properties. Variability in growth asset fair value constitutes a market risk to the Group's insurance manufacturing subsidiary.

The method used for deriving sensitivity information and significant market risk factors remain consistent between 2024 and 2025.

Due in part to the nature of the guarantees, and the reinsurance and hedging strategies which may be in place, the relationship between the CSM, profit and total equity is not linear. The sensitivities are before management actions, which may mitigate the effect of changes in the market environment.

Credit risk (insurance) (audited)

Credit risk is the risk of financial loss if a customer or counterparty fails to meet their obligation under a contract. It arises in two main areas for our insurance manufacturing subsidiary:

- risk associated with credit spread volatility and default by debt security counterparties after investing premiums to generate a return for policyholders and shareholders; and
- risk of default by reinsurance counterparties and non-reimbursement for claims made after ceding insurance risk.

(i) Insurance manufacturing operation risk *(continued)*

Key Risk Types (continued)

Credit risk (insurance) (audited) *(continued)*

The amounts outstanding at the balance sheet date in respect of these items are mainly reflected as 'Financial investments' and 'Reinsurance contract assets' in the table of 'Balance sheet of insurance manufacturing subsidiary by type of contract' under 'Insurance manufacturing operation risk' section.

Our insurance manufacturing subsidiary has credit risk mandates and limits within which they are permitted to operate, which consider the credit risk exposure quality and performance of its investment portfolios. Assessment of the creditworthiness of issuers and counterparties is based primarily upon internationally recognised credit ratings and other publicly available information. Stress testing is performed on the investment credit exposures using credit spread sensitivities and default probabilities.

Our insurance manufacturing subsidiary uses tools to manage and monitor credit risk. These include a credit report which contains a watch-list of investments with current credit concerns to identify investments which may be at risk of future impairment or where high concentrations to counterparties are present in the investment portfolio. Sensitivities to credit spread risk are assessed and monitored regularly.

Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholders; therefore exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholders' funds.

The credit quality of the reinsurance contract assets is assessed as 'strong' (as defined on 'Credit quality classification' under 'Credit risk' section), with Nil exposure being past due or impaired (2024: Nil). The credit quality of financial assets is included under the Credit Risk section. The risk associated with credit spread volatility is to a large extent migrated by holding debt securities to maturity, and sharing a degree of credit spread experience with policyholders.

Liquidity risk (insurance) (audited)

Liquidity risk is the risk that the Group's insurance manufacturing subsidiary, though solvent, either does not have sufficient financial resources available to meet its obligations when they fall due, or can secure them only at excessive cost. Liquidity risk may be able to be shared with policyholders for products with DPF.

Liquidity risk is managed by cashflow matching and maintaining sufficient cash resources; investing in high-credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate and establishing committed contingency borrowing facilities and conducting stress testing to understand the impact on liquidity in the event of a mass lapse.

Our insurance manufacturing subsidiary completes quarterly liquidity risk reports and an annual review of the liquidity risks to which it is exposed.

(i) Insurance manufacturing operation risk *(continued)*

Key Risk Types (continued)

Credit risk (insurance) (audited) *(continued)*

The amounts of insurance contract liabilities that are payable on demand are set out by the product grouping below:

Amounts Payable on Demand (audited)

	2025		*2024*	
	Amounts payable on demand	***Carrying amount for these contracts***	*Amounts payable on demand*	*Carrying amount for these contracts*
Life direct participating contracts	**199,443**	**218,233**	168,930	178,518
Life other contracts	**7,850**	**10,159**	7,887	9,963
At 31 December	**207,293**	**228,392**	176,817	188,481

Insurance underwriting risk (audited)

Insurance underwriting risk is the risk of loss through adverse experience, in either timing or amount, of insurance underwriting parameters (non-economic assumptions). These parameters include mortality, morbidity, longevity, lapses and expense rates. The principal risk our insurance manufacturing subsidiary faces is that, over time, the cost of the contract, including claims and benefits may exceed the total amount of premiums and investment income received.

The Group's insurance manufacturing subsidiary primarily uses the following framework and processes to manage and mitigate insurance underwriting risk:

- a formal approval process for launching new products or making changes to products;
- a product pricing and profitability framework, which requires initial and ongoing assessment of the adequacy of premiums charged on new insurance contracts to meet the risks associated with them;
- a framework for customer underwriting;
- reinsurance which cedes risks to third-party to keep risks within risk appetite, reduce volatility and improve capital efficiency; and
- oversight of the methodology and assumptions that underpin HKFRS 17 reporting by our insurance manufacturing subsidiary's Actuarial Review Committee.

The following table shows the sensitivity of the CSM, profit and total equity to reasonably possible changes in non-economic assumptions for our insurance manufacturing subsidiary. These sensitivities are prepared in accordance with HKFRS 17.

(i) **Insurance manufacturing operation risk** *(continued)*

Key Risk Types (continued)

Sensitivity of the Group's insurance manufacturing subsidiary to insurance underwriting risk factors (audited)

	Effect on CSM (net)[1]	Effect on profit after tax (net)[1]	Effect on total equity (net)[1]
At 31 December 2025			
5% increase in mortality and/or morbidity rates	**(75)**	**(8)**	**(8)**
5% decrease in mortality and/or morbidity rates	**69**	**8**	**8**
10% increase in lapse rates	**(304)**	**26**	**26**
10% decrease in lapse rates	**265**	**(24)**	**(24)**
10% increase in expense rates	**(13)**	**–**	**–**
10% decrease in expense rates	**10**	**–**	**–**
At 31 December 2024			
5% increase in mortality and/or morbidity rates	(77)	(16)	(16)
5% decrease in mortality and/or morbidity rates	76	16	16
10% increase in lapse rates	(270)	(34)	(34)
10% decrease in lapse rates	292	35	35
10% increase in expense rates	(20)	(1)	(1)
10% decrease in expense rates	24	1	1

1 *The net sensitivities impacts are provided after considering the impacts of reinsurance contracts held as risk mitigation.*

Insurance underwriting risk (audited)

Mortality and morbidity risk is typically associated with life insurance contracts. The effect on profit of an increase in mortality or morbidity depends on the type of business being written.

Sensitivity to lapse rates depends on the type of contracts being written. An increase in lapse rates typically has a negative effect on CSM (and therefore expected future profits) due to the loss of future income on the lapsed policies. However, some contract lapses have a positive effect on profit due to the existence of policy surrender charges.

Expense rate risk is the exposure to a change in the allocated cost of administering insurance contracts. To the extent that increased expenses cannot be passed on to policyholders, an increase in expense rates will have a negative effect on CSM and profits.

(Expressed in millions of Hong Kong dollars)

Consolidated Income Statement
for the year ended 31 December 2025

	note	*2025*	*2024*
Interest income[1]		**50,239**	61,277
Interest expense		**(21,395)**	(30,493)
Net interest income	3	**28,844**	30,784
Fee income		**9,169**	8,248
Fee expense		**(2,838)**	(2,932)
Net fee income	4	**6,331**	5,316
Net income/(loss) from financial instruments measured at fair value through profit or loss	5	**20,698**	7,681
Gains less losses from financial investments	6	**29**	53
Dividend income		**210**	207
Insurance finance income/(expenses)	7	**(18,054)**	(5,559)
Insurance service results	7	**2,806**	2,271
– Insurance revenue		**4,143**	3,377
– Insurance service expense		**(1,337)**	(1,106)
Other operating income/(loss)	8	**1,390**	784
Net operating income before change in expected credit losses and other credit impairment charges		**42,254**	41,537
Change in expected credit losses and other credit impairment charges	9	**(8,049)**	(4,773)
Net operating income		**34,205**	36,764
Employee compensation and benefits		**(6,072)**	(5,918)
General and administrative expenses		**(6,365)**	(6,142)
Depreciation expenses		**(1,841)**	(1,963)
Amortisation of intangible assets		**(1,308)**	(1,170)
Operating expenses	10	**(15,586)**	(15,193)
Impairment loss on intangible assets		**(11)**	(13)
Operating profit		**18,608**	21,558
Net surplus/(deficit) on property revaluation		**(655)**	(583)
Share of profits/(losses) of associate		**(45)**	39
Profit before tax		**17,908**	21,014
Tax expense	12	**(2,151)**	(2,645)
Profit for the year		**15,757**	18,369
Profit attributable to:			
Shareholders of the Bank		**15,762**	18,379
Non-controlling interests		**(5)**	(10)
(Figures in HK$)			
Earnings per share – basic and diluted	13	**7.94**	9.33

1 *Interest income is calculated using the effective interest method and comprises interest recognised on financial assets measured at either amortised cost or fair value through other comprehensive income.*

The notes on pages 111 to 198 form part of these Financial Statements.

Consolidated Statement of Comprehensive Income

for the year ended 31 December 2025

	2025	*2024*
Profit for the year	**15,757**	18,369
Other comprehensive income		
Items that will be reclassified subsequently to the profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ('FVOCI') reserve:		
– fair value gains/(losses) taken to equity	**834**	272
– fair value (gains)/losses transferred to the income statement:		
– on hedged items	**(318)**	31
– on disposal	**(29)**	(53)
– expected credit losses/(recoveries) recognised in the income statement	**(1)**	2
– deferred taxes	**(70)**	(51)
Cash flow hedge reserve:		
– fair value gains/(losses) taken to equity	**(3,029)**	4,896
– fair value (gains)/losses transferred to the income statement	**4,899**	(4,961)
– deferred taxes	**(309)**	11
Exchange differences on translation of:		
– financial statements of overseas branches, subsidiaries and an associate	**710**	(520)
Items that will not be reclassified subsequently to the profit or loss:		
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk:		
– fair value gains/(losses) taken to equity	**(10)**	(2)
– deferred taxes	**2**	–
Equity instruments designated at FVOCI:		
– fair value gains/(losses) taken to equity	**414**	418
Premises:		
– unrealised surplus/(deficit) on revaluation of premises	**(650)**	(722)
– deferred taxes	**109**	118
Defined benefit plans:		
– actuarial gains/(losses) on defined benefit plans	**143**	402
– deferred taxes	**(24)**	(66)
Other comprehensive income for the year, net of tax	**2,671**	(225)
Total comprehensive income for the year	**18,428**	18,144
Total comprehensive income for the year attributable to:		
– shareholders of the Bank	**18,433**	18,154
– non-controlling interests	**(5)**	(10)
	18,428	18,144

The notes on pages 111 to 198 form part of these Financial Statements.

Consolidated Balance Sheet

at 31 December 2025

	note	*2025*	*2024*
ASSETS			
Cash and balances at central banks		**10,290**	10,433
Trading assets	17	**52,692**	39,640
Derivative financial instruments	18	**12,528**	20,201
Financial assets mandatorily measured at fair value through profit or loss	19	**200,786**	164,557
Reverse repurchase agreements – non-trading		**80,814**	33,479
Placings with and advances to banks	20	**85,356**	76,221
Loans and advances to customers	21	**787,349**	819,136
Financial investments	22	**484,119**	541,155
Interest in an associate	25	**2,196**	2,321
Investment properties	26	**10,291**	11,220
Premises, plant and equipment	26	**23,856**	24,943
Intangible assets	27	**4,484**	4,465
Other assets	28	**64,352**	47,425
Total assets		**1,819,113**	1,795,196
LIABILITIES AND EQUITY			
Liabilities			
Deposits from banks		**8,022**	14,279
Current, savings and other deposit accounts	29	**1,259,003**	1,238,224
Repurchase agreements – non-trading		**21,792**	19,387
Trading liabilities	30	**13,014**	18,093
Derivative financial instruments	18	**10,667**	13,517
Financial liabilities designated at fair value	31	**36,599**	38,636
Certificates of deposit in issue		**3,436**	4,948
Other liabilities	32	**39,218**	57,399
Insurance contract liabilities	33	**228,392**	188,481
Current tax liabilities		**1,120**	1,476
Deferred tax liabilities	34	**3,910**	3,717
Subordinated liabilities	35	**21,248**	27,475
Total liabilities		**1,646,421**	1,625,632
Equity			
Share capital	36	**9,658**	9,658
Retained profits		**130,613**	129,390
Other equity instruments	37	**11,587**	11,587
Other reserves		**20,796**	18,887
Total shareholders' equity		**172,654**	169,522
Non-controlling interests		**38**	42
Total equity		**172,692**	169,564
Total equity and liabilities		**1,819,113**	1,795,196

Luanne LIM Hui Hung Executive Director and Chief Executive

SAW Say Pin Executive Director and Chief Financial Officer

The notes on pages 111 to 198 form part of these Financial Statements.

Consolidated Statement of Changes in Equity

for the year ended 31 December 2025

				Other reserves							
	Share capital	Other equity instruments	Retained profits[1]	Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[2]	Total shareholders' equity	Non-controlling interests	Total equity
At 1 January 2025	**9,658**	**11,587**	**129,390**	**17,273**	**2,198**	**(150)**	**(1,091)**	**657**	**169,522**	**42**	**169,564**
Profit for the year	–	–	15,762	–	–	–	–	–	15,762	(5)	15,757
Other comprehensive income (net of tax)	–	–	119	(541)	830	1,561	710	(8)	2,671	–	2,671
Debt instruments at FVOCI	–	–	–	–	416	–	–	–	416	–	416
Equity instruments designated at FVOCI	–	–	–	–	414	–	–	–	414	–	414
Cash flow hedges	–	–	–	–	–	1,561	–	–	1,561	–	1,561
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(8)	(8)	–	(8)
Property revaluation	–	–	–	(541)	–	–	–	–	(541)	–	(541)
Actuarial gains on defined benefit plans	–	–	119	–	–	–	–	–	119	–	119
Others	–	–	–	–	–	–	710	–	710	–	710
Total comprehensive income for the year	–	–	15,881	(541)	830	1,561	710	(8)	18,433	(5)	18,428
Dividends paid[3]	–	–	(13,350)	–	–	–	–	–	(13,350)	–	(13,350)
Coupon paid on AT1 capital instruments	–	–	(837)	–	–	–	–	–	(837)	–	(837)
Movement in respect of share-based payment arrangements	–	–	(19)	–	–	–	–	(19)	(38)	–	(38)
Share buy-back[4]	–	–	(1,079)	–	–	–	–	–	(1,079)	–	(1,079)
Others	–	–	–	2	–	–	1	–	3	1	4
Transfers[5]	–	–	627	(627)	–	–	–	–	–	–	–
At 31 December 2025	**9,658**	**11,587**	**130,613**	**16,107**	**3,028**	**1,411**	**(380)**	**630**	**172,654**	**38**	**172,692**

1 *Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2025, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$350m.*

2 *Other reserves comprise of share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

3 *Dividends paid represented the payment of fourth interim dividend of 2024 and the first three interim dividends of 2025 amounted to HK$6,023m and HK$7,327m respectively.*

4 *In July 2025, the Bank announced a share buy-back programme of up to HK$3.0bn, which was originally expected to be completed by end of January 2026. Such programme has ceased with immediate effect from the publication of the joint announcement of proposed privatisation of the Bank in October 2025.*

5 *This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.*

The notes on pages 111 to 198 form part of these Financial Statements.

Consolidated Statement of Changes in Equity *(continued)*
for the year ended 31 December 2025

				Other reserves							
	Share capital	*Other equity instruments*	*Retained profits*[1]	*Premises revaluation reserve*	*Financial assets at FVOCI reserve*	*Cash flow hedge reserve*	*Foreign exchange reserve*	*Others*[2]	*Total shareholders' equity*	*Non-controlling interests*	*Total equity*
At 1 January 2024	9,658	11,744	126,624	18,525	1,579	(96)	(571)	668	168,131	53	168,184
Profit for the year	–	–	18,379	–	–	–	–	–	18,379	(10)	18,369
Other comprehensive income (net of tax)	–	–	336	(604)	619	(54)	(520)	(2)	(225)	–	(225)
Debt instruments at FVOCI	–	–	–	–	201	–	–	–	201	–	201
Equity instruments designated at FVOCI	–	–	–	–	418	–	–	–	418	–	418
Cash flow hedges	–	–	–	–	–	(54)	–	–	(54)	–	(54)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(2)	(2)	–	(2)
Property revaluation	–	–	–	(604)	–	–	–	–	(604)	–	(604)
Actuarial gains on defined benefit plans	–	–	336	–	–	–	–	–	336	–	336
Others	–	–	–	–	–	–	(520)	–	(520)	–	(520)
Total comprehensive income for the year	–	–	18,715	(604)	619	(54)	(520)	(2)	18,154	(10)	18,144
Redemption and repayment of AT1 capital instruments[3]	–	(11,744)	–	–	–	–	–	–	(11,744)	–	(11,744)
Issue of new AT1 capital instruments[3]	–	11,587	–	–	–	–	–	–	11,587	–	11,587
Dividends paid[4]	–	–	(12,923)	–	–	–	–	–	(12,923)	–	(12,923)
Coupon paid on AT1 capital instruments	–	–	(699)	–	–	–	–	–	(699)	–	(699)
Movement in respect of share-based payment arrangements	–	–	(9)	–	–	–	–	(9)	(18)	–	(18)
Share buy-back[5]	–	–	(3,006)	–	–	–	–	–	(3,006)	–	(3,006)
Others	–	–	40	–	–	–	–	–	40	(1)	39
Transfers[6]	–	–	648	(648)	–	–	–	–	–	–	–
At 31 December 2024	9,658	11,587	129,390	17,273	2,198	(150)	(1,091)	657	169,522	42	169,564

1 *Retained profits are the cumulative net earnings of the Group that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Group is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Group to shareholders by HK$734m.*

2 *Other reserves comprise of share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Group by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

3 *The Bank has redeemed and repaid the AT1 capital instrument of US$600m and issued new AT1 capital instrument of US$600m in June 2024 and has redeemed and repaid another AT1 capital instrument of US$900m and issued new AT1 capital instrument of US$900m in September 2024.*

4 *Dividends paid represented the payment of fourth interim dividend of 2023 and the first three interim dividends of 2024 amounted to HK$6,118m and HK$6,805m respectively.*

5 *In April 2024, the Bank announced an automatic share buy-back programme of up to HK$3.0bn, which was completed in September 2024.*

6 *This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.*

Consolidated Statement of Cash Flows
for the year ended 31 December 2025

	2025	2024
Profit before tax	**17,908**	21,014
Adjustments for non-cash items:		
Depreciation and amortisation	**3,149**	3,133
Net interest income	**(28,844)**	(30,784)
Dividend income	**(210)**	(207)
Gains less losses from financial investments	**(29)**	(53)
Share of (profits)/losses of associate	**45**	(39)
Net (surplus)/deficit on property revaluation	**655**	583
Change in expected credit losses and other credit impairment charges	**8,049**	4,773
Impairment loss on intangible assets	**11**	13
Loans and advances written off net of recoveries	**(2,530)**	(6,138)
Elimination of exchange differences and other non-cash items	**(20,724)**	4,141
Changes in operating assets and liabilities		
Change in trading assets	**(13,052)**	4,378
Change in derivative financial instruments	**4,823**	(6,203)
Change in financial assets mandatorily measured at fair value through profit or loss	**(37,153)**	(8,719)
Change in reverse repurchase agreements – non-trading maturing after one month	**(19,544)**	1,888
Change in placings with and advances to banks maturing after one month	**(6,941)**	21,898
Change in loans and advances to customers	**25,572**	41,930
Change in financial investments of insurance business	**(2,182)**	763
Change in other assets	**(6,444)**	1,205
Change in repurchase agreements – non-trading	**2,405**	6,620
Change in deposits from banks	**(6,257)**	(5,428)
Change in current, savings and other deposit accounts	**20,779**	85,162
Change in trading liabilities	**(5,079)**	(17,134)
Change in financial liabilities designated at fair value	**(2,037)**	(6,997)
Change in certificates of deposit in issue	**(1,512)**	(4,909)
Change in other liabilities	**3,781**	9,559
Change in insurance contract liabilities	**39,911**	21,217
Interest received	**42,264**	51,828
Interest paid	**(24,158)**	(31,881)
Dividends received from financial investments	**186**	207
Tax paid	**(4,131)**	(3,169)
Net cash from operating activities	**(11,289)**	158,651
Purchase of financial investments	**(913,178)**	(841,534)
Proceeds from sale or redemption of financial investments	**936,540**	759,463
Repayment of shareholders' loan from an associated company	**7**	7
Purchase of property, plant and equipment and intangible assets	**(1,772)**	(1,748)
Net cash from investing activities	**21,597**	(83,812)

Consolidated Statement of Cash Flows *(continued)*
for the year ended 31 December 2025

	2025	2024
Interest paid for subordinated liabilities	**(1,222)**	(1,732)
Redemption of subordinated liabilities	**(6,240)**	–
Principal and interest elements of lease payments	**(463)**	(500)
Dividends paid	**(13,350)**	(12,923)
Share buy-back	**(1,079)**	(3,006)
Coupons paid to holder on AT1 capital instruments	**(837)**	(699)
Net cash from financing activities	**(23,191)**	(18,860)
Net increase/(decrease) in cash and cash equivalents	**(12,883)**	55,979
Cash and cash equivalents at 1 January	**150,580**	97,191
Exchange differences in respect of cash and cash equivalents	**2,454**	(2,590)
Cash and cash equivalents at 31 December	**140,151**	150,580
Cash and cash equivalents comprise[1]:		
– Cash and sight balances at central banks	**10,290**	10,433
– Balances with banks	**4,892**	4,129
– Items in the course of collection from other banks	**3,295**	3,634
– Placings with and advances to banks maturing within one month	**42,107**	40,677
– Reverse repurchase agreements with banks maturing within one month	**46,832**	19,041
– Treasury bills	**32,635**	91,351
– Net settlement accounts and cash collateral to banks within one month	**4,908**	(14,236)
– Less: items in the course of transmission to other banks	**(4,808)**	(4,449)
	140,151	150,580

1 *At 31 December 2025, the amount of cash and cash equivalents that was not available for use by the Group was HK$8,670m (31 December 2024: HK$13,041m), of which HK$3,496m (31 December 2024: HK$4,696m) was related to mandatory deposits at central banks.*

1 Basis of preparation

(a) Compliance with Hong Kong Financial Reporting Standards

Hang Seng Bank Limited ('the Bank') and its subsidiaries ('the Group') are engaged in the provision of banking and related financial services. The Bank is a limited liability company incorporated in Hong Kong. The address of its registered office and principal place of business is 83 Des Voeux Road Central, Hong Kong.

The consolidated financial statements comprise the financial statements of the Group made up to 31 December 2025. The consolidated financial statements have been prepared in accordance with all applicable HKFRS Accounting Standards ('HKFRS'), the provisions of the Hong Kong Companies Ordinance and accounting principles generally accepted in Hong Kong. HKFRS comprises Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ('HKAS'), and interpretations issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA'). A summary of the material accounting policies adopted by the Group is set out in note 2.

Standards adopted during the year ended 31 December 2025

There were no new standards applied during the year ended 31 December 2025. During 2025, the Group adopted one amendment to standards which had an insignificant effect on the consolidated financial statements of the Group.

(b) Presentation of information

The following have been included in the audited sections of 'Risk' section:

— Certain disclosures under HKFRS 17 *'Insurance Contracts'* concerning the nature and extent of risks relating to insurance activities are included under Insurance Manufacturing Operation Risk in 'Risk' section as specified as 'Audited'.

— Certain disclosures under HKFRS 7 *'Financial Instruments: Disclosures'* concerning the nature and extent of risks relating to financial instruments under Credit Risk, Treasury Risk and Market Risk in 'Risk' section as specified as 'Audited'.

— Certain capital disclosures under HKAS 1 *'Presentation of Financial Statement'* in 'Capital Risk' under Treasury Risk in 'Risk' section as specified as 'Audited'.

In accordance with the Group's policy to provide disclosures that help stakeholders to understand the Group's performance, financial position and changes thereto, the information provided in the Notes on the Consolidated Financial Statements and the Risk disclosures in 'Risk' section goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements.

(c) Consolidation

The Group controls and consequently consolidates an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Control is initially assessed based on consideration of all facts and circumstances, and is subsequently reassessed when there are significant changes to the initial setup.

Where an entity is governed by voting rights, the Group would consolidate when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power over relevant activities or holding the power as agent or principal.

All intra-group transactions are eliminated on consolidation.

The consolidated financial statements also include the attributable share of the results and reserves of associates based on the financial statements prepared at dates not earlier than three months prior to 31 December 2025.

1 Basis of preparation *(continued)*

(d) Future Accounting Developments

Amendments to HKFRS 9 *'Financial Instruments'* and HKFRS 7 *'Financial Instruments: Disclosures'*

In August 2024, the HKICPA issued Amendments to HKFRS 9 *'Financial Instruments'* and HKFRS 7 *'Financial Instruments: Disclosures'*, effective for annual reporting periods beginning on or after 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarifications regarding the classification of financial assets that contain contractual terms that change the timing and amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The Group does not expect any material impact from these amendments.

HKFRS 18 *'Presentation and Disclosure in Financial Statements'*

In July 2024, the HKICPA issued HKFRS 18 *'Presentation and Disclosure in Financial Statements'*, effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about a company's financial performance. It will replace HKAS 1 *'Presentation of Financial Statements'* but carries over many requirements from this HKAS unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While HKFRS 18 will not change recognition criteria or measurement bases, it will have an impact on presenting information in the financial statements, in particular the income statement. The Group is currently evaluating the impact and ensuring data readiness is adequate in anticipation of implementation plan.

(e) Critical estimates and judgements

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical estimates and judgements in note 2 below, it is possible that the outcomes in the next financial year could differ from those on which management's estimates are based. This could result in materially different estimates and judgements from those reached by management for the purpose of the consolidated financial statements. Management's selection of the Group's accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

Management has considered the impact of climate-related risks on the Group's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2025 management did not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term.

2 Material accounting policies

(a) Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. However, as an exception to this, interest on debt instruments issued by the Group for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt instruments is included in interest expense.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but excluding future credit losses. The calculation includes all amounts paid or received by the Group that are an integral part of the effective interest rate of a financial instrument, including transaction costs and all other premiums or discounts.

2 Material accounting policies *(continued)*

(b) Non-interest income

(i) Fee income

The Group generates fee income from services provided over time, such as account service and card fees, or when the Group delivers a specific transaction at a point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the Group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

The Group acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades the Group acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

The Group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the Group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

(ii) Net income from financial instruments measured at fair value through profit or loss

(a) Net trading income

Net trading income comprises all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest and dividend. Gains or losses arising from changes in fair value of derivatives are recognised in 'Net trading income' to the extent as described in the accounting policy set out in note 2(i). Gains and losses on foreign exchange trading are also reported as net trading income except for those gains and losses on translation of foreign currencies recognised in other comprehensive income and accumulated subsequently in equity in the foreign exchange reserve or financial assets at FVOCI reserve.

(b) Net income/(loss) from financial instruments designated at fair value through profit or loss

Net income/(loss) from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of financial assets and financial liabilities designated at fair value, including derivatives managed in conjunction with the financial assets and liabilities designated at fair value. Interest and dividend arising on those financial instruments are also included.

(c) Net income from assets and liabilities of insurance businesses measured at fair value

Net income from assets and liabilities of insurance businesses, including derivatives, measured at fair value through profit or loss comprises of all gains and losses from changes in the fair value, together with relevant interest income, expense and dividends in respect of financial assets and liabilities measured at fair value through profit or loss; and those derivatives managed in conjunction with the above which can be separately identifiable from other trading derivatives.

(iii) Dividend income

Dividend income from equity investments measured at fair value through other comprehensive income is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders have approved the dividend for unlisted equity securities.

2 Material accounting policies *(continued)*

(b) ***Non-interest income*** *(continued)*

(iv) Rental income from operating lease

Rental income, net of incentives, under an operating lease is recognised in 'Other operating income' in equal installments over the reporting periods covered by the lease term.

The accounting policies for insurance service result and insurance finance income/(expense) are disclosed in note 2(t).

(c) ***Cash and cash equivalents***

For the purpose of the cash flow statement, cash and cash equivalents include highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments comprise cash and balances at central banks, placings with and advances to banks maturing within one month, treasury bills and certificates of deposit with less than three months' maturity from the date of acquisition and items in the course of collection from or in transmission to other banks.

(d) ***Valuation of financial instruments***

All financial instruments are recognised initially at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, the fair value will be based on other observable current market transactions in the same instrument, without modification or repackaging, or on a valuation technique whose variables include only data from observable markets, such as interest rate yield curves, option volatilities and currency rates. When such evidence exists, the Group recognises a trading gain or loss on day 1, being the difference between the transaction price and the fair value. When significant unobservable parameters are used, the entire day 1 gain or loss is deferred and is recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable, or when the Group enters into an offsetting transaction.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Group manages a group of financial assets and liabilities according to its net market or credit risk exposure, the Group measures the fair value of the group of financial instruments on a net basis but presents the underlying financial assets and liabilities separately in the financial statements, unless they satisfy the HKFRS offsetting criteria.

Critical estimates and judgements

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental:

- An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs.

- 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

The Group's details of valuation of financial instruments are depicted in note 44 'Fair value of financial instruments'.

(e) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The carrying value of these financial instruments at initial recognition includes the directly attributed transactions costs.

The Group may commit to underwrite loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the Group intends to hold the loan, the loan commitment is included in the impairment calculations set out in note 2(j) below.

(f) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets managed within for a business model that is achieved by both selling and collecting contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on trade date when the Group enters into contractual arrangements to purchase and are generally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value with changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'. Financial assets measured at FVOCI are included in the impairment calculations set out in note 2(j) below and impairment is recognised in profit or loss.

(g) Equity securities measured at fair value with fair value movement presented in OCI

The equity securities for which fair value movements are shown in OCI are for business facilitation and other similar investments where the Group holds the investments other than to generate a capital return. Dividends from such investments are recognised in profit or loss. Gains or losses on derecognition of these equity securities are not transferred to profit or loss. Otherwise equity securities are measured at fair value through profit or loss (except for dividend income which is recognised in profit or loss).

(h) Financial instruments designated at fair value

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch; and
- when a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- financial liabilities that contain one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Group enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred.

Designated financial liabilities are recognised when the Group enters into contracts with counterparties, and are normally derecognised when extinguished. Subsequent changes in fair value are recognised in the income statement in 'Net income from financial instruments measured at fair value through profit or loss'.

2 Material accounting policies *(continued)*

(h) Financial instruments designated at fair value *(continued)*

Under the above criterion, the main classes of financial instruments designated at fair value by the Group are:

– Debt instruments for funding purposes that are designated to reduce an accounting mismatch

  The interest and/or foreign exchange exposure on certain fixed rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.

– Financial assets and financial liabilities under unit-linked and non-linked investment contracts

  A contract under which the Group does not accept significant insurance risk from another party is not classified as an insurance contract, other than investment contracts with discretionary participation features ('DPF'), but is accounted for as a financial liability. Customer liabilities under linked and certain non-linked investment contracts issued by insurance subsidiary are determined based on the fair value of the assets held in the linked funds or valuation model. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation of the financial assets and related liabilities at fair value allows changes in fair values to be recorded in the income statement and presented in the same line.

– Financial liabilities that contain both deposit and derivative components. These financial liabilities are managed and their performance evaluated on at fair value basis.

(i) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying item such as equities, interest rates or other indices. Derivatives are recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

Where the derivatives are managed with debt securities issued by the Group that are designated at fair value where doing so reduces accounting mismatch, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

The Group designates certain derivatives as either (i) hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedge'); or (ii) hedges of highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedge').

At the inception of a hedging relationship, the Group documents the relationship between the hedging instruments and the hedged items, its risk management objective and its strategy for undertaking the hedge. The Group requires a documented assessment, both at hedge inception and on an ongoing basis, of whether or not the hedging instruments, are highly effective in offsetting the changes attributable to the hedged risks in the fair values or cash flows of the hedged items.

(i) Fair value hedge

Changes in the fair value of derivatives that are designated and qualified as fair value hedging instruments are recorded in the income statement within 'Net income from financial instruments measured at fair value through profit or loss', along with changes in the fair value of the hedged assets or liabilities attributable to the hedged risk.

If the hedging relationship no longer meets the criteria for hedge accounting, the hedge accounting is discontinued. The cumulative adjustment to the carrying amount of a hedged item is amortised to the income statement based on a recalculated effective interest rate over the residual period to maturity, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

2 Material accounting policies *(continued)*

(i) ***Derivatives*** *(continued)*

Hedge accounting *(continued)*

(ii) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualified as cash flow hedges is recognised in other comprehensive income and accumulated separately in equity. Any gain or loss in fair value relating to an ineffective portion is recognised immediately in the income statement within 'Net income from financial instruments measured at fair value through profit or loss'.

The accumulated gains and losses recognised in other comprehensive income are recycled to the income statement in the periods in which the hedged item will affect profit or loss.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss at that time remains in equity until the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recognised in other comprehensive income is immediately reclassified to the income statement.

(iii) Hedge effectiveness testing

To qualify for hedge accounting, the Group requires that at the inception of the hedge and throughout its life, each hedge must be expected to be highly effective (prospective effectiveness) and demonstrate actual effectiveness (retrospective effectiveness) on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by the Group to assess hedge effectiveness depends on its risk management strategy.

For fair value hedge relationships, the Group utilises the cumulative dollar offset method or regression as effectiveness testing methodology. For cash flow hedge relationships, the Group utilises the change in variable cash flow method, capacity test or the cumulative dollar offset method using the hypothetical derivative approach.

For prospective effectiveness, the hedging instrument is expected to be highly effective in achieving offsetting changes in fair value or cash flows attributable to the hedged risk during the period for which the hedge is designated. For retrospective effectiveness, the change in fair value or cash flows must offset each other in the range of 80% to 125%. Hedge ineffectiveness is recognised in the income statement in 'Net income from financial instruments measured at fair value through profit or loss'.

(iv) Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are economic hedges entered into as part of documented interest rate management strategies for which hedge accounting is not applied. Changes in fair value of non-qualifying hedges do not alter the cash flows expected as part of the documented management strategies for both the non-qualifying hedge instruments and the related assets and liabilities. All gains and losses from changes in the fair values of derivatives that do not qualify for hedge accounting are recognised immediately in the income statement.

2 Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets

Expected credit losses are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events within the next 12 months or less, where the remaining life is less than 12 months ('12-month ECL'). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ('lifetime ECL'). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

Credit-impaired (stage 3)

The Group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are 90 days past due or above;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; or
- the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less allowance for ECL.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of collateral. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when the Group modifies the contractual payment terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

Forbearance *(continued)*

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructuring is at market rates and no payment related concession has been provided. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly considers if the financial instrument has experienced a significant increase in credit risk, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument, the borrower and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default ('PD') which encompasses a wide range of information including the obligor's customer risk rating ('CRR'), macroeconomic condition forecasts and credit transition probabilities. For origination CRR up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date.

The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	*Significance trigger – PD to increase by*
0.1-1.2	15bps
2.1-3.3	30bps

2 Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets (continued)

Significant increase in credit risk (stage 2) *(continued)*

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of HKFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle ('TTC') PDs and TTC migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	*Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)*
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notches
8.3	0 notches

Further information about the 23-grade scale used for CRR can be found on page 34.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from internal models, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

Unimpaired and without significant increase in credit risk (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired ('POCI')

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

2 Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets *(continued)*

Movement between stages

Financial assets can be transferred between the different stages (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money and considers other factors such as climate-related risks.

In general, the Group calculates ECL using three main components, PD, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, taking into account the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

2 Material accounting policies *(continued)*

(j) ***Impairment of amortised cost and FVOCI financial assets*** *(continued)*

Measurement of ECL *(continued)*

The Group leverages the regulatory internal ratings-based ('IRB') framework where possible, with recalibration to meet the differing HKFRS 9 requirements as follows:

Model	*Regulatory capital*	*HKFRS 9*
PD	– Represents long-run average PD throughout a full economic cycle – Default backstop of 90+ days past due for all portfolios (includes unlikeliness to pay (UTP) criteria in line with internal policy) – May be subject to a sovereign cap	– Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) – An obligor/an account being 90 days past due or above is considered as defaulted
EAD	– Cannot be lower than current balance	– Amortisation captured for term products – Future drawdown captured for revolving products
LGD	– Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) – Regulatory floors may apply according to regulatory requirements – Discounted using appropriate index (minimum 9%) – All collection costs included	– LGD based on recent portfolio performance data and includes the expected impact of future economic conditions such as changes in value of collateral – No floors applied, discounted using the effective interest rate of the loan – Only costs associated with selling collateral and certain third party costs are included
Other		– Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from IRB models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the Group and the judgement in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, when an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a mostly likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the Group may use an LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

2 Material accounting policies *(continued)*

(j) Impairment of amortised cost and FVOCI financial assets (continued)

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail revolving loan, overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL in excess of the carrying amount of the financial asset is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis subject to certain extension criteria.

Forward-looking economic forecast

The Group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit loss in most economic environments. In certain economic environments, additional analysis may be necessary and result in additional scenarios or adjustments, to reflect a range of possible economic outcomes for an unbiased expected credit loss estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' of Credit Risk in 'Risk' section.

Critical estimates and judgements

In determining ECL, the Group is required to make a number of judgements, assumptions and estimates which are set out below:

- Defining what is considered to be a significant increase in credit risk.
- Determining the lifetime and point of initial recognition of revolving facilities.
- Selecting and calibrating the PD, LGD and EAD models which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.
- Making management adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.
- Selecting applicable recovery strategies for certain wholesale credit-impaired loans.

The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' marked as audited, set out the assumptions used in determining ECL and provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions.

2 Material accounting policies *(continued)*

(k) Sale and repurchase agreements

Where securities are sold subject to commitment to repurchase them at a pre-determined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received in 'Repurchase agreements-non-trading'. Conversely, securities purchased under analogous commitments to resell ('reverse repos') are not recognised on the balance sheet and the consideration paid is recorded in 'Reverse repurchase agreements-non-trading'. The difference between the sale and repurchase price is treated as interest income and recognised over the life of the agreement.

Securities lending and borrowing transactions are generally secured, with collateral taking the form of securities or cash advanced or received. The transfer of securities to counterparties under these agreements is not normally reflected on the balance sheet. Cash collateral advanced or received is recorded as an asset or a liability respectively.

(l) Subsidiaries and associates

The Group classifies investments in entities which it controls as subsidiaries. The Group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangement, as associates.

The Group's investments in subsidiaries and associates are stated at cost less any impairment losses. Investment in associates is recognised using the equity method. Under this method, such investments are initially stated at cost, including attributable goodwill, and are adjusted thereafter for the post-acquisition change in the Group's share of net assets less any impairment losses. An impairment loss recognised in prior periods shall be reversed through the income statement if, and only if, there has been a change in the estimates used to determine the recoverable amount of the investment since the last impairment loss was recognised.

(m) Investment properties

Investment properties are land and/or buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. Investment properties are stated at fair value with changes in fair value being recognised in the income statement. Fair values are determined by independent professional valuers, primarily on the basis of capitalisation of net incomes with due allowance for outgoings and reversionary income potential.

(n) Premises, plant and equipment

(i) Land and buildings

The following land and buildings held for own use are stated in the balance sheet at their revalued amount, being their fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses:

- leasehold land and buildings where the fair value of the land cannot be reliably separated from the value of the building at inception of the lease and the premises are not clearly held under an operating lease; and

- leasehold land and buildings where the value of the land can be reliably separated from the value of the building at inception of the lease and the term of the lease is not less than 50 years.

Revaluations are performed by professionally qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value at the reporting date. Surpluses arising on revaluation are credited firstly to the income statement to the extent of any deficits arising on revaluation previously charged to the income statement in respect of the same land and buildings, and are thereafter taken to other comprehensive income and are accumulated separately in the 'Premises revaluation reserve'. Deficits arising on revaluation, are firstly set off against any previous revaluation surpluses included in the 'Premises revaluation reserve' in respect of the same land and buildings, and are thereafter recognised in the income statement.

2 Material accounting policies *(continued)*

(n) Premises, plant and equipment *(continued)*

(i) Land and buildings *(continued)*

Depreciation is calculated to write off the valuation of the land and buildings over their estimated useful lives as follows:

– freehold land is not depreciated;

– leasehold land is depreciated over the unexpired terms of the leases; and

– buildings and improvements thereto are depreciated on straight-line basis or over the shorter of the unexpired terms of the leases or the remaining estimated useful lives of the buildings.

On revaluation of the land and buildings, depreciation accumulated during the year will be eliminated. Depreciation charged on revaluation surplus of the land and buildings is transferred from 'Premises revaluation reserve' to 'Retained profits'.

On disposal of the land and buildings, the profit and loss is calculated as the difference between the net sales proceeds and the net carrying amount and recognised in the income statement. Surpluses relating to the land and buildings disposed of included in the 'Premises revaluation reserve' are transferred as movements in reserves to 'Retained profits'.

The land owned by Hong Kong Government permits its use under leasehold arrangements. Similar arrangements exist in mainland China. The Group accounts for its interests in own use leasehold land and land rights in accordance with HKFRS 16 but discloses these as owned assets when the right of use are considered sufficient to constitute control.

(ii) Other plant and equipment

Furniture, plant and equipment, are stated at cost less depreciation calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 3 and 20 years. On disposal, the profit and loss is calculated as the difference between the net sales proceeds and the net carrying amount.

Plant and equipment are subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(o) Goodwill and intangible assets

(i) Goodwill

Goodwill arises on business combinations, including the acquisition of subsidiaries or associates when the cost of acquisition exceeds the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired and is reported in the consolidated balance sheet. If the Group's interest in the fair value of the identifiable assets, liabilities and contingent liabilities of an acquired business is greater than the cost of acquisition, the excess is recognised immediately in the income statement. Goodwill on acquisitions of associates is included in 'Interest in associates' and is not tested separately for impairment.

2 Material accounting policies *(continued)*

(o) ***Goodwill and intangible assets*** *(continued)*

(i) Goodwill *(continued)*

Goodwill is allocated to cash-generating units ('CGUs') for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, and whenever there is an indication that the CGU may be impaired, by comparing the recoverable amount of a CGU with the carrying value of its net assets, including attributable goodwill. The recoverable amount of an asset is the higher of, its fair value less cost to sell, and its value in use. Value in use is the present value of the expected future cash flows from a CGU. If the recoverable amount of the CGU is less than the carrying value, an impairment loss is charged to the income statement. Any write-off in excess of the carrying value of goodwill is limited to the fair value of the individual assets and liabilities of the CGU. Goodwill is stated at cost less any accumulated impairment losses, if any.

At the date of disposal of a business, attributable goodwill is included in the Group's share of net assets in the calculation of the gain or loss on disposal.

(ii) Intangible assets

Intangible assets include acquired software licences and capitalised development costs of computer software programmes.

Computer software acquired is stated at cost less amortisation and impairment allowances. Amortisation of computer software is charged to the income statement over its estimated useful life. Costs incurred in the development phase of a project to produce application software for internal use are capitalised and amortised over the software's estimated useful life, usually five years.

Intangible assets that have an indefinite estimated useful life or are not yet ready for use are tested for impairment annually. Intangible assets that have a finite estimated useful life are stated at cost less amortisation and accumulated impairment losses and are amortised over their estimated useful lives. Estimated useful life is the lower of legal duration and expected economic life. Intangible assets are subject to impairment review if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(p) ***Income tax***

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Income tax is recognised in the income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable profits for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Current tax assets and liabilities are settled on an individual taxable entity basis.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purpose and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available, against which deductible temporary differences can be utilised at each reporting date.

Deferred tax is calculated using the tax rates that are expected to apply in the periods in which the assets will be realised or the liabilities settled. Deferred tax assets and liabilities are not discounted. Deferred tax assets and liabilities are offset when they arise in the same tax reporting group and relate to income taxes levied by the same taxation authority, and when a legal right to offset exists in the entity.

2 Material accounting policies *(continued)*

(q) Employee benefits

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the year in which the associated services are rendered by the employees. Provision is made in respect of paid leave entitlement accumulated during the year, which can be carried forward into future periods for compensated absence or payment in lieu if the employee leaves employment.

(ii) The Group provides retirement benefits for staff members and operates defined benefit and defined contribution schemes and participates in mandatory provident fund schemes in accordance with the relevant laws and regulations.

Payments to defined contribution plans and state-managed retirement benefit plans, where the Group's obligations under the plans are equivalent to a defined contribution plan, are charged as an expense as the employees render service.

The costs recognised for funding defined benefit plans are determined using the projected unit credit method, with annual actuarial valuations performed on each plan. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit liability and is presented in operating expenses. Service cost comprises current service cost, past service cost, and gain or loss on settlement.

Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

(r) Provisions

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation arising from past events and a reliable estimate can be made as to the amount of the obligation. Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of the Group; or are present obligations that have arisen from past events but are not recognised because it is not probable that settlement will require the outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

(s) Financial guarantees

Financial guarantees are contracts that require the Group to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the terms of the loans or debt instruments.

Financial guarantee liabilities are initially recognised at their fair value, and subsequently carried at the higher of:

– the amount determined in accordance with the expected credit loss model under HKFRS 9 *'Financial Instruments'*; and

– the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of HKFRS 15 *'Revenue from Contracts with Customers'*.

Financial guarantees are included within other liabilities.

2 Material accounting policies *(continued)*

(t) Insurance contracts

Through its insurance subsidiary, the Group issues contracts to customers that contain insurance risk, financial risk or a combination thereof. A contract under which the Group accepts significant insurance risk from another party, by agreeing to compensate that party on the occurrence of a specified uncertain future event, is classified as an insurance contract. An insurance contract may also transfer financial risk, but is accounted for as an insurance contract if the insurance risk is significant. In addition, the Group issues investment contracts with discretionary participation features ('DPF'), which are also accounted under HKFRS 17 *'Insurance Contracts'*.

Aggregation of insurance contracts

Individual insurance contracts that are managed together and subject to similar risks are identified as a portfolio. Contracts that are managed together usually belong to the same product group, and have similar characteristics such as being subject to a similar pricing framework or similar product management, and are issued by the same legal entity. If a contract is exposed to more than one risk, the dominant risk of the contract is used to assess whether the contract features similar risks. The portfolios are split by their profitability into (i) contracts that are onerous at initial recognition, (ii) contracts that at initial recognition have no significant possibility of becoming onerous subsequently, and (iii) the remaining contracts. These profitability groups are then divided by issue date, with most contracts the Group issues being grouped into calendar quarter cohorts.

The measurement of the insurance contract liability is based on groups of insurance contracts as established at initial recognition, and will include fulfilment cash flows as well as the CSM representing unearned profit. The Group's accounting policy is to update the estimates used in the measurement on a year-to-date basis.

Fulfilment cash flows

The fulfilment cash flows comprise the followings:

(i) Best estimates of future cash flows

These cash flows within the contract boundary of each contract in the Group include amounts expected to be collected from premiums and payouts for claims, benefits and expenses, and are projected using assumptions based on the Group's demographic and operating experience along with external mortality data where the Group's own experience data is not sufficiently large in size to be credible.

(ii) Adjustment for the time value of money (i.e. discounting) and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money and the financial risks to derive an expected present value. The Group generally makes use of stochastic modelling techniques in the estimation for products with options and guarantees.

A bottom-up approach is used to determine the discount rate to be applied to a given set of expected future cash flows. This is derived as the sum of the risk-free yield and an illiquidity premium. The risk-free yield is determined based on observable market data, where such markets are considered to be deep, liquid and transparent. When information is not available, management judgement is applied to determine the appropriate risk-free yield. Illiquidity premiums reflect the liquidity characteristics of the associated insurance contracts.

(iii) Risk adjustment for non-financial risk

The risk adjustment reflects the compensation required for bearing the uncertainty about the amount and timing of future cash flows. It is calculated as a 75th percentile level stress over one-year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

The 75th percentile is estimated to be equivalent to 59th percentile (2024: 59th percentile) for the insurance manufacturing entity in the group, determined on the basis of an ultimate view over the whole duration of the of the contract.

2 Material accounting policies *(continued)*

(t) ***Insurance contracts*** *(continued)*

Fulfilment cash flows *(continued)*

The Group does not disaggregate changes in the risk adjustment between insurance service result (comprising insurance revenue and insurance service expense) and insurance finance income or expenses. All changes are included in insurance service result.

Measurement models

The variable fee approach ('VFA') measurement model is used for most of contracts issued by the Group, which is mandatory upon meeting the following eligibility criteria at inception:

(a) the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;

(b) the Group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The Group considers that a substantial share is a majority of returns; and

(c) the Group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The Group considers that a substantial proportion is a majority proportion of change on a present value probability weight average of all scenarios.

The risk mitigation option is used for a number of economic offsets against the instruments that meet specific requirements.

The remaining contracts issued and the reinsurance contracts held are accounted for under the general measurement model ('GMM').

CSM and coverage units

The CSM represents the unearned profit and results in no income or expense at initial recognition unless a group is onerous. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in noneconomic assumptions, including mortality and morbidity rates). For initial recognition of onerous groups of contracts and when groups of contracts become onerous subsequently, losses are recognised in insurance service expense immediately.

For groups of contracts measured using the VFA, changes in the Group's share of the underlying items, and economic experience and economic assumption changes adjust the CSM, whereas these changes do not affect the CSM under the GMM, but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the Group's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss. The risk mitigation instruments are primarily reinsurance contracts held.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

2 Material accounting policies *(continued)*

(t) ***Insurance contracts*** *(continued)*

CSM and coverage units *(continued)*

The Group identifies the quantity of the benefits provided as follows:

- For insurance coverage – based on the expected net policyholder insurance benefit at each period after allowance for decrements, where net policyholder insurance benefit refers to the amount of sum assured less the fund or surrender value.

- For investment services (including both investment-return service and investment-related service) – based on a constant measure basis which reflects the provision of access for the policyholder to the facility.

For contracts that provide both insurance coverage and investment services, coverage units are weighted according to the expected present value of the future cash outflows for each service.

Insurance service result

Insurance revenue reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

Insurance finance income and expenses

Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

Presentation

The amounts presented in the income statement under HKFRS 17 include:

- insurance revenue that reflects the consideration to which the Group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components).

- insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

- insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein.

The Group elected to re-calculate its results each period on a year-to-date basis, thereby re-calculating the results for periods already disclosed.

In measuring multi-currency groups of contracts, the Group considers its groups of contracts (including the CSM) as being denominated in a single currency. Changes in exchange rates between the currency of the cash flows and the currency of each group of contracts are treated as changes in financial risk. Changes in exchange rates between the currency of each group of contracts and the functional currency are treated as exchange differences.

(t) Insurance contracts *(continued)*

Critical estimates and judgements

The measurement of insurance contract liabilities under HKFRS 17 involves significant judgements that are set out below:

The VFA measurement model is used for most of the contracts issued by the Group. In applying the VFA eligibility criteria, the Group determined that a substantial share of the fair value returns on the underlying items that are expected to be paid to the policyholder is a majority of the returns, and a substantial proportion of change in the amounts that are expected to be paid to the policyholder to vary with the change in fair value of the underlying items is a majority proportion of the change on a present value probability-weight average of all scenarios.

The CSM is systematically recognised in insurance revenue based on the coverage units of the group of contracts. The Group determined that the coverage unit basis that best reflects the provision of investment services is the availability of the facility over time, and therefore the quantity of benefit selected is a constant measure. The coverage units are reviewed and updated at each reporting date.

(u) Investment contracts without discretionary participation feature

Customer liabilities under linked investment contracts are measured at fair value and reported under 'Financial liabilities designated at fair value'. The linked financial assets are measured at fair value and the movements in fair value are recognised in the income statement in 'Net income from financial instruments designated at fair value through profit or loss'. Deposits receivable and amounts withdrawn are accounted for as increases or decreases in the liability recorded in respect of investment contracts.

Investment management fee receivables are recognised in the income statement over the period of the provision of the investment management services, in 'Net fee income'.

(v) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at each reporting date. Any resulting exchange differences are recognised in other comprehensive income or the income statement depending on where the gain or loss on the underlying item is recognised. Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was determined.

The results of branches, subsidiaries and associates not reporting in Hong Kong dollars are translated into Hong Kong dollars at the average rates of exchange for the reporting period. Exchange differences arising from the re-translation of opening foreign currency net investments and the related cost of hedging, if any, and exchange differences arising from re-translation of the result for the reporting period from the average rate to the exchange rate ruling at the period-end, are recognised in other comprehensive income and accumulated separately in equity in the foreign exchange reserve.

Exchange differences on a monetary item that is part of a net investment in a foreign operation are recognised in the income statement of separate subsidiary's financial statements. In the consolidated financial statements, the corresponding exchange differences are recognised in other comprehensive income and accumulated separately in equity in the foreign exchange reserve. On disposal of a foreign operation, exchange differences relating thereto previously recognised in reserves are recognised in the income statement.

2 Material accounting policies *(continued)*

(w) Operating segments

The Group's operating segments are determined to be customer group segment because the chief operating decision maker uses customer group information in order to make decisions about allocating resources and assessing performance.

HKFRS 8 *'Operating Segments'* requires segmental disclosure to be based on the way that the Group's chief operating decision maker regards and manages the Group, with the amounts reported for each reportable segment being the measures reported to the Group's chief operating decision maker for the purpose of assessing segmental performance and making decision about operating matters.

(x) Related parties

For the purposes of these financial statements, parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are members of the same group. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities which are under the significant influence of related parties of the Group or post-employment benefit scheme. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group and its holding companies, directly or indirectly, including any directors (whether executive or otherwise) and Operating Committee members of the Group and its holding companies.

3 Net interest income

	2025	2024
Interest income arising from:		
– financial assets measured at amortised cost	**37,907**	47,539
– financial assets measured at FVOCI	**12,332**	13,738
	50,239	61,277
Interest expense arising from financial liabilities measured at amortised cost	**(21,395)**	(30,493)
Net interest income	**28,844**	30,784
of which:		
– interest income from impaired financial assets	**2,025**	1,584
– interest expense from subordinated liabilities	**(1,187)**	(1,716)

4 Net fee income

	2025	2024
– securities broking and related services	**2,119**	1,526
– retail investment funds	**1,671**	1,350
– insurance	**304**	298
– account services	**500**	484
– remittances	**249**	246
– cards	**2,966**	3,063
– credit facilities	**346**	359
– imports/exports	**227**	235
– other	**787**	687
Fee income	**9,169**	8,248
Fee expense	**(2,838)**	(2,932)
	6,331	5,316
of which:		
Net fee income on financial assets that are not at fair value through profit or loss (other than amounts included in determining the effective interest rate)	**1,414**	1,342
– fee income	**4,059**	4,160
– fee expense	**(2,645)**	(2,818)
Net fee income on trust and other fiduciary activities where the Group holds or invests on behalf of its customers	**906**	773
– fee income	**1,119**	950
– fee expense	**(213)**	(177)

5 Net income/(loss) from financial instruments measured at fair value through profit or loss

	2025	2024
Net trading income	**3,627**	2,978
– trading income	**3,625**	2,982
– other trading income/(expense) from ineffective fair value hedges	**2**	(4)
Net income/(expense) from financial instruments designated at fair value through profit or loss	**(1,124)**	(1,976)
Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**18,213**	6,637
– financial assets/liabilities held to meet liabilities under insurance contracts	**18,234**	6,646
– liabilities to customers under investment contracts	**(21)**	(9)
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**(18)**	42
	20,698	7,681

6 Gains less losses from financial investments

	2025	2024
Net gains/(losses) from disposal of debt securities measured at FVOCI	**29**	53

7 Insurance business

(a) Insurance service results

	2025			2024		
	Life direct participating contracts[1]	**Life other contracts[2]**	**Total**	Life direct participating contracts[1]	Life other contracts[2]	Total
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage	**3,396**	**194**	**3,590**	2,756	217	2,973
– CSM recognised for services provided	**2,397**	**143**	**2,540**	1,934	147	2,081
– Change in risk adjustment for non-financial risk for risk expired	**44**	**4**	**48**	37	2	39
– Expected incurred claims and other insurance service expenses	**955**	**47**	**1,002**	785	68	853
Recovery of insurance acquisition cash flows	**509**	**44**	**553**	367	37	404
Total insurance revenue	**3,905**	**238**	**4,143**	3,123	254	3,377
Insurance service expenses						
Incurred claims and other insurance service expenses	**(692)**	**(47)**	**(739)**	(574)	(84)	(658)
Amortisation of insurance acquisition cash flows	**(509)**	**(44)**	**(553)**	(367)	(37)	(404)
Losses and reversal of losses on onerous contracts	**1**	**(26)**	**(25)**	(3)	(26)	(29)
Adjustments to liabilities for incurred claims	**(19)**	**(1)**	**(20)**	(15)	–	(15)
Total insurance service expenses	**(1,219)**	**(118)**	**(1,337)**	(959)	(147)	(1,106)
Total insurance service results	**2,686**	**120**	**2,806**	2,164	107	2,271

1 *Life direct participating contracts are measured under the variable fee approach measurement model.*

2 *Life other contracts are measured under the general measurement model.*

7 Insurance business *(continued)*

(b) Net investment return[1]

	2025			2024		
	Life direct participating contracts	Life other contracts	Total	Life direct participating contracts[1]	Life other contracts[2]	Total
Total investment return[2]	16,839	650	17,489	5,576	289	5,865
Net finance income/(expense)						
Changes in fair value of underlying items of direct participating contracts	(16,839)	–	(16,839)	(5,576)	–	(5,576)
Effect of risk mitigation option	(623)	–	(623)	283	–	283
Interest accreted	–	(353)	(353)	–	(379)	(379)
Effect of changes in interest rates and other financial assumptions	–	(230)	(230)	–	142	142
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	–	(9)	(9)	–	(29)	(29)
Total net finance income/(expenses) from insurance contracts	(17,462)	(592)	(18,054)	(5,293)	(266)	(5,559)
Total net investment results	(623)	58	(565)	283	23	306

1 *All items are recognised in the income statement.*

2 *Total investment return for the year ended 31 December 2025 included a gain of HK$17,489m (2024: gain of HK$5,865m) reported under 'Net income/(loss) from financial instruments measured at fair value through profit or loss' in the income statement.*

8 Other operating income/(loss)

	2025	2024
Rental income from investment properties	348	353
Income/(expense) arising from reinsurance contracts held	1,058	336
Net losses from disposal of fixed assets	(6)	(9)
Others	(10)	104
	1,390	784

9 Change in expected credit losses and other credit impairment charges

	2025	2024
Loans and advances to banks and customers	**8,043**	4,825
– new allowances net of allowance releases	**8,244**	4,921
– recoveries of amounts previously written off	**(236)**	(179)
– other movements	**35**	83
Loan commitments and guarantees	**15**	(26)
Other financial assets	**(9)**	(26)
	8,049	4,773

10 Operating expenses

	2025	2024
Employee compensation and benefits:		
– salaries and other costs*	**6,462**	6,306
– retirement benefit costs	**496**	496
– of which: defined benefit scheme (note 41(a))	**107**	116
– of which: defined contribution scheme (note 41(b))	**389**	380
Total employee compensation and benefits	**6,958**	6,802
Less: Cost directly attributable to insurance business	**(886)**	(884)
	6,072	5,918
General and administrative expenses:		
– rental expenses	**14**	18
– other premises and equipment	**2,242**	2,137
– marketing and advertising expenses	**511**	452
– auditor's remuneration	**62**	52
– other operating expenses	**3,986**	3,876
Total general and administrative expenses	**6,815**	6,535
Less: Cost directly attributable to insurance business	**(450)**	(393)
	6,365	6,142
Depreciation of premises, plant and equipment (note 26)	**1,393**	1,459
Depreciation of right-of-use assets	**448**	504
Amortisation of intangible assets (note 27)	**1,308**	1,170
	15,586	15,193
* of which: share-based payments (note 42(c))	**47**	35
Cost efficiency ratio[1]	**36.9%**	36.6%

[1] *Cost efficiency ratio is operating expenses divided by net operating income before change in expected credit losses and other credit impairment charges.*

11 Directors' remunerations

The aggregate emoluments of the Directors of the Bank disclosed pursuant to section 383 of the Hong Kong Companies Ordinance (Cap.622) and the Companies (Disclosure of Information about Benefits of Directors) Regulation were HK$40.3m (2024: HK$41.3m). This comprises fees (which represent the aggregate emoluments paid to or receivable by directors in respect of their services as a director) of HK$11.3m (2024: HK$10.7m) and other emoluments of HK$29.0m (2024: HK$30.6m) which includes contributions to pension schemes of HK$2.9m (2024: HK$2.9m). Non-cash benefits which are included in other emoluments mainly relate to share-based payment awards, accommodation, car and insurance premium.

12 Tax expense

(a) Taxation in the Consolidated Income Statement

	2025	*2024*
Current tax – provision for Hong Kong profits tax		
– Tax for the year	**3,628**	3,578
– Adjustment in respect of prior years	**116**	89
Current tax – taxation outside Hong Kong		
– Tax for the year	**51**	27
– Adjustment in respect of prior years	**–**	(67)
Deferred tax (note 34(a))		
– Origination and reversal of temporary differences	**(1,644)**	(982)
Total tax expense	**2,151**	2,645

The current tax provision is based on the estimated assessable profit for 2025, and is determined for the Bank and its subsidiaries operating in the Hong Kong SAR by using the Hong Kong profits tax rate of 16.5 per cent (2024: 16.5 per cent). For subsidiaries and branches operating in other jurisdictions, the appropriate tax rates prevailing in the relevant countries are used. Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised.

On 28 May 2025, the bill for the implementation of the Global Anti-Base Erosion Rules and the Hong Kong Minimum Top-up Tax ('HKMTT') was passed by the Hong Kong Legislative Council. HKMTT has taken effect for a fiscal year beginning on or after 1 January 2025. Under these rules, no top-up tax liability arises, as the effective tax rate of the Group's operations in HK is expected to be higher than 15%.

12 Tax expense *(continued)*

(b) Reconciliation between taxation charge and accounting profit at applicable tax rates:

	2025	2024
Profit before tax	**17,908**	21,014
Notional tax on profit before tax, calculated at Hong Kong profits tax rate of 16.5% (2024: 16.5%)	**2,955**	3,467
Tax effect of:		
– different tax rates in other countries/areas	**(3)**	16
– non-taxable income	**(903)**	(796)
– non-deductible expenses	**19**	20
– share of (profits)/losses of associate	**7**	(6)
– others	**76**	(56)
Actual charge for taxation	**2,151**	2,645

13 Earnings per share – basic and diluted

The calculation of basic and diluted earnings per share is based on earnings of HK$14,925m (2024: HK$17,680m), which has been adjusted for the AT1 capital instrument related deductions, and on the weighted average number of ordinary shares in issue, excluding own shares held, of 1,879,195,673 shares (2024: 1,895,522,605 shares).

14 Dividends/Distributions

(a) Dividends to ordinary shareholders

	2025		2024	
	per share HK$	***HK$m***	*per share HK$*	*HK$m*
First interim	**1.30**	**2,447**	1.20	2,282
Second interim	**1.30**	**2,445**	1.20	2,264
Third interim	**1.30**	**2,435**	1.20	2,259
Fourth interim	**2.90**	**5,432**	3.20	6,023
	6.80	**12,759**	6.80	12,828

The fourth interim dividend is proposed after the balance sheet date, and has not been recognised as a liability at the balance sheet date.

14 Dividends/Distributions *(continued)*

(b) *Dividends attributable to previous year, approved and paid during the year:*

	2025	2024
Fourth interim dividend in respect of the previous year, approved and paid during the year, of HK$3.20 per share (2024: HK$3.20 per share)	**6,023**	6,118

(c) *Distributions to holders of AT1 capital instruments classified as equity*

	2025	2024
US$900 million fixed to floating rate perpetual capital instrument (coupon rate at 6.875% per annum before March 2030 and then US treasury rate plus 3.298% per annum from March 2030)	**483**	–
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 7.50% per annum before the first call date and then compounded SOFR plus 3.24% per annum from the first call date)	**354**	–
US$900 million fixed to floating rate perpetual capital instrument (coupon rate at 6.03% and then three-month US dollar LIBOR plus 4.02% from the first call date)	**–**	417
US$600 million fixed to floating rate perpetual capital instrument (coupon rate at 6.00% and then three-month US dollar LIBOR plus 4.06% from the first call date)	**–**	282
	837	699

15 Segmental analysis

The Operating Committee is considered the Chief Operating Decision Maker ('CODM') for the purpose of identifying the Group's operating segments. Operating segment results are assessed by the CODM on the basis of performance measured in accordance with HKFRS. Although the CODM reviews information on a number of bases, business performance is assessed and capital resources are allocated by operating segments, and the segmental analysis is presented based on segments as assessed under HKFRS 8 *'Operating Segments'*.

Our operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expense. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines and geographical regions. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to other operating segments are included in the 'Corporate Centre'.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items for the operating segments are presented in the 'Corporate Centre'.

15 Segmental analysis *(continued)*

Effective from 1 January 2025, aligning to our internal reporting to CODM, our operating segments and reportable segments are as follows:

- **Hong Kong Business** comprises of Retail Banking and Wealth ('RBW') and Commercial Banking ('CMB') business across all the operating geographical regions. RBW offers an extensive array of products and services tailored to the personal banking, consumer lending, and wealth management requirements of individual customers. These services typically encompass current and savings accounts, time deposits, mortgage and personal loans, credit cards, distribution of insurance, investment and a variety of wealth management options. CMB provides a comprehensive suite of products and financial solutions to corporate, institutional, commercial, and small and medium-sized enterprises ('SME') clients. This includes corporate lending, trade and receivable finance, transaction banking and cash management, treasury and foreign exchange, distribution of general and key-person insurance, investment services, and corporate wealth management;

- **Insurance Manufacturing and Asset Management** provides life insurance services to individual and corporate customers as well as investment management services covering retail funds and exchange traded funds to institutional and private clients;

- **Markets and Securities Services** offers tailored solutions and services across foreign exchange, bullion, equities, fixed income, and securities financing;

- **Corporate Centre** mainly represents the Group's holdings of premises apart from outlets dedicated for RBW, investment properties, equity shares and subordinated debt funding as well as central support and functional costs with associated recoveries.

15 Segmental analysis *(continued)*

(a) Segmental result

	Hong Kong Business	Insurance Manufacturing and Asset Management	Markets and Securities Services	Corporate Centre[1]	Total
Year ended 31 December 2025					
Net interest income/(expense)	28,567	322	138	(183)	28,844
Net fee income/(expense)	5,398	417	(33)	549	6,331
Net income/(loss) from financial instruments measured at fair value through profit or loss	1,430	17,700	1,604	(36)	20,698
Gains less losses from financial investments	31	–	(2)	–	29
Dividend income	6	–	–	204	210
Insurance finance income/(expenses)	(1)	(18,053)	–	–	(18,054)
Insurance service results	(11)	2,817	–	–	2,806
– Insurance revenue	29	4,114	–	–	4,143
– Insurance service expense	(40)	(1,297)	–	–	(1,337)
Other operating income/(loss)	223	840	–	327	1,390
Net operating income before change in expected credit losses and other credit impairment charges	35,643	4,043	1,707	861	42,254
– External	34,347	3,905	2,902	1,100	42,254
– Inter-segment	1,296	138	(1,195)	(239)	–
Change in expected credit losses and other credit impairment charges	(8,045)	(4)	–	–	(8,049)
Net operating income	27,598	4,039	1,707	861	34,205
Operating expenses	(13,266)	(701)	(597)	(1,022)	(15,586)
Impairment loss on intangible assets	–	–	–	(11)	(11)
Operating profit/(loss)	14,332	3,338	1,110	(172)	18,608
Net surplus/(deficit) on property revaluation	–	–	–	(655)	(655)
Share of profits/(losses) of associate	–	(45)	–	–	(45)
Profit/(loss) before tax	14,332	3,293	1,110	(827)	17,908
Share of profit/(loss) before tax	80.0%	18.4%	6.2%	(4.6%)	100.0%
As at 31 December 2025					
Total assets	1,404,481	246,388	138,301	29,943	1,819,113
– of which: Gross loans and advances to customers	806,538	–	–	–	806,538
Total liabilities	1,336,761	234,720	43,891	31,049	1,646,421
– of which: Customer deposits[2]	1,283,320	21	–	–	1,283,341
Interest in an associate	–	2,196	–	–	2,196
Non-current assets acquired during the year	303	1	1	1,467	1,772

15 Segmental analysis *(continued)*

(a) Segmental result (continued)

(re-presented)[3]	*Hong Kong Business*	*Insurance Manufacturing and Asset Management*	*Markets and Securities Services*	*Corporate Centre*[1]	*Total*
Year ended 31 December 2024					
Net interest income/(expense)	29,907	221	108	548	30,784
Net fee income/(expense)	4,570	341	(25)	430	5,316
Net income/(loss) from financial instruments measured at fair value through profit or loss	1,171	6,017	1,307	(814)	7,681
Gains less losses from financial investments	54	–	(1)	–	53
Dividend income	6	–	–	201	207
Insurance finance income/(expenses)	–	(5,559)	–	–	(5,559)
Insurance service results	(8)	2,279	–	–	2,271
– Insurance revenue	77	3,300	–	–	3,377
– Insurance service expense	(85)	(1,021)	–	–	(1,106)
Other operating income/(loss)	199	108	–	477	784
Net operating income before change in expected credit losses and other credit impairment charges	35,899	3,407	1,389	842	41,537
– External	35,273	3,352	2,022	890	41,537
– Inter-segment	626	55	(633)	(48)	–
Change in expected credit losses and other credit impairment charges	(4,774)	1	–	–	(4,773)
Net operating income	31,125	3,408	1,389	842	36,764
Operating expenses	(12,973)	(718)	(588)	(914)	(15,193)
Impairment loss on intangible assets	–	–	–	(13)	(13)
Operating profit/(loss)	18,152	2,690	801	(85)	21,558
Net surplus/(deficit) on property revaluation	–	–	–	(583)	(583)
Share of profits/(losses) of associate	–	39	–	–	39
Profit/(loss) before tax	18,152	2,729	801	(668)	21,014
Share of profit/(loss) before tax	86.4%	13.0%	3.8%	(3.2%)	100.0%
As at 31 December 2024					
Total assets	1,463,565	211,687	87,337	32,607	1,795,196
– of which: Gross loans and advances to customers	832,109	–	–	–	832,109
Total liabilities	1,338,972	198,752	50,133	37,775	1,625,632
– of which: Customer deposits[2]	1,266,999	22	–	–	1,267,021
Interest in an associate	–	2,321	–	–	2,321
Non-current assets acquired during the year	250	1	1	1,496	1,748

15 Segmental analysis *(continued)*

(a) *Segmental result* *(continued)*

1 *Including inter-segment elimination, of which total assets eliminated was approximately HK$2.0bn as at 31 December 2025 (HK$3.7bn as at 31 December 2024) and total liabilities eliminated was approximately HK$2.7bn as at 31 December 2025 (HK$2.1bn as at 31 December 2024).*

2 *Customer deposits balances include current, savings and other deposit accounts, as well as structured deposits.*

3 *Effective from 1 January 2025, the Group's reportable segments will comprise three new businesses – Hong Kong Business, Insurance Manufacturing and Asset Management, and Markets and Securities Services, along with Corporate Centre. These will replace our previously reported operating segments up to 31 December 2024. Comparatives have been re-presented to conform with current period's presentation.*

(b) *Information by geographical region*

The geographical regions in this analysis are classified by the location of the principal operations of the subsidiary companies or, in the case of the Bank itself, by the location of the branches responsible for reporting the results or advancing the funds. Consolidation adjustments made in preparing the Group's financial statements upon consolidation are included in the 'Inter-region elimination'.

	Hong Kong[1]	Mainland China	Others	Inter-region elimination	Total
Year ended 31 December 2025					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	**40,319**	**1,786**	**162**	**(13)**	**42,254**
Profit before tax	**17,911**	**(32)**	**29**	**–**	**17,908**
At 31 December 2025					
Total assets	**1,726,884**	**103,804**	**9,114**	**(20,689)**	**1,819,113**
Total liabilities	**1,562,681**	**87,484**	**7,497**	**(11,241)**	**1,646,421**
Interest in an associate	**2,196**	**–**	**–**	**–**	**2,196**
Non-current assets[2]	**37,408**	**1,215**	**8**	**–**	**38,631**
Contingent liabilities and commitments	**481,317**	**53,589**	**3,721**	**(21,458)**	**517,169**
Year ended 31 December 2024					
Net operating income/(loss) before change in expected credit losses and other credit impairment charges	39,444	1,952	160	(19)	41,537
Profit before tax	20,834	179	1	–	21,014
At 31 December 2024					
Total assets	1,702,417	108,673	18,481	(34,375)	1,795,196
Total liabilities	1,540,658	92,997	16,888	(24,911)	1,625,632
Interest in an associate	2,321	–	–	–	2,321
Non-current assets[2]	39,356	1,254	18	–	40,628
Contingent liabilities and commitments	467,970	62,877	6,047	(18,954)	517,940

1 *This represents Hong Kong as a geographical region and is different from Hong Kong business defined for the Group's segmental analysis.*

2 *Non-current assets consist of investment properties, premises, plant and equipment, intangible assets and right-of-use assets.*

16 Maturity analysis of assets and liabilities

The following table provides an analysis of consolidated total assets and liabilities by residual contractual maturity at the balance sheet date. These balances are included in the maturity analysis as follows:

– Trading assets and liabilities (including trading derivatives but excluding reverse repos, repos and debt securities in issue) are mainly included in the 'Not more than 1 month' time bucket, because trading balances are typically held for short periods of time.

– Financial assets and liabilities with no contractual maturity (such as equity securities) are included in the 'Over 5 years' time bucket. Undated or perpetual instruments are classified based on the contractual notice period which the counterparty of the instrument is entitled to give. Where there is no contractual notice period, undated or perpetual contracts are included in the 'Over 5 years' time bucket.

– Non-financial assets and liabilities with no contractual maturity are included in the 'Over 5 years' time bucket. Non-financial assets mainly include premises, plant and equipment of HK$23,856m (2024: HK$24,943m), intangible assets of HK$4,484m (2024: HK$4,465m), investment properties of HK$10,291m (2024: HK$11,220m), bullion of HK$11,811m (2024: HK$2,194m) and reinsurance contract assets of HK$13,419m (2024: HK$12,867m). Non-financial liabilities mainly include insurance contracts liabilities of HK$228,392m (2024: HK$188,481m) and deferred tax liabilities of HK$3,910m (2024: HK$3,717m).

– Liabilities under insurance contracts and reinsurer's share of liabilities under insurance contracts reported under 'Non-financial liabilities' are, irrespective of contractual maturity, included in the 'Over 5 years' time bucket in the maturity table provided below. An analysis of the expected maturity of insurance contract liabilities based on discounted cash flows is provided in note 33(d). Liabilities under investment contracts are classified in accordance with their contractual maturity. Undated investment contracts are included in the 'Over 5 years' time bucket, however, such contracts are subject to surrender and transfer options by the policyholders.

16 Maturity analysis of assets and liabilities *(continued)*

2025	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
Assets									
Cash and balances at central banks	10,290	–	–	–	–	–	–	–	10,290
Trading assets	29,340	23,352	–	–	–	–	–	–	52,692
Derivative financial instruments	9,328	344	206	96	28	109	2,416	1	12,528
Financial assets mandatorily measured at fair value through profit or loss	3,663	3,219	2,288	3,470	992	14,259	15,288	157,607	200,786
Reverse repurchase agreements – non-trading	54,558	25,861	395	–	–	–	–	–	80,814
Placings with and advances to banks	46,998	23,058	7,765	19	2,184	3,386	1,946	–	85,356
Loans and advances to customers	82,218	58,057	64,127	42,869	49,096	89,757	129,157	272,068	787,349
Financial investments	61,198	120,850	103,537	15,386	10,165	41,400	117,487	14,096	484,119
Accrued income and other financial assets	20,213	5,368	6,501	255	760	165	132	137	33,531
Financial assets	317,806	260,109	184,819	62,095	63,225	149,076	266,426	443,909	1,747,465
Non-financial assets	–	–	–	–	–	–	–	71,648	71,648
Total assets	317,806	260,109	184,819	62,095	63,225	149,076	266,426	515,557	1,819,113
Liabilities									
Deposits from banks	8,001	21	–	–	–	–	–	–	8,022
Current, savings and other deposit accounts	904,315	264,564	77,583	7,737	4,217	504	83	–	1,259,003
Repurchase agreements – non-trading	14,067	6,389	–	–	1,336	–	–	–	21,792
Trading liabilities	13,014	–	–	–	–	–	–	–	13,014
Derivative financial instruments	9,546	282	389	28	26	84	309	3	10,667
Financial liabilities designated at fair value	16,071	9,554	3,254	286	13	7,203	–	218	36,599
Certificates of deposit in issue	–	2,220	1,216	–	–	–	–	–	3,436
Subordinated liabilities[1]	–	–	–	–	4,997	8,458	7,793	–	21,248
Accruals and other financial liabilities	21,739	7,704	5,840	268	810	396	658	36	37,451
Financial liabilities	986,753	290,734	88,282	8,319	11,399	16,645	8,843	257	1,411,232
Non-financial liabilities	–	–	–	–	–	–	–	235,189	235,189
Total liabilities	986,753	290,734	88,282	8,319	11,399	16,645	8,843	235,446	1,646,421

1 *The maturity for subordinated liabilities is based on the earliest date on which the Group can call, i.e. the callable date.*

16 Maturity analysis of assets and liabilities *(continued)*

2024	Not more than 1 month	Over 1 month but not more than 3 months	Over 3 months but not more than 6 months	Over 6 months but not more than 9 months	Over 9 months but not more than 1 year	Over 1 year but not more than 2 years	Over 2 years but not more than 5 years	Over 5 years	Total
Assets									
Cash and balances at central banks	10,433	–	–	–	–	–	–	–	10,433
Trading assets	39,640	–	–	–	–	–	–	–	39,640
Derivative financial instruments	15,401	1,489	1,317	342	17	405	1,230	–	20,201
Financial assets mandatorily measured at fair value through profit or loss	1,250	1,249	4,133	1,363	3,048	8,257	19,842	125,415	164,557
Reverse repurchase agreements – non-trading	26,709	6,536	234	–	–	–	–	–	33,479
Placings with and advances to banks	44,806	17,271	6,313	1,835	4,055	1,941	–	–	76,221
Loans and advances to customers	80,862	58,295	66,775	44,817	49,713	102,826	140,167	275,681	819,136
Financial investments	90,695	205,734	111,018	17,265	8,480	25,225	68,336	14,402	541,155
Accrued income and other financial assets	16,598	4,906	4,318	1,779	381	130	182	92	28,386
Financial assets	326,394	295,480	194,108	67,401	65,694	138,784	229,757	415,590	1,733,208
Non-financial assets	–	–	–	–	–	–	–	61,988	61,988
Total assets	326,394	295,480	194,108	67,401	65,694	138,784	229,757	477,578	1,795,196
Liabilities									
Deposits from banks	14,258	21	–	–	–	–	–	–	14,279
Current, savings and other deposit accounts	835,073	304,464	73,633	9,146	10,887	4,701	320	–	1,238,224
Repurchase agreements – non-trading	18,393	994	–	–	–	–	–	–	19,387
Trading liabilities	18,093	–	–	–	–	–	–	–	18,093
Derivative financial instruments	13,045	–	–	5	2	60	405	–	13,517
Financial liabilities designated at fair value	14,674	13,062	3,364	2,385	3,398	1,511	–	242	38,636
Certificates of deposit in issue	459	4,467	22	–	–	–	–	–	4,948
Subordinated liabilities[1]	–	–	6,240	–	–	4,994	16,241	–	27,475
Accruals and other financial liabilities	41,334	8,053	3,982	570	788	510	383	21	55,641
Financial liabilities	955,329	331,061	87,241	12,106	15,075	11,776	17,349	263	1,430,200
Non-financial liabilities	–	–	–	–	–	–	–	195,432	195,432
Total liabilities	955,329	331,061	87,241	12,106	15,075	11,776	17,349	195,695	1,625,632

1 *The maturity for subordinated liabilities is based on the earliest date on which the Group can call, i.e. the callable date.*

17 Trading assets

	2025	2024
Treasury bills	**13,202**	19,897
Other debt securities	**14,254**	19,716
Debt securities	**27,456**	39,613
Investment funds/equity shares	**24**	27
Reverse repurchase agreements	**25,212**	–
	52,692	39,640

18 Derivative financial instruments

Use of derivatives

The Group transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risk arising from client business, and to manage and hedge the Group's own risks. Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held for trading classification are two types of derivative instruments: those used in sales and trading activities, and those used for risk management purposes but for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value.

The Group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the Group employs the same credit risk management framework to assess and approve potential credit exposures that it uses for traditional lending.

The following table shows the notional contract amounts and fair value of assets and liabilities by each class of derivatives.

	Notional contract amount			*Fair value – Assets*			*Fair value – Liabilities*		
	Trading	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*	*Trading*	*Hedging*	*Total*
Foreign exchange	**1,249,746**	**147,988**	**1,397,734**	**4,279**	**888**	**5,167**	**4,521**	**840**	**5,361**
Interest rate	**642,868**	**101,906**	**744,774**	**4,269**	**2,369**	**6,638**	**3,802**	**354**	**4,156**
Equity and other	**28,036**	**–**	**28,036**	**723**	**–**	**723**	**1,150**	**–**	**1,150**
At 31 December 2025	**1,920,650**	**249,894**	**2,170,544**	**9,271**	**3,257**	**12,528**	**9,473**	**1,194**	**10,667**
Foreign exchange	1,125,256	73,288	1,198,544	8,029	3,553	11,582	6,409	8	6,417
Interest rate	707,550	102,586	810,136	6,707	1,323	8,030	6,110	463	6,573
Equity and other	26,543	–	26,543	589	–	589	527	–	527
At 31 December 2024	1,859,349	175,874	2,035,223	15,325	4,876	20,201	13,046	471	13,517

18 Derivative financial instruments *(continued)*

Trading derivatives

Most of the Group's trading derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks. Trading activities in derivatives include market-making and risk management. Market-making entails quoting bid and offer prices to other market participants for the purpose of generating revenues based on spread and volume. Risk management activity is undertaken to manage the risk arising from client transactions, with the principal purpose of retaining client margin. Other derivatives classified as held for trading include non-qualifying hedging derivatives.

Derivatives valued using models with unobservable inputs

Any initial gain or loss on financial instruments where the valuation is dependent on unobservable parameters is deferred over the life of the contract or until the instrument is redeemed, transferred or sold or the fair value becomes observable. All derivatives that are part of qualifying hedging relationships have valuations based on observable market parameters.

Hedge accounting derivatives

The Group applies hedge accounting to manage the following risks: interest rate, foreign exchange and net investment in foreign operations. The Group uses derivatives (principally interest rate and currency swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the Group to optimise the overall costs to the Group of accessing debt capital markets, and to mitigate the market risk which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities. The accounting treatment of hedging transactions varies according to the nature of the instrument hedged and the type of hedging transaction. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges.

(a) Fair value hedges

The Group enters into fixed-for-floating-interest-rate swaps to manage the exposure to changes in fair value due to movements in market interest rates on certain fixed rate financial instruments which are not measured at fair value through profit or loss, including debt securities held and issued.

Sources of hedge ineffectiveness may arise from basis risk including but not limited to the discount rates used for calculating the fair value of derivatives, hedges using instruments with a non-zero fair value and notional and timing differences between the hedged items and hedging instruments.

For some debt securities held, the Group manages interest rate risk in a dynamic risk management strategy. The assets in scope of this strategy are high quality fixed-rate debt securities, which may be sold to meet liquidity and funding requirements.

18 Derivative financial instruments *(continued)*

(a) Fair value hedges *(continued)*

Hedging instrument by hedged risk

	Hedging instrument				
	Carrying amount				
Hedged risk	**Notional amount[1]**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[2]**
Interest rate	**47,206**	**29**	**349**	**Derivatives**	**(316)**
At 31 December 2025	**47,206**	**29**	**349**		**(316)**
Interest rate	37,756	379	220	Derivatives	27
At 31 December 2024	37,756	379	220		27

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.*

2 *Used in effectiveness testing, which uses the full fair value change of the hedging instrument not excluding any component.*

Hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount					
Hedged risk	**Assets**	**Liabilities**	**Assets**	**Liabilities**	**Balance sheet presentation**	**Change in fair value[1]**	**Recognised in profit and loss**	**Profit and loss presentation**
Interest rate	**47,934**	**–**	**203**	**–**	**Financial investments measured at fair value through other comprehensive income**	**318**	**2**	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
At 31 December 2025	**47,934**	**–**	**203**	**–**		**318**	**2**	
Interest rate	37,860	–	(132)	–	Financial investments measured at fair value through other comprehensive income	(31)	(4)	Net income/(loss) from financial instruments measured at fair value through profit or loss
At 31 December 2024	37,860	–	(132)	–		(31)	(4)	

1 *Used in effectiveness testing, which comprise an amount attributable to the designated hedged risk that can be a risk component.*

18 Derivative financial instruments *(continued)*

(b) Cash flow hedges

The Group's cash flow hedging instruments consist principally of interest rate swaps and cross currency swaps that are used to manage the variability in future interest cash flows of non-trading financial assets and liabilities, arising due to changes in market interest rates and foreign currency basis.

The Group applies macro cash flow hedging for interest rate risk exposures on portfolios of replenishing current and forecasted issuances of non-trading assets and liabilities that bear interest at variable rates, including rolling such instruments. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate cash flows representing both principal balances and interest cash flows across all portfolios are used to determine the effectiveness and ineffectiveness. Macro cash flow hedges are considered to be dynamic hedges.

The Group also hedges the variability in future cash-flows on foreign-denominated financial assets and liabilities arising due to changes in foreign exchange market rates with cross currency swaps; these are considered non-dynamic hedges.

Hedging instrument by hedged risk

	Hedging instrument					*Hedged item*	*Ineffectiveness*	
	Carrying amount							
Hedged risk	*Notional amount*[1]	*Assets*	*Liabilities*	*Balance sheet presentation*	*Change in fair value*[2]	*Change in fair value*[3]	*Recognised in profit and loss*	*Profit and loss presentation*
Foreign currency	**147,988**	**888**	**840**	**Derivatives**	**(5,088)**	**(5,088)**	**–**	**Net income/(loss) from financial instruments measured at fair value through profit or loss**
Interest rate	**54,700**	**2,340**	**5**	**Derivatives**	**2,059**	**2,059**	**–**	
At 31 December 2025	**202,688**	**3,228**	**845**		**(3,029)**	**(3,029)**	**–**	
Foreign currency	73,288	3,553	8	Derivatives	5,367	5,367	–	Net income/(loss) from financial instruments measured at fair value through profit or loss
Interest rate	64,830	944	243	Derivatives	(471)	(471)	–	
At 31 December 2024	138,118	4,497	251		4,896	4,896	–	

1 *The notional contract amounts of derivatives designated in qualifying hedge accounting relationships indicate the nominal value of transactions outstanding at the balance sheet date. They do not represent amounts at risk.*

2 *Used in effectiveness testing; comprising the full fair value change of the hedging instrument not excluding any component.*

3 *Used in effectiveness assessment; comprising amount attributable to the designated hedged risk that can be a risk component.*

18 Derivative financial instruments *(continued)*

(b) ***Cash flow hedges*** *(continued)*

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate	*Foreign exchange*	*Total*
At 1 January 2025	**(126)**	**(24)**	**(150)**
Fair value gains/(losses)	**2,059**	**(5,088)**	**(3,029)**
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
– hedged items that has affected profit or loss[1]	**(354)**	**5,253**	**4,899**
Deferred taxes	**(282)**	**(27)**	**(309)**
At 31 December 2025	**1,297**	**114**	**1,411**
At 1 January 2024	(43)	(53)	(96)
Fair value gains/(losses)	(471)	5,367	4,896
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:			
– hedged items that has affected profit or loss	371	(5,332)	(4,961)
Deferred taxes	17	(6)	11
At 31 December 2024	(126)	(24)	(150)

1 *Hedged items that have affected profit or loss are primarily recorded within 'Net income/(loss) from financial instruments measured at fair value through profit or loss' and 'Net interest income'.*

19 Financial assets mandatorily measured at fair value through profit or loss

	2025	*2024*
Treasury bills	**116**	924
Other debt securities	**126,186**	112,669
Equity shares	**22,429**	12,802
Investment funds	**51,396**	37,387
Other	**659**	775
	200,786	164,557

20 Placings with and advances to banks

	2025	*2024*
Balances with banks	**4,892**	4,129
Placings with and advances to banks maturing within one month	**42,107**	40,677
Placings with and advances to banks maturing after one month but less than one year	**33,026**	29,476
Placings with and advances to banks maturing after one year	**5,332**	1,941
Less: Allowances for expected credit losses	**(1)**	(2)
	85,356	76,221
of which:		
Placings with and advances to central banks	**5,415**	8,147

There were no overdue advances, impaired advances and rescheduled advances to banks at 31 December 2025 (2024: Nil).

21 Loans and advances to customers

(a) Loans and advances to customers

	2025	*2024*
Gross loans and advances to customers	**806,538**	832,109
Less: Allowances for expected credit losses	**(19,189)**	(12,973)
	787,349	819,136

Expected credit losses as a percentage of gross loans and advances to customers	**2.38%**	1.56%
Gross impaired loans and advances	**56,809**	50,964
Gross impaired loans and advances as a percentage of gross loans and advances to customers	**7.04%**	6.12%

21 Loans and advances to customers *(continued)*

(b) Net investments in finance leases and hire purchase contracts

The Group leases a variety of assets to third parties under finance leases. At the end of lease terms, assets may be sold to third parties or leased for further terms. Rentals are calculated to recover the cost of assets less their residual value, and earn finance income. Loans and advances to customers include receivables under finance leases and hire purchase contracts having the characteristics of finance leases.

	2025			2024		
	Present value of minimum lease payments receivable	**Interest income relating to future periods**	**Total minimum lease payments receivable**	Present value of minimum lease payments receivable	Interest income relating to future periods	Total minimum lease payments receivable
Amounts receivable:						
– within one year	**299**	**156**	**455**	321	187	508
– over one year to two years	**343**	**134**	**477**	339	161	500
– over two years to three years	**355**	**139**	**494**	349	165	514
– over three years to four years	**360**	**141**	**501**	354	167	521
– over four years to five years	**362**	**141**	**503**	358	170	528
– after five years	**4,908**	**981**	**5,889**	5,262	1,234	6,496
	6,627	**1,692**	**8,319**	6,983	2,084	9,067
Allowances for expected credit losses	**(160)**			(181)		
Net investments in finance leases and hire purchase contracts	**6,467**			6,802		

22 Financial investments

	2025	2024
Financial investments measured at FVOCI		
– treasury bills	**257,965**	312,094
– other debt securities	**107,721**	94,612
– equity shares	**4,912**	4,410
	370,598	411,116
Debt instruments measured at amortised cost		
– treasury bills	**–**	66,591
– other debt securities	**113,536**	63,451
Less: Allowances for expected credit losses	**(15)**	(3)
	113,521	130,039
	484,119	541,155

22 Financial investments *(continued)*

All equity instruments measured at FVOCI are for business facilitation, with HK$210m dividend recognised during the year (2024: HK$207m).

There was no overdue debt securities at 31 December 2025 (2024: Nil). The Group did not hold any asset-backed securities, mortgage-backed securities and collateralised debt obligations in 2025 and 2024. There was no financial investments determined to be impaired at 31 December 2025 (2024: Nil).

23 Assets pledged, assets transferred and collateral received

Assets pledged

Financial assets pledged to secure liabilities

	2025	*2024*
Trading assets, financial investments and others	**35,080**	37,898
Amount of liabilities secured	**35,774**	36,067

The table above shows assets where a charge has been granted to secure liabilities on a legal and contractual basis. These transactions are conducted under terms that are usual and customary to collateralised transactions including sale and repurchase agreements and securities lending, derivative margining, and include assets pledged to cover short positions and to facilitate settlement processes with clearing houses.

Financial assets pledged as collateral which the counterparty has the right to sell or repledge was HK$12,909m (2024: HK$8,284m).

Assets transferred

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2025		*2024*	
	Carrying amount of		*Carrying amount of*	
	Transferred assets	***Associated liabilities***	*Transferred assets*	*Associated liabilities*
Repurchase agreements	**16,815**	**16,503**	15,471	15,037
Securities lending agreements	**–**	**–**	–	–
	16,815	**16,503**	15,471	15,037

The financial assets shown above include amounts transferred to third parties that do not qualify for derecognition, notably debt securities held by counterparties as collateral under repurchase agreements and debt securities lent under securities lending agreements. As the substance of these transactions is secured borrowings, the collateral assets continue to be recognised in full and the related liabilities, reflecting the Group's obligation to repurchase the transferred assets for a fixed price at a future date, are also recognised on the balance sheet. As a result of these transactions, the Group is unable to use, sell or pledge the transferred assets for the duration of the transactions. The Group remains exposed to interest rate risk, credit risk and market risk on these pledged instruments. The counterparty's recourse is not limited to the transferred assets.

23 Assets pledged, assets transferred and collateral received *(continued)*

Collaterals received

Assets accepted as collateral related primarily to standard securities lending, reverse repurchase agreements and derivative margining. These transactions are conducted under terms that are usual and customary to standard securities lending, reverse repurchase agreements and derivative margining.

Fair value of collateral accepted as security for assets

	2025	2024
Fair value of collateral permitted to sell or repledge in the absence of default	**108,178**	34,508
Fair value of collateral actually sold or repledged	**5,655**	4,337

24 Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group as at 31 December 2025. The class of shares held is ordinary.

Name of company	*Place of incorporation & operation*	*Principal activities*	*Issued share capital*	*Percentage of shareholding*
Hang Seng Bank (China) Limited[1]	People's Republic of China	Banking	RMB8,317,500,000	100%
Hang Seng Insurance Company Limited	Hong Kong SAR	Retirement benefits and life assurance	HK$6,426,184,570	100%
Hang Seng Investment Management Limited	Hong Kong SAR	Fund management	HK$10,000,000	100%
Hang Seng Securities Limited	Hong Kong SAR	Trading and dealing in securities	HK$26,000,000	100%
Yan Nin Development Company Limited	Hong Kong SAR	Investment holding	HK$100,000	100%
Hang Seng Indexes Company Limited	Hong Kong SAR	Index compilation and licensing	HK$10,000	100%
High Time Investments Limited	Hong Kong SAR	Investment holding	HK$2,250,010,000	100%
Hang Seng Qianhai Fund Management Company Limited[2]	People's Republic of China	Fund raising, fund sales and asset management	RMB500,000,000	70%

1 *Represents a wholly foreign owned limited liability company registered under the laws of People's Republic of China.*

2 *Represents a foreign – majority – owned contractual joint venture registered under the laws of People's Republic of China.*

All the above companies are unlisted. All principal subsidiaries are held directly by the Bank except for Hang Seng Indexes Company Limited. The principal places of operation are the same as the places of incorporation.

Some of the principal subsidiaries are regulated banking and insurance entities and as such, are required to maintain certain minimum levels of capital, regulatory solvency requirement and liquid assets to support their operations. The effect of these regulatory requirements is to limit the extent to which the subsidiaries may transfer funds to the Bank in the form of repayment of certain shareholder loans or cash dividends.

25 Interest in an associate

	2025	*2024*
Share of net assets	**2,196**	2,321

The associate is:

Name of company	*Place of incorporation & operation*	*Principal activities*	*Issued share capital*	*Percentage of shareholding*
Barrowgate Limited	Hong Kong SAR	Property investment	HK$10,000	24.64%

The interest in Barrowgate Limited is owned by a wholly-owned subsidiary of the Bank and accounted for using the equity method in the Consolidated Financial Statements as at 31 December 2025 and 2024.

	Assets	*Liabilities*	*Equity*	*Revenue*	*Expenses*	*Profit or loss*
2025						
100 per cent	**9,844**	**931**	**8,913**	**136**	**320**	**(184)**
The Group's effective interest	**2,425**	**229**	**2,196**	**34**	**79**	**(45)**
2024						
100 per cent	10,398	980	9,418	327	169	158
The Group's effective interest	2,562	241	2,321	81	42	39

Investment in an associate is assessed at each reporting date and tested for impairment when there is an indication that the investment may be impaired, by comparing the recoverable amount of the relevant investment to its carrying amount. At 31 December 2025, the Group has concluded there is no indication of impairment and thus no impairment loss was recognised (2024: Nil).

26 Property, plant and equipment

	2025	*2024*
Premises	**20,850**	22,442
Plant and equipment[1]	**1,600**	1,602
Other right of use assets	**1,406**	899
Premises, plant and equipment	**23,856**	24,943
Investment properties	**10,291**	11,220
	34,147	36,163

[1] *Includes leasehold land and building assets for which the rights of use are considered sufficient to constitute control and for which there are insignificant lease liabilities. They are therefore presented as owned assets.*

26 Property, plant and equipment *(continued)*

(a) *Movement in owned property, plant and equipment*

	Premises	*Investment properties*	*Plant and equipment*	*Total*
Cost or valuation:				
At 1 January 2025	**22,442**	**11,220**	**4,652**	**38,314**
Additions	**–**	**14**	**432**	**446**
Disposals and write-offs	**–**	**–**	**(242)**	**(242)**
Elimination of accumulated depreciation on revalued premises	**(962)**	**–**	**–**	**(962)**
Surplus/(Deficit) on revaluation:				
– credited/(charged) to premises revaluation reserve	**(662)**	**–**	**–**	**(662)**
– debited to income statement[1]	**(3)**	**(942)**	**–**	**(945)**
Transfer	**–**	**–**	**–**	**–**
Exchange adjustments and other	**35**	**(1)**	**7**	**41**
At 31 December 2025	**20,850**	**10,291**	**4,849**	**35,990**
Accumulated depreciation:				
At 1 January 2025	**–**	**–**	**(3,050)**	**(3,050)**
Charge for the year (note 10)	**(962)**	**–**	**(431)**	**(1,393)**
Attributable to assets sold or written off	**–**	**–**	**236**	**236**
Elimination of accumulated depreciation on revalued premises	**962**	**–**	**–**	**962**
Exchange adjustments and other	**–**	**–**	**(4)**	**(4)**
At 31 December 2025	**–**	**–**	**(3,249)**	**(3,249)**
Net book value at 31 December 2025	**20,850**	**10,291**	**1,600**	**32,741**
Representing:				
– measure at cost	**–**	**–**	**1,600**	**1,600**
– measure at valuation	**20,850**	**10,291**	**–**	**31,141**
	20,850	**10,291**	**1,600**	**32,741**
Cost or valuation:				
At 1 January 2024	24,268	12,000	4,415	40,683
Additions	–	15	412	427
Disposals and write-offs	–	–	(165)	(165)
Elimination of accumulated depreciation on revalued premises	(1,001)	–	–	(1,001)
Surplus/(Deficit) on revaluation:				
– credited/(charged) to premises revaluation reserve	(713)	–	–	(713)
– debited to income statement[1]	(2)	(871)	–	(873)
Transfer	(79)	76	–	(3)
Exchange adjustments and other	(31)	–	(10)	(41)
At 31 December 2024	22,442	11,220	4,652	38,314
Accumulated depreciation:				
At 1 January 2024	–	–	(2,758)	(2,758)
Charge for the year (note 10)	(1,004)	–	(455)	(1,459)
Attributable to assets sold or written off	–	–	156	156
Elimination of accumulated depreciation on revalued premises	1,001	–	–	1,001
Exchange adjustments and other	3	–	7	10
At 31 December 2024	–	–	(3,050)	(3,050)
Net book value at 31 December 2024	22,442	11,220	1,602	35,264
Representing:				
– measure at cost	–	–	1,602	1,602
– measure at valuation	22,442	11,220	–	33,662
	22,442	11,220	1,602	35,264

1 *Reported under "Net surplus/(deficit) on property revaluation" of HK$(655)m (2024: HK$(583)m) and "Other operating income/(loss)" of HK$(290)m (2024: HK$(290)m).*

26 Property, plant and equipment *(continued)*

(b) The carrying amount of all premises which have been stated in the balance sheet would have been as follows had they been stated at cost less accumulated depreciation:

	2025	2024
Cost less accumulated depreciation at 31 December	**5,251**	5,455

(c) The Group leases out investment properties under operating leases. The leases typically run for an initial period of 2 to 3 years, and may contain an option to renew the lease after that date at which time all terms are renegotiated. None of the leases includes contingent rentals.

	2025	2024
Direct operating expenses arising from investment properties	**74**	74
Direct operating expenses arising from investment properties that generated rental income	**63**	67

The Group's total future minimum lease payments receivable under non-cancellable operating leases are as follows:

	2025	2024
Within one year	**258**	336
One to two years	**138**	181
Over two years to three years	**54**	52
Three to four years	**5**	22
Four to five years	**–**	4
	455	595

(d) Fair value measurement of properties

The Group's premises and investment properties were revalued by Cushman & Wakefield Limited ('C&W'), an independent professional valuer, before the year end, and were updated by C&W for any material changes in the valuation as at 31 December 2025. It was confirmed that there was no material change in value as at 31 December 2025 since the last valuation. The valuations were carried out by qualified persons who are members of the Hong Kong Institute of Surveyors. The basis of valuations of premises and investment properties were market value which is consistent with the definition of fair value under HKFRS 13 *'Fair Value Measurement'* and take into account the highest and best use of the property from the perspective of market participants.

The resultant values of both investment properties and properties held for own use for the Group were Level 3 (fair value measured using significant unobservable inputs). During the year ended 31 December 2025, there were no transfers into or out of Level 3 (2024: Nil).

26 Property, plant and equipment *(continued)*

(d) Fair value measurement of properties (continued)

The following table details the gains or losses recognised in profit or loss in relation to the Level 3 premises and investment properties:

	Premises		Investment properties	
	2025	2024	**2025**	2024
Unrealised gains or losses recognised in profit or loss relating to those assets held at the end of the reporting period				
– other operating income/(loss)	**–**	–	**(290)**	(290)
– net surplus/(deficit) on property revaluation	**(3)**	(2)	**(652)**	(581)
– depreciation of premises, plant and equipment	**(962)**	(1,004)	**–**	–

Information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	Unobservable input(s)	Range	
			2025	2024
Investment properties	Income approach	Market yields (reversionary yield)	**2.50% to 5.10%**	2.35% to 5.00%
		Market rental	**HK$14.6 to HK$318.2 per square foot**	HK$5.3 to HK$303 per square foot
	Market approach	Premium (discount) on characteristic of the properties	**–12% to +20%**	–20% to +20%
Premises	Income approach	Market yields (reversionary yield)	**5.00% to 6.50%**	5.00% to 6.50%
		Market rental	**HK$26.7 to HK$71.2 per square foot**	HK$30.9 to HK$69.2 per square foot
	Market approach	Premium (discount) on characteristic of the properties	**–29% to +20%**	–20% to +20%

The fair value measurement for tenanted investment properties is determined using Income Approach and is positively correlated to the market rental but inversely correlated to the market yields.

The valuations for premises held for own use or vacant investment properties are determined using Market Approach assuming sale with immediate vacant possession and by making reference to comparable sales evidence. They take into account the characteristic of the properties which included the location, size, shape, view, floor level, year of completion and other factors collectively. Higher premium for properties with better characteristics will result in a higher fair value measurement.

27 Intangible assets

	2025	*2024*
Internally developed software[1]	**4,083**	4,062
Acquired software[1]	**72**	74
Goodwill	**329**	329
	4,484	4,465

1 *During the year, additions of internally developed and acquired softwares were HK$1,326 m (2024: HK$1,321m), the amortisation charge was HK$1,308m (2024: HK$1,170m) and the impairment charge was HK$11m (2024: HK$13m).*

(a) Goodwill

	2025	*2024*
At 1 January and at 31 December	**329**	329

Goodwill arising from acquisition of the remaining 50 per cent of Hang Seng Life Limited from HSBC Insurance (Asia – Pacific) Holdings Limited amounted to HK$329m is allocated to cash – generating units of Life Insurance – Hang Seng Insurance Company Limited ('HSIC') for the purpose of impairment testing.

During 2025, there was no impairment of goodwill (2024: Nil). Impairment testing in respect of goodwill is performed annually by comparing the recoverable amount of cash generating unit based on HSIC's appraisal value (which is deemed to be its value in use) and carrying value of its net assets.

For the purposes of the impairment test, only a part of the appraisal value was calculated which was determined by discounting future earnings expected from the current business, taking into account factors such as future mortality and morbidity, lapse rates, levels of expenses, risk free rate and risk discount rate that reflects the investment risk and operational risk attributable to the respective long – term insurance business uncertainty in future investment return under different economic scenarios.

28 Other assets

	2025	2024
Items in the course of collection from other banks	**3,295**	3,634
Bullion	**11,811**	2,194
Prepayments and accrued income	**8,019**	7,099
Acceptances and endorsements	**11,595**	8,690
Less: Allowances for expected credit losses	**(18)**	(16)
Retirement benefits assets (note 41(a))	**404**	287
Reinsurance contract assets	**13,419**	12,867
Settlement accounts	**4,014**	3,091
Cash collateral	**3,855**	3,148
Current taxation recoverable	**17**	35
Deferred tax assets	**4,680**	3,112
Other	**3,261**	3,284
	64,352	47,425

Other included 'Assets held for sale' of HK$271m (31 December 2024: HK$353m).

29 Current, savings and other deposit accounts

	2025	2024
Current, savings and other deposit accounts:		
– as stated in Consolidated Balance Sheet	**1,259,003**	1,238,224
– structured deposits reported as financial liabilities designated at fair value (note 31)	**24,338**	28,797
	1,283,341	1,267,021

30 Trading liabilities

	2025	2024
Short positions in securities	**13,014**	18,093

31 Financial liabilities designated at fair value

	2025	2024
Certificates of deposit in issue	**7,203**	7,549
Structured deposits (note 29)	**24,338**	28,797
Other structured debt securities in issue	**4,838**	2,045
Liabilities to customers under investment contracts	**220**	245
	36,599	38,636

At 31 December 2025, the accumulated gain in fair value attributable to changes in own credit risk for financial liabilities designated at fair value was HK$10m (31 December 2024: accumulated gain/loss was insignificant).

32 Other liabilities

	2025	*2024*
Items in the course of transmission to other banks	**4,808**	4,449
Accruals	**6,574**	8,777
Acceptances and endorsements	**11,595**	8,690
Reinsurance contract liabilities	**1,100**	1,002
Retirement benefit liabilities (note 41(a))	**12**	–
Settlement accounts	**2,488**	19,737
Cash collateral	**3,860**	6,619
Lease liabilities	**1,391**	902
Other	**7,390**	7,223
	39,218	57,399

33 Insurance contract liabilities

(a) Movements in carrying amounts of insurance contracts – Analysis by remaining coverage and incurred claims

	Life direct participating contracts				*Life other contracts*				
	Liabilities for remaining coverage				*Liabilities for remaining coverage*				
	Excluding loss component	*Loss component*	*Incurred claims*	*Total*	*Excluding loss component*	*Loss component*	*Incurred claims*	*Total*	*Total*
2025									
Opening assets	–	–	–	–	(16)	2	8	(6)	(6)
Opening liabilities	178,037	3	478	178,518	9,704	138	121	9,963	188,481
Net opening balance at 1 January 2025	178,037	3	478	178,518	9,688	140	129	9,957	188,475
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(1,576)	–	–	(1,576)	(164)	–	–	(164)	(1,740)
Other contracts	(2,329)	–	–	(2,329)	(74)	–	–	(74)	(2,403)
Total insurance revenue (note 7(a))	(3,905)	–	–	(3,905)	(238)	–	–	(238)	(4,143)
Insurance service expenses									
Incurred claims and other insurance service expenses	–	–	692	692	–	(41)	88	47	739
Amortisation of insurance acquisition cash flows	509	–	–	509	44	–	–	44	553
Losses and reversal of losses on onerous contracts	–	(1)	–	(1)	–	26	–	26	25
Adjustments to liabilities for incurred claims	–	–	19	19	–	–	1	1	20
Total insurance service expenses (note 7(a))	509	(1)	711	1,219	44	(15)	89	118	1,337
Investment components	(10,976)	–	10,976	–	(2,823)	–	2,823	–	–
Insurance service results (note 7(a))	(14,372)	(1)	11,687	(2,686)	(3,017)	(15)	2,912	(120)	(2,806)
Net finance (income)/expenses from insurance contracts (note 7(b))	17,462	–	–	17,462	589	3	–	592	18,054
Effect of movements in exchange rates	756	–	1	757	33	1	2	36	793
Total changes in the statement of profit or loss and OCI	3,846	(1)	11,688	15,533	(2,395)	(11)	2,914	508	16,041
Cash flows									
Premiums received	37,650	–	–	37,650	2,651	–	–	2,651	40,301
Claims and other insurance service expenses paid, including investment components	56	–	(11,649)	(11,593)	(1)	–	(2,922)	(2,923)	(14,516)
Insurance acquisition cash flows	(1,875)	–	–	(1,875)	(48)	–	–	(48)	(1,923)
Total cash flows	35,831	–	(11,649)	24,182	2,602	–	(2,922)	(320)	23,862
Other movements	–	–	–	–	(1)	1	–	–	–
Net closing balance at 31 December 2025	217,714	2	517	218,233	9,894	130	121	10,145	228,378
Closing assets	–	–	–	–	(18)	1	3	(14)	(14)
Closing liabilities	217,714	2	517	218,233	9,912	129	118	10,159	228,392
Net closing balance at 31 December 2025	217,714	2	517	218,233	9,894	130	121	10,145	228,378

33 Insurance contract liabilities *(continued)*

(a) *Movements in carrying amounts of insurance contracts – Analysis by remaining coverage and incurred claims (continued)*

	Life direct participating contracts				Life other contracts				
	Liabilities for remaining coverage				Liabilities for remaining coverage				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
2024									
Opening assets	–	–	–	–	(22)	2	10	(10)	(10)
Opening liabilities	158,179	1	475	158,655	8,357	128	124	8,609	167,264
Net opening balance at 1 January 2024	158,179	1	475	158,655	8,335	130	134	8,599	167,254
Changes in the statement of profit or loss and OCI									
Insurance revenue									
Contract under fair value approach	(1,336)	–	–	(1,336)	(172)	–	–	(172)	(1,508)
Other contracts	(1,787)	–	–	(1,787)	(82)	–	–	(82)	(1,869)
Total insurance revenue (note 7(a))	(3,123)	–	–	(3,123)	(254)	–	–	(254)	(3,377)
Insurance service expenses									
Incurred claims and other insurance service expenses	–	(1)	575	574	–	(22)	106	84	658
Amortisation of insurance acquisition cash flows	367	–	–	367	37	–	–	37	404
Losses and reversal of losses on onerous contracts	–	3	–	3	–	26	–	26	29
Adjustments to liabilities for incurred claims	–	–	15	15	–	–	–	–	15
Total insurance service expenses (note 7(a))	367	2	590	959	37	4	106	147	1,106
Investment components	(11,459)	–	11,459	–	(1,077)	–	1,077	–	–
Insurance service results (note 7(a))	(14,215)	2	12,049	(2,164)	(1,294)	4	1,183	(107)	(2,271)
Net finance (income)/expenses from insurance contracts (note 7(b))	5,293	–	–	5,293	262	4	–	266	5,559
Effect of movements in exchange rates	(819)	–	–	(819)	(32)	–	–	(32)	(851)
Total changes in the statement of profit or loss and OCI	(9,741)	2	12,049	2,310	(1,064)	8	1,183	127	2,437
Cash flows									
Premiums received	31,021	–	–	31,021	2,469	–	–	2,469	33,490
Claims and other insurance service expenses paid, including investment components	73	–	(12,046)	(11,973)	(2)	–	(1,188)	(1,190)	(13,163)
Insurance acquisition cash flows	(1,495)	–	–	(1,495)	(48)	–	–	(48)	(1,543)
Total cash flows	29,599	–	(12,046)	17,553	2,419	–	(1,188)	1,231	18,784
Other movements	–	–	–	–	(2)	2	–	–	–
Net closing balance at 31 December 2024	178,037	3	478	178,518	9,688	140	129	9,957	188,475
Closing assets	–	–	–	–	(16)	2	8	(6)	(6)
Closing liabilities	178,037	3	478	178,518	9,704	138	121	9,963	188,481
Net closing balance at 31 December 2024	178,037	3	478	178,518	9,688	140	129	9,957	188,475

33 Insurance contract liabilities *(continued)*

(b) Movements in carrying amounts of insurance contracts – Analysis by measurement component

	Life direct participating contracts					*Life other contracts*					
			Contractual service margin					*Contractual service margin*			
	Estimates of present value of future cash flows	*Risk adjustment non-financial risk*	*Contracts under fair value approach*	*Other contracts*	*Total*	*Estimates of present value of future cash flows*	*Risk adjustment non-financial risk*	*Contracts under fair value approach*	*Other contracts*	*Total*	*Total*
2025											
Opening assets	–	–	–	–	–	(16)	2	6	2	(6)	(6)
Opening liabilities	153,377	470	12,566	12,105	178,518	8,806	32	957	168	9,963	188,481
Net opening balance at 1 January 2025	153,377	470	12,566	12,105	178,518	8,790	34	963	170	9,957	188,475
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	–	–	(1,037)	(1,360)	(2,397)	–	–	(112)	(31)	(143)	(2,540)
Change in risk adjustment for non-financial risk for risk expired	–	(44)	–	–	(44)	–	(4)	–	–	(4)	(48)
Experience adjustments and other	(263)	–	–	–	(263)	–	–	–	–	–	(263)
	(263)	(44)	(1,037)	(1,360)	(2,704)	–	(4)	(112)	(31)	(147)	(2,851)
Changes that relate to future services											
Contracts initially recognised in the year	(6,482)	122	–	6,361	1	(58)	4	–	64	10	11
Changes in estimates that adjust the CSM	824	90	1,004	(1,918)	–	(2)	1	27	(26)	–	–
Changes in estimates that result in losses and reversal of losses on onerous contracts	(2)	–	–	–	(2)	16	–	–	–	16	14
	(5,660)	212	1,004	4,443	(1)	(44)	5	27	38	26	25
Changes that relate to past services											
Adjustments to liabilities for incurred claims	19	–	–	–	19	1	–	–	–	1	20
Insurance service result (note 7(a))	(5,904)	168	(33)	3,083	(2,686)	(43)	1	(85)	7	(120)	(2,806)
Net finance (income)/expenses from insurance contracts (note 7(b))	17,462	–	–	–	17,462	563	–	23	6	592	18,054
Effect of movements in exchange rates	691	3	5	58	757	36	–	–	–	36	793
Total changes in the statement of profit or loss and OCI	12,249	171	(28)	3,141	15,533	556	1	(62)	13	508	16,041
Cash flows											
Premiums received	37,650	–	–	–	37,650	2,651	–	–	–	2,651	40,301
Claims and other insurance service expenses paid, including investment components	(11,593)	–	–	–	(11,593)	(2,923)	–	–	–	(2,923)	(14,516)
Insurance acquisition cash flows	(1,875)	–	–	–	(1,875)	(48)	–	–	–	(48)	(1,923)
Total cash flows	24,182	–	–	–	24,182	(320)	–	–	–	(320)	23,862
Net closing balance at 31 December 2025	189,808	641	12,538	15,246	218,233	9,026	35	901	183	10,145	228,378
Closing assets	–	–	–	–	–	(27)	2	6	5	(14)	(14)
Closing liabilities	189,808	641	12,538	15,246	218,233	9,053	33	895	178	10,159	228,392
Net closing balance at 31 December 2025	189,808	641	12,538	15,246	218,233	9,026	35	901	183	10,145	228,378

33 Insurance contract liabilities *(continued)*

(b) Movements in carrying amounts of insurance contracts – Analysis by measurement component *(continued)*

	Life direct participating contracts					Life other contracts					
			Contractual service margin					Contractual service margin			
	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Estimates of present value of future cash flows	Risk adjustment non-financial risk	Contracts under fair value approach	Other contracts	Total	Total
2024											
Opening assets	–	–	–	–	–	(49)	3	23	13	(10)	(10)
Opening liabilities	138,322	423	12,577	7,333	158,655	7,524	29	921	135	8,609	167,264
Net opening balance at 1 January 2024	138,322	423	12,577	7,333	158,655	7,475	32	944	148	8,599	167,254
Changes in the statement of profit or loss and OCI											
Changes that relate to current services											
CSM recognised for services provided	–	–	(957)	(977)	(1,934)	–	–	(118)	(29)	(147)	(2,081)
Change in risk adjustment for non-financial risk for risk expired	–	(37)	–	–	(37)	–	(2)	–	–	(2)	(39)
Experience adjustments and other	(211)	–	–	–	(211)	16	–	–	–	16	(195)
	(211)	(37)	(957)	(977)	(2,182)	16	(2)	(118)	(29)	(133)	(2,315)
Changes that relate to future services											
Contracts initially recognised in the year	(4,645)	76	–	4,569	–	(63)	3	–	64	4	4
Changes in estimates that adjust the CSM	(2,218)	11	956	1,251	–	(98)	2	114	(18)	–	–
Changes in estimates that result in losses and reversal of losses on onerous contracts	3	–	–	–	3	23	(1)	–	–	22	25
	(6,860)	87	956	5,820	3	(138)	4	114	46	26	29
Changes that relate to past services											
Adjustments to liabilities for incurred claims	15	–	–	–	15	–	–	–	–	–	15
Insurance service result (note 7(a))	(7,056)	50	(1)	4,843	(2,164)	(122)	2	(4)	17	(107)	(2,271)
Net finance (income)/expenses from insurance contracts (note 7(b))	5,293	–	–	–	5,293	238	–	23	5	266	5,559
Effect of movements in exchange rates	(735)	(3)	(10)	(71)	(819)	(32)	–	–	–	(32)	(851)
Total changes in the statement of profit or loss and OCI	(2,498)	47	(11)	4,772	2,310	84	2	19	22	127	2,437
Cash flows											
Premiums received	31,021	–	–	–	31,021	2,469	–	–	–	2,469	33,490
Claims and other insurance service expenses paid, including investment components	(11,973)	–	–	–	(11,973)	(1,190)	–	–	–	(1,190)	(13,163)
Insurance acquisition cash flows	(1,495)	–	–	–	(1,495)	(48)	–	–	–	(48)	(1,543)
Total cash flows	17,553	–	–	–	17,553	1,231	–	–	–	1,231	18,784
Net closing balance at 31 December 2024	153,377	470	12,566	12,105	178,518	8,790	34	963	170	9,957	188,475
Closing assets	–	–	–	–	–	(16)	2	6	2	(6)	(6)
Closing liabilities	153,377	470	12,566	12,105	178,518	8,806	32	957	168	9,963	188,481
Net closing balance at 31 December 2024	153,377	470	12,566	12,105	178,518	8,790	34	963	170	9,957	188,475

33 Insurance contract liabilities *(continued)*

(c) *Effect of contracts initially recognised in the year*

	2025			2024		
	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total
Life direct participating contracts						
Estimates of present value of cash outflows						
– Insurance acquisition cash flows	2,073	5	2,078	1,432	–	1,432
– Claims and other insurance service expenses payable	36,627	48	36,675	27,916	8	27,924
Estimates of present value of cash inflows	(45,183)	(52)	(45,235)	(33,993)	(8)	(34,001)
Risk adjustment for non-financial risk	122	–	122	76	–	76
CSM	6,361	–	6,361	4,569	–	4,569
Losses recognised on initial recognition	–	1	1	–	–	–
Life other contracts						
Estimates of present value of cash outflows						
– Insurance acquisition cash flows	5	3	8	3	1	4
– Claims and other insurance service expenses payable	1,788	773	2,561	1,412	862	2,274
Estimates of present value of cash inflows	(1,859)	(768)	(2,627)	(1,481)	(860)	(2,341)
Risk adjustment for non-financial risk	2	2	4	2	1	3
CSM	64	–	64	64	–	64
Losses recognised on initial recognition	–	10	10	–	4	4
	–	11	11	–	4	4

33 Insurance contract liabilities *(continued)*

(d) Present value of expected future cash flows of insurance contract liabilities and contractual service margin

	Less than 1 year	1 to 2 years	2 to 3 years	3 to 4 years	4 to 5 years	5 to 10 years	10 to 20 years	Over 20 years	Total
At 31 December 2025									
Insurance liability future cash flows									
Life direct participating contracts	**2,092**	**5,673**	**8,427**	**4,113**	**5,295**	**18,095**	**30,018**	**116,095**	**189,808**
Life other contracts	**829**	**262**	**673**	**738**	**1,102**	**2,143**	**1,382**	**1,924**	**9,053**
Insurance liability future cash flows	**2,921**	**5,935**	**9,100**	**4,851**	**6,397**	**20,238**	**31,400**	**118,019**	**198,861**
Remaining contractual service margin									
Life direct participating contracts	**2,342**	**2,168**	**1,980**	**1,814**	**1,674**	**6,509**	**6,808**	**4,489**	**27,784**
Life other contracts	**119**	**109**	**96**	**84**	**73**	**253**	**214**	**136**	**1,084**
Remaining contractual service margin	**2,461**	**2,277**	**2,076**	**1,898**	**1,747**	**6,762**	**7,022**	**4,625**	**28,868**
At 31 December 2024									
Insurance liability future cash flows									
Life direct participating contracts	(1,648)	4,299	4,218	5,999	5,129	18,618	33,687	83,075	153,377
Life other contracts	2,124	172	146	711	782	1,632	1,315	1,924	8,806
Insurance liability future cash flows	476	4,471	4,364	6,710	5,911	20,250	35,002	84,999	162,183
Remaining contractual service margin									
Life direct participating contracts	1,968	1,822	1,685	1,562	1,447	5,728	6,177	4,282	24,671
Life other contracts	126	112	101	88	77	265	222	142	1,133
Remaining contractual service margin	2,094	1,934	1,786	1,650	1,524	5,993	6,399	4,424	25,804

(e) Discount rates

The Group has elected to apply a bottom-up approach whereby the discount rate is derived using the risk-free rate adjusted for an illiquidity premium as set out in the note 2(t). The blended average of discount rates used within our insurance manufacturing entities are as follows:

	2025		*2024*	
	HKD	***USD***	*HKD*	*USD*
10-year discount rate (%)	**3.85**	**4.82**	4.43	5.25
20-year discount rate (%)	**4.20**	**5.59**	4.53	5.60

34 Deferred tax

(a) Deferred tax assets and liabilities recognised

The major components of deferred tax (assets)/liabilities recognised in the balance sheet and the movements during the year are as follows:

	Depreciation allowances in excess of related depreciation	*Revaluation of properties*	*Expected credit losses*	*Fair value adjustments for financial assets at FVOCI*	*Cash flow hedge*	*Other*	*Total*
At 1 January 2025	**916**	**3,470**	**(909)**	**(17)**	**(30)**	**(2,825)**	**605**
Exchange adjustment and others	**(1)**	**2**	**(21)**	**–**	**–**	**(3)**	**(23)**
Charged/(credited) to income statement (note 12(a))	**(18)**	**(155)**	**(46)**	**–**	**–**	**(1,425)**	**(1,644)**
Charged/(credited) to other comprehensive income	**–**	**(109)**	**–**	**70**	**309**	**22**	**292**
At 31 December 2025	**897**	**3,208**	**(976)**	**53**	**279**	**(4,231)**	**(770)**
At 1 January 2024	899	3,754	(1,147)	(67)	(19)	(1,837)	1,583
Exchange adjustment and others	4	(3)	16	(1)	–	–	16
Charged/(credited) to income statement (note 12(a))	13	(163)	222	–	–	(1,054)	(982)
Charged/(credited) to other comprehensive income	–	(118)	–	51	(11)	66	(12)
At 31 December 2024	916	3,470	(909)	(17)	(30)	(2,825)	605

(b) Deferred tax assets not recognised

The amounts of unused tax losses for which no deferred tax asset is recognised in the balance sheet are HK$312m (2024: HK$366m). Of these amounts, HK$137m (2024: HK$151m) have no expiry date and the remaining will expire within 5 years.

There were no other temporary difference for which no deferred tax asset is recognised in the balance sheet as at 31 December 2025 (2024: Nil).

(c) Deferred tax liabilities not recognised

There were no deferred tax liabilities not recognised as at 31 December 2025 (2024: Nil).

35 Subordinated liabilities

Nominal value	Description	2025	2024
HK$5,460 million	Floating rate subordinated loan due May 2028, callable from 2027[1]	**5,460**	5,460
HK$4,680 million	Floating rate subordinated loan due June 2029, callable from 2028[2]	**4,680**	4,680
HK$6,240 million	Floating rate subordinated loan due June 2026, callable from 2025[3]	**–**	6,240
US$400 million	Floating rate subordinated loan due June 2030, callable from 2029[4]	**3,113**	3,105
HK$5,000 million	Floating rate subordinated loan due November 2027, callable from 2026[5]	**4,997**	4,994
HK$3,000 million	Floating rate subordinated loan due June 2028, callable from 2027[6]	**2,998**	2,996
		21,248	27,475
Representing:			
– measured at amortised cost		**21,248**	27,475

1 *Interest rate at three-month HK dollar HIBOR plus 1.425 per cent per annum, payable quarterly, to the maturity date.*

2 *Interest rate at three-month HK dollar HIBOR plus 1.564 per cent per annum, payable quarterly, to the maturity date.*

3 *The instrument was redeemed on 13 June 2025.*

4 *Interest rate at compounded SOFR plus 2.0478 per cent per annum, payable quarterly, to the maturity date.*

5 *Interest rate at three-month HK dollar HIBOR plus 1.000 per cent per annum, payable quarterly, to the maturity date.*

6 *Interest rate at three-month HK dollar HIBOR plus 1.680 per cent per annum, payable quarterly, to the maturity date.*

The Bank has not had any defaults of principal, interest or other breaches with respect to its debt instruments during 2025 (2024: Nil).

36 Share capital

Ordinary shares issued and fully paid:	2025 number of shares	2025 HK$m	2024 number of shares	2024 HK$m
At 1 January	**1,882,267,536**	**9,658**	1,911,842,736	9,658
Less: Share repurchased and cancelled	**(9,330,000)**	**–**	(29,575,200)	–
At 31 December	**1,872,937,536**	**9,658**	1,882,267,536	9,658

During 2025, the total number of ordinary shares repurchased and cancelled was 9,330,000 (2024: 29,575,200). Except for the share buy-back in 2025 and 2024, there was no purchase, sale or redemption by the Bank or any of its subsidiaries, of the Bank's securities.

37 Other equity instruments

Nominal value	*Description*	*2025*	*2024*
US$900 million	Fixed to floating rate perpetual capital instrument callable from September 2029[1]	**6,947**	6,947
US$600 million	Fixed to floating rate perpetual capital instrument callable from June 2029[2]	**4,640**	4,640
		11,587	11,587

1 *Coupon rate is 6.875% per annum, payable semi-annually before March 2030, and then US treasury rate plus 3.298 per cent per annum, payable semi-annually, from March 2030.*

2 *Coupon rate is 7.50% per annum, payable annually before the first call date, and then compounded SOFR plus 3.24 per cent per annum, payable quarterly, from the first call date.*

The additional tier 1 capital instruments above are held by our immediate holding company. They, which are qualified as loss-absorbing capacity, are perpetual and subordinated. The coupon payments of these capital instruments may be cancelled at the sole discretion of the Bank. The capital instruments will be written down at the point of non-viability on the occurrence of a trigger event as defined in the Banking (Capital) Rules. They rank higher than ordinary shares in the event of a winding-up.

38 Contingent liabilities, contractual commitments and guarantees

(a) Off-balance sheet contingent liabilities and commitments

	2025	2024
Contingent liabilities and financial guarantee contracts		
Financial guarantees[1]	612	1,898
Performance and other guarantees[2]	20,847	20,950
Other contingent liabilities	2	–
	21,461	22,848
Commitments[3]		
Documentary credits and short-term trade-related transactions	1,937	2,353
Forward asset purchases and forward forward deposits placed	22,252	12,991
Undrawn formal standby facilities, credit lines and other commitments to lend	471,519	479,748
	495,708	495,092

1 *Financial guarantees are contracts that require the issuer to make specified payments to reimburse the holder for a loss incurred because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument. The amounts in the above table are nominal principal amounts.*

2 *Performance and other guarantees include re-insurance letters of credit related to particular transactions, trade-related letters of credit issued without provision for the issuing entity to retain title to the underlying shipment, performance bonds, bid bonds, standby letters of credit and other transaction-related guarantees.*

3 *Includes HK$298,229m of commitments at 31 December 2025 (31 December 2024: HK$350,314m) to which the impairment requirements in HKFRS 9 are applied where the Group has become party to an irrevocable commitment.*

The above table discloses the nominal principal amounts of commitments (excluding capital commitments), guarantees and other contingent liabilities, which represents the amounts at risk should contracts be fully drawn upon and clients default. As a significant portion of guarantees and commitments is expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements.

(b) Contingencies

There is no material litigation expected to result in a significant adverse effect on the financial position of the Group, either collectively or individually. Management believes that adequate provisions have been made in respect of such litigation.

39 Other commitments

Capital commitments

At 31 December 2025, capital commitments, mainly related to the commitment for renovation of branches and offices,were HK$115m (31 December 2024: HK$212m).

40 Offsetting of financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount is reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously ('the offset criteria').

The 'Amounts not set off in the balance sheet' include transactions where:

– the counterparty has an offsetting exposure with the Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and

– in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar arrangements, cash and non-cash collaterals has been received and pledged.

	Amounts subject to enforceable netting arrangements								
	Effects of offsetting in the balance sheet			Amounts not set off in the balance sheet					
	Gross amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments	Non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[1]	Balance sheet total
Financial assets[2]									
Derivatives	**10,255**	**–**	**10,255**	**(4,523)**	**(1,001)**	**(2,629)**	**2,102**	**2,273**	**12,528**
Reverse repos, stock borrowing and similar agreements classified as:	**105,580**	**–**	**105,580**	**–**	**(105,483)**	**(97)**	**–**	**446**	**106,026**
– trading assets	**25,212**	**–**	**25,212**	**–**	**(25,212)**	**–**	**–**	**–**	**25,212**
– non-trading assets	**80,368**	**–**	**80,368**	**–**	**(80,271)**	**(97)**	**–**	**446**	**80,814**
Other assets	**1,837**	**(1,722)**	**115**	**–**	**–**	**–**	**115**	**–**	**115**
At 31 December 2025	**117,672**	**(1,722)**	**115,950**	**(4,523)**	**(106,484)**	**(2,726)**	**2,217**	**2,719**	**118,669[2]**
Derivatives	15,108	–	15,108	(4,865)	(377)	(6,323)	3,543	5,093	20,201
Reverse repos, stock borrowing and similar agreements classified as:	32,284	–	32,284	–	(32,274)	(10)	–	1,195	33,479
– trading assets	–	–	–	–	–	–	–	–	–
– non-trading assets	32,284	–	32,284	–	(32,274)	(10)	–	1,195	33,479
Other assets	1,728	(1,193)	535	–	–	–	535	–	535
At 31 December 2024	49,120	(1,193)	47,927	(4,865)	(32,651)	(6,333)	4,078	6,288	54,215[2]
Financial liabilities[3]									
Derivatives	**8,426**	**–**	**8,426**	**(4,523)**	**(1,246)**	**(1,615)**	**1,042**	**2,241**	**10,667**
Repos, stock lending and similar agreements classified as:	**18,091**	**–**	**18,091**	**–**	**(18,091)**	**–**	**–**	**3,701**	**21,792**
– trading liabilities	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**
– non-trading liabilities	**18,091**	**–**	**18,091**	**–**	**(18,091)**	**–**	**–**	**3,701**	**21,792**
Other liabilities	**1,906**	**(1,722)**	**184**	**–**	**–**	**–**	**184**	**–**	**184**
At 31 December 2025	**28,423**	**(1,722)**	**26,701**	**(4,523)**	**(19,337)**	**(1,615)**	**1,226**	**5,942**	**32,643[3]**
Derivatives	9,064	–	9,064	(4,865)	(519)	(2,192)	1,488	4,453	13,517
Repos, stock lending and similar agreements classified as:	12,584	–	12,584	–	(12,584)	–	–	6,803	19,387
– trading liabilities	–	–	–	–	–	–	–	–	–
– non-trading liabilities	12,584	–	12,584	–	(12,584)	–	–	6,803	19,387
Other liabilities	1,195	(1,193)	2	–	–	–	2	–	2
At 31 December 2024	22,843	(1,193)	21,650	(4,865)	(13,103)	(2,192)	1,490	11,256	32,906[3]

40 Offsetting of financial assets and financial liabilities *(continued)*

1 *These exposures continue to be secured by financial collateral, but the Bank may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.*

2 *Amounts presented in the balance sheet included balances due from HSBC entities of HK$33,331m (2024: HK$14,733m).*

3 *Amounts presented in the balance sheet included balances due to HSBC entities of HK$2,930m (2024: HK$6,434m).*

41 Employee retirement benefits

(a) Defined benefit scheme

The Group operates one defined benefit scheme, the Hang Seng Bank Limited Defined Benefit Scheme ('HSBDBS'), which covers about 10 per cent of the Group's employees. HSBDBS was closed to new entrants with effect from 1 April 1999. Since the defined benefit section of the HSBDBS is a final salary lump sum scheme, its exposure to longevity risk and interest rate risk is limited.

HSBDBS is registered under Occupational Retirement Schemes Ordinance (Cap. 426 of the law of Hong Kong) ('the Ordinance'). The trustee assumes the overall responsibility for the HSBDBS but a management committee has also been established to broaden the governance. Its assets are held separately from the assets of the Group. The trustees are required by the Trust Deed to act in the best interest of the scheme participants.

HSBDBS is predominantly a funded scheme with assets which are held in trust funds separate from the Group. The actuarial funding valuation of the HSBDBS is reviewed at least on a triennial basis in accordance with local regulations. The actuarial assumptions used to conduct the actuarial funding valuation of the HSBDBS vary according to the economic conditions.

The investment strategy of the HSBDBS is to invest in a diversified portfolio of assets, both equities and bonds, with low investment and liquidity risk. The assets of the Scheme will be diversified across the different asset classes to reflect the liabilities and performance objectives of the Scheme. The Strategic Asset Allocation percentages for the asset types are as follows: Bonds (0 – 75%) and equity/alternative credit funds (0 – 25%).

At 31 December 2025, HK$2,544m (2024: HK$2,609m) of HSBDBS plan assets were under management by HSBC Group companies, earning management and other fees of HK$6.7m in 2025 (2024: HK$6m). At 31 December 2025, HSBDBS had placed deposits of HK$50m (2024: HK$25m) with a HSBC Group company, earning interest of HK$0.07m (2024: HK$1.12m). The above balances arose from the ordinary course of business and on substantially the same terms, including interest rates and security, as comparable transactions with third-party counterparties.

(i) Cumulative actuarial gains/(losses) recognised in OCI in respect of defined benefit scheme

	2025	2024
At 1 January	**(384)**	(786)
Actuarial gains recognised in OCI	**143**	402
At 31 December	**(241)**	(384)

41 Employee retirement benefits *(continued)*

(a) ***Defined benefit scheme*** *(continued)*

(ii) Movements in the scheme assets and present value of the defined benefit obligations

Net asset/(liability) under defined benefit scheme

	Fair value of scheme assets	*Present value of defined benefit obligations*	*Net defined benefit (liability)/ asset*
At 1 January 2025	**3,555**	**(3,268)**	**287**
Current service cost (note 10)	**–**	**(100)**	**(100)**
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 10)	**119**	**(109)**	**10**
Remeasurement effects recognised in other comprehensive income	**179**	**(36)**	**143**
– Return on plan assets	**179**	**–**	**179**
– Actuarial gains/(losses) from changes in demographic assumptions	**–**	**1**	**1**
– Actuarial gains/(losses) from changes in financial assumptions	**–**	**(51)**	**(51)**
– Actuarial gains/(losses) from experience	**–**	**14**	**14**
Contributions by the Group	**69**	**–**	**69**
Benefits paid	**(455)**	**455**	**–**
Others (note 10)	**(7)**	**(3)**	**(10)**
Administrative costs and taxes paid by scheme (note 10)	**–**	**(7)**	**(7)**
At 31 December 2025	**3,460**	**(3,068)**	**392**
Retirement benefit assets recognised in Consolidated Balance Sheet (included in 'Other assets') (note 28)	**3,460**	**(3,056)**	**404**
Retirement benefit liabilities recognised in Consolidated Balance Sheet (included in 'Other liabilities') (note 32)	**–**	**(12)**	**(12)**
Present value of defined benefit obligation relating to:			
– Actives		**(2,981)**	
– Pensioners		**(87)**	

The Group expects to make HK$64m of contributions to defined benefit scheme during 2026 (2024: expected contributions for 2025 was HK$72m).

41 Employee retirement benefits *(continued)*

(a) Defined benefit scheme (continued)

(ii) Movements in the scheme assets and present value of the defined benefit obligations *(continued)*

Net asset/(liability) under defined benefit scheme (continued)

	Fair value of scheme assets	*Present value of defined benefit obligations*	*Net defined benefit (liability)/ asset*
At 1 January 2024	3,641	(3,717)	(76)
Current service cost (note 10)	–	(109)	(109)
Interest income/(cost) on the defined benefit scheme asset/(liability) (note 10)	102	(103)	(1)
Remeasurement effects recognised in other comprehensive income	205	197	402
– Return on plan assets	205	–	205
– Actuarial gains/(losses) from changes in demographic assumptions	–	2	2
– Actuarial gains/(losses) from changes in financial assumptions	–	96	96
– Actuarial gains/(losses) from experience	–	99	99
Contributions by the Group	77	–	77
Benefits paid	(464)	464	–
Others (note 10)	(6)	6	–
Administrative costs and taxes paid by scheme (note 10)	–	(6)	(6)
At 31 December 2024	3,555	(3,268)	287
Retirement benefit assets recognised in Consolidated Balance Sheet (included in 'Other assets') (note 28)	3,555	(3,268)	287
Present value of defined benefit obligation relating to:			
– Actives		(3,178)	
– Pensioners		(90)	

(iii) Benefits expected to be paid

Benefits expected to be paid from the HSBDBS to retirees over each of the next five years, and in aggregate for the five years thereafter, are as follows:

	2026	***2027***	***2028***	***2029***	***2030***	***2031–2035***
HSBDBS	310	411	387	336	447	1,641

The duration of the HSBDBS is 4.5 years (2024: 4.8 years) under the disclosure assumptions adopted.

41 Employee retirement benefits *(continued)*

(a) Defined benefit scheme *(continued)*

(iv) Fair value of scheme assets by asset classes

	2025			2024		
	Value	Quoted market price in active market	Of which placed with the Group and HSBC Group	Value	Quoted market price in active market	Of which placed with the Group and HSBC Group
Fair value of scheme assets						
– Index ETFs/Funds	**912**	**912**	**–**	942	942	–
– Bonds	**2,465**	**2,465**	**–**	2,516	2,516	–
– Other[1]	**83**	**83**	**50**	97	97	25
	3,460	**3,460**	**50**	3,555	3,555	25

1 *Other mainly consists of cash and deposits.*

(v) Key actuarial financial assumptions

The scheme is funded defined benefit scheme and is administered by trustees with asset held separately from those of the Group. The latest annual actuarial valuation as at 31 December 2025 were performed by Towers Watson Hong Kong Limited, using the Projected Unit Credit Method.

The present value of the scheme's obligation was a final lump sum salary and payment of HK$3,068m (2024: HK$3,268m). The principal actuarial assumptions used to calculate the Group's obligations for the HSBDBS for each year, and used as the basis for measuring the expenses in relation to the scheme, were as follows:

Principal actuarial assumptions for the scheme

	2025	2024
	%	%
Discount rate	**2.65**	3.50
Expected rate of salary increases	**3.50**	4.00

The Group determines the discount rates to be applied to its obligations in consultation with the scheme's actuaries, on the basis of current average yields of high quality (AA rated or equivalent) debt instruments, with maturities consistent with those of the defined benefit obligations. Where there is not a deep market in corporate bonds, government bond yields have been used, and this is the case for HSBDBS. The yield curve has been extrapolated where the term of the liabilities is longer than the duration of available bonds and the discount rate used then takes into account the term of the liabilities and the shape of the yield curve.

41 Employee retirement benefits *(continued)*

(a) Defined benefit scheme *(continued)*

(vi) Actuarial assumption sensitivities

The discount rate and rate of salary increase are sensitive to changes in market conditions arising during the reporting year. The following table shows the effect of changes in these on the HSBDBS.

The effect of changes in key assumptions:

	HSBDBS	
	2025	2024
Discount rate		
– change in retirement benefit obligation at year end from a 25bps increase	**(35)**	(39)
– change in retirement benefit obligation at year end from a 25bps decrease	**35**	40
Rate of salary increase		
– change in retirement benefit obligation at year end from a 25bps increase	**34**	39
– change in retirement benefit obligation at year end from a 25bps decrease	**(33)**	(38)

(b) Defined contribution schemes

The principal defined contribution scheme for Group employees joining on or after 1 April 1999 is the HSBC Group Hong Kong Local Staff Defined Contribution Scheme. The Bank and relevant Group entities also participate in mandatory provident fund schemes ('MPF schemes') registered under the Hong Kong Mandatory Provident Fund Ordinance, which are also defined contribution schemes.

Contributions made in accordance with the relevant scheme rules to these defined contribution schemes (including MPF schemes) are charged to the income statement as below:

	2025	2024
Amounts charged to the income statement (note 10)	**389**	380

42 Share-based payments

The Group participated in various share compensation plans as listed in the following tables that are operated by the HSBC Group for acquiring of HSBC Holdings plc shares. These are to be settled by the delivery of shares of HSBC Holdings plc.

42 Share-based payments *(continued)*

Share awards and option plans

Award	*Policy*
Deferred Share Awards	– Vesting of awards generally subject to continued employment with the Group – Vesting often staggered over a period ranging from three to four years – Vested shares may be subject to a retention requirement post-vesting – Awards are generally subject to the rules of Share Plan and any performance conditions – Awards granted from 2010 onwards are subject to a malus provision prior to vesting – Awards granted to Material Risk Takers from 2015 onwards are subject to clawback post-vesting
International Employee Share Purchase Plan ('Sharematch')	– The plan was introduced in 2013 – Shares are purchased in the market each quarter up to a maximum of GBP750, or the equivalent in local currency – Matching shares are added at a ratio of one free share for every three purchased – Matching awards vest subject to continued employment and retention of the purchased shares for a maximum period of two years and nine months

(a) HSBC share awards

	2025 Number ('000)	2024 Number ('000)
Outstanding at 1 January	**1,232**	1,276
Additions during the year	**758**	754
Less: Released in the year	**(636)**	(705)
Less: Lapsed in the year	**(172)**	(93)
Outstanding at 31 December	**1,182**	1,232

The closing price of the HSBC Holdings plc share at 31 December 2025 was £11.74 (2024: £7.85).

The weighted average remaining vesting period as at 31 December 2025 was 1.10 years (2024: 1.09 years).

(b) Calculation of fair value

The fair value of a share award is based on the share price at the date of the grant.

(c) Reconciliation of total incentive awards to income statement charge

	2025	2024
Equity-settled share-based payments	**38**	28
Cash-settled share-based payments	**9**	7
Income statement charge for restricted share awards (note 10)	**47**	35

The above charge was computed from the fair values of the share-based payment transaction when contracted, that arose under employee share awards made in accordance with HSBC's reward structures.

43 Related party transactions

(a) Immediate holding company and its subsidiaries and fellow subsidiaries

The Group entered into transactions with its immediate holding company and its subsidiaries as well as its fellow subsidiaries, mainly including lending activities, the acceptance and placement of interbank deposits, correspondent banking transactions, off-balance sheet transactions and the provision of other banking and financial services. The transactions were performed under the arm's length basis, with reference to various considerations including the relevant cost incurred, nature of services, market practice and prevailing market conditions. The services are provided in the ordinary course of businesses of the Group and on normal commercial terms which are no less favourable than those offered by independent third parties.

The Group used information technology services, outsourced operation services, international supervisory framework related services, group administrative and support services, financial services, insurance related investment management and advisory services, intercompany dealing transactions and trading of financial assets provided by HSBC Group.

The Group used the IT service of, and shared an automated teller machine network with, its immediate holding company. The Group also shares the costs of certain IT projects with and used certain processing services of fellow subsidiaries. These costs are reported under 'General and administrative expenses – other operating expenses' in the income statement.

The Group maintained a staff retirement benefit scheme for which a fellow subsidiary company acts as trustee and custodian and the Group's immediate holding company acts as administrator.

Fellow subsidiaries were appointed as fund managers to manage the Group's life insurance investment portfolios. There was an arrangement whereby a fellow subsidiary provided certain management services to the Group's insurance subsidiary.

The Bank acted as agent for promoting Mandatory Provident Fund products administered by its immediate holding company and distributed retail investment funds for a fellow subsidiary company. The Bank also acted as the agent of a fellow subsidiary for the purpose of providing medical insurance agency services, with the exclusive distribution agreement signed in 2024.

The Group has engaged with its immediate holding company and its subsidiaries as well as its fellow subsidiaries to perform foreign exchange and cash equities transactions, derivatives transactions, and bond and equity financing transactions.

During 2025, the Bank has paid coupons on AT1 capital instruments of HK$837m to its immediate holding company (2024: HK$699m).

The aggregate amount of income and expenses arising from these transactions during the year, the balances of amounts due to and from the relevant related parties, and the total contract amount of off-balance sheet transactions at the year-end are as follows:

43 Related party transactions *(continued)*

(a) Immediate holding company and its subsidiaries and fellow subsidiaries (continued)

	Immediate holding company		Subsidiaries of immediate holding company		Other fellow subsidiaries	
	2025	2024	**2025**	2024	**2025**	2024
Interest income	**252**	256	**212**	295	**386**	344
Interest expense	**(1,266)**	(2,117)	**(66)**	(91)	**–**	–
Fee income	**197**	165	**244**	137	**147**	158
Fee expense	**(61)**	(47)	**(57)**	(54)	**(100)**	(71)
Net income/(loss) from financial instruments measured at fair value through profit or loss	**(512)**	648	**33**	(180)	**(45)**	115
Other operating income/(loss)	**19**	165	**4**	–	**23**	6
Operating expenses*	**(165)**	(137)	**(329)**	(297)	**(5,328)**	(5,118)
Amounts due from:						
Trading assets	**24,912**	–	**–**	–	**–**	–
Reverse repurchase agreements – non-trading	**2,309**	–	**1,308**	9,195	**–**	–
Placings with and advances to banks	**13,803**	7,298	**49**	16	**7,633**	7,419
Derivative financial instruments	**4,762**	5,431	**18**	13	**22**	95
Other assets	**1,682**	2,151	**15**	34	**1,382**	1,386
	47,468	14,880	**1,390**	9,258	**9,037**	8,900
Amounts due to:						
Current, savings and other deposit accounts	**–**	–	**1,480**	1,675	**–**	–
Deposits from banks	**1,372**	2,467	**42**	3	**93**	–
Repurchase agreements – non-trading	**6**	1,971	**–**	318	**–**	–
Derivative financial instruments	**2,859**	4,040	**38**	86	**27**	19
Subordinated liabilities	**21,248**	27,475	**–**	–	**–**	–
Other liabilities	**2,276**	1,886	**196**	31	**596**	703
	27,761	37,839	**1,756**	2,113	**716**	722
Derivative contracts:						
Contract amount	**579,751**	609,066	**5,825**	6,141	**15,637**	23,173
Guarantees	**1,793**	388	**463**	3	**369**	–
Commitments	**–**	–	**800**	800	**–**	–

* *Representing the operating expenses paid to immediate holding company and its subsidiaries and other fellow subsidiaries, of which HK$1,098m was capitalised as intangible assets in the Group's consolidated balance sheet (2024: HK$1,056m).*

43 Related party transactions *(continued)*

(b) Key management personnel remuneration

Key management personnel ('KMP') are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Group and Bank. It was determined that, for this financial reporting period, KMP included Directors and Operating Committee of the Bank, except for the roles of General Counsel and Head of Human Resources who do not meet the criteria for KMP as provided for in the accounting standard. The aggregate amount of remuneration of the key management personnel during the year are as follows:

	2025	*2024*
Salaries, allowances and benefits in kind	**62**	72
Retirement scheme contributions	**5**	8
Variable bonuses		
– Cash bonus	**16**	23
– Share-based payment	**13**	18
	96	121

(c) Material transactions with key management personnel

During the year, the Group provided credit facilities to and accepted deposits from key management personnel of the Bank and its holding companies, their close family members and companies controlled or significantly influenced by them. The credit facilities extended and deposit taken were provided in the ordinary course of business and on substantially the same terms as for comparable transactions with persons of a similar standing or, where applicable, with other employees.

Material transactions conducted with key management personnel of the Bank and its holding companies and parties related to them are as follows:

	2025	*2024*
For the year		
Interest income	**942**	1,445
Interest expense	**6**	11
Fees and commission income	**21**	6
Maximum aggregate amount of loans and advances	**28,405**	33,274
At the year-end		
Loans and advances	**20,327**	26,715
Deposits	**3,304**	2,945
Guarantees issued	**319**	305
Undrawn commitments	**4,741**	3,011

Change in expected credit losses recognised for the year and impairment allowances against balances outstanding at the end of the year, in respect of Key Management Personnel were insignificant in both years.

The Group adheres to Part 8 of Banking (Exposure Limits) Rules made under Section 81A of Banking Ordinance regarding exposures to connected parties.

43 Related party transactions *(continued)*

(d) Loans to Directors

Particulars of loans to directors disclosed pursuant to section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulations are shown as below.

	2025		2024	
	Highest balance during the year	**Balance at 31 December**	*Highest balance during the year*	*Balance at 31 December*
– Loans and advances	**193**	**150**	198	142
– Guarantees issued	**–**	**–**	–	–

The above relevant transactions in 2025 and 2024 were all transacted by the Bank.

(e) Directors' material interests in transactions, arrangements or contracts

No transaction, arrangement or contract (that is significant in relation to the Bank's business), to which the Bank or any of its holding companies or any of its subsidiaries or fellow subsidiaries was a party and in which a Director of the Bank had, directly or indirectly, a material interest, subsisted as at the end of the year or at any time during the year.

(f) Associates

The Group provides certain banking and financial services to associates, including loans, overdrafts, interest and non-interest bearing deposits and current accounts. Transactions and balances during the year with associates were as follows:

	2025		2024	
	Highest balance during the year	**Balance at 31 December**	*Highest balance during the year*	*Balance at 31 December*
Amounts due from associates#	**8,914**	**6,537**	9,157	6,318
Amounts due to associates#	**1,778**	**72**	1,432	242

For the year	**2025**	*2024*
Total operating income	**290**	370

Including associates in HSBC Group

The disclosure of the year-end balance and the highest amounts outstanding during the year is considered to be the most meaningful information to represent the amount of transactions and outstanding balances during the year.

The transactions resulting in outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as for comparable transactions with third party counterparties.

43 Related party transactions *(continued)*

(g) Ultimate holding company

The Group participates in various share option and share plans operated by HSBC Holdings plc whereby share options or shares of HSBC Holdings plc are granted to employees of the Group. As disclosed in note 42, the Group recognises an expense in respect of these share options and share awards. The cost borne by the ultimate holding company in respect of these share options and share awards is treated as a capital contribution and is recorded under 'Other reserves'. The balance of this reserve as at 31 December 2025 amounted to HK$638m comprising HK$668m relating to share option schemes and negative reserve of HK$30m relating to share award schemes (2024: HK$657m comprising HK$668m relating to share option schemes and negative reserve of HK$11m relating to share award schemes).

44 Fair value of financial instruments

(a) Fair value of financial instruments carried at fair value

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. For inactive markets, the Group sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

Fair value adjustments take into consideration additional factors not incorporated within the primary product valuation model that would otherwise be considered by a market participant. Adjustments are calculated using model infrastructure including those within primary valuation systems.

The majority of financial instruments measured at fair value are in Markets and Securities Services and Insurance. The Group's fair value governance structure comprises its Finance function and Valuation Committee. Finance is responsible for establishing procedures governing valuation and ensuring fair values are in compliance with accounting standards. The fair values are reviewed by the Valuation Committees, which consist of independent support functions.

Financial liabilities measured at fair value

In certain circumstances, the Group records its own debt in issue at fair value, based on quoted prices in an active market for the specific instrument. When quoted market prices are unavailable, the own debt in issue is valued using valuation techniques, the inputs for which are either based on quoted prices in an inactive market for the instrument or are estimated by comparison with quoted prices in an active market for similar instruments. In both cases, the fair value includes the effect of applying the credit spread which is appropriate to the Group's liabilities. The change in fair value of issued debt securities attributable to the Group's own credit spread is computed as follows: for each security at each reporting date, an externally verifiable price is obtained or a price is derived using credit spreads for similar securities for the same issuer. Then, using discounted cash flow, each security is valued using an appropriate market discount curve. The difference in the valuations is attributable to the Group's own credit spread. This methodology is applied consistently across all securities.

44 Fair value of financial instruments *(continued)*

(a) ***Fair value of financial instruments carried at fair value*** *(continued)*

Financial liabilities measured at fair value *(continued)*

Structured notes issued and certain other hybrid instruments are included within 'Financial liabilities designated at fair value' and are measured at fair value. The credit spread applied to these instruments is derived from the spreads at which the Group issues structured notes.

Gains and losses arising from changes in the credit spread of liabilities issued by the Group reverse over the contractual life of the debt, provided that the debt is not repaid at a premium or a discount.

Fair value hierarchy

Fair values of financial assets and liabilities are determined according to the following hierarchy:

- Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that the Group can access at the measurement date.
- Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.
- Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

44 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Fair value hierarchy *(continued)*

The following table provides an analysis of financial instruments carried at fair value and bases of valuation:

	Fair value hierarchy					
Recurring fair value measurements	*Quoted market price Level 1*	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Third party total*	*Amounts with HSBC entities**	*Total*
2025						
Assets						
Trading assets	**23,683**	**4,054**	**43**	**27,780**	**24,912**	**52,692**
Derivative financial instruments	**333**	**7,394**	**–**	**7,727**	**4,801**	**12,528**
Financial assets mandatorily measured at fair value through profit or loss	**63,515**	**93,973**	**43,298**	**200,786**	**–**	**200,786**
Financial investments	**287,852**	**81,757**	**989**	**370,598**	**–**	**370,598**
Liabilities						
Trading liabilities	**13,014**	**–**	**–**	**13,014**	**–**	**13,014**
Derivative financial instruments	**98**	**7,645**	**–**	**7,743**	**2,924**	**10,667**
Financial liabilities designated at fair value	**–**	**29,620**	**6,979**	**36,599**	**–**	**36,599**
2024						
Assets						
Trading assets	32,210	7,430	–	39,640	–	39,640
Derivative financial instruments	373	14,290	–	14,663	5,538	20,201
Financial assets mandatorily measured at fair value through profit or loss	35,080	99,250	30,227	164,557	–	164,557
Financial investments	324,523	85,593	1,000	411,116	–	411,116
Liabilities						
Trading liabilities	18,093	–	–	18,093	–	18,093
Derivative financial instruments	84	9,288	–	9,372	4,145	13,517
Financial liabilities designated at fair value	–	24,237	14,399	38,636	–	38,636

* *Included derivative contracts transacted with HSBC entities which are mainly classified within Level 2 of the valuation hierarchy.*

44 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
2025							
Transfer from Level 1 to Level 2	**10,512**	**49**	**4,761**	**–**	**–**	**–**	**–**
Transfer from Level 2 to Level 1	**37,876**	**1,331**	**11,325**	**–**	**–**	**–**	**–**
2024							
Transfer from Level 1 to Level 2	25,865	1,015	2,000	–	–	–	–
Transfer from Level 2 to Level 1	15,643	571	3,755	–	–	–	–

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

Fair value adjustments

We adopt the use of fair value adjustments when we take into consideration additional factors not incorporated within the valuation model that would otherwise be considered by a market participant. We classify fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to Markets and Securities Services. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Bid-offer

HKFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of, or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions, than those used in the Group's valuation model.

44 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA')

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and the Group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that the Group may default, and that the Group may not pay the full market value of the transactions.

The Group calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across Group entities.

The Group calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of the Group, to the Group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the Group calculates the DVA by applying the PD of the Group, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the Group and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products the Group uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The risk can either be general, perhaps related to the currency of the issuer country, or specific to the transaction concerned. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment ('FFVA')

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure, such as the default of the Group or the counterparty.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 P&L reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

44 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value (continued)

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets				Liabilities		
	Financial investments	*Trading assets*	*Financial assets mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
2025							
Investment funds and equity shares	**989**	**–**	**32,805**	**–**	**–**	**–**	**–**
Debt securities	**–**	**43**	**10,493**	**–**	**–**	**–**	**–**
Structured notes	**–**	**–**	**–**	**–**	**–**	**6,979**	**–**
	989	**43**	**43,298**	**–**	**–**	**6,979**	**–**
2024							
Investment funds and equity shares	1,000	–	27,614	–	–	–	–
Debt securities	–	–	2,613	–	–	–	–
Structured notes	–	–	–	–	–	14,399	–
	1,000	–	30,227	–	–	14,399	–

44 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial investments	Trading assets	Financial assets mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Financial liabilities designated at fair value	Derivatives
At 1 January 2025	**1,000**	**–**	**30,227**	**–**	**–**	**14,399**	**–**
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	(35)	2,686	–	–	(37)	–
Total gains or losses recognised in other comprehensive income							
– fair value gains/(losses)	(11)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	14	–
Purchases	–	71	8,788	–	–	–	–
Issues/deposit taking	–	–	–	–	–	28,581	–
Sales	–	–	(795)	–	–	–	–
Settlements	–	–	(6,050)	–	–	(35,406)	–
Transfers out	–	–	(5,299)	–	–	(831)	–
Transfers in	–	7	13,741	–	–	259	–
At 31 December 2025	**989**	**43**	**43,298**	**–**	**–**	**6,979**	**–**
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	(35)	1,569	–	–	3	–

44 Fair value of financial instruments *(continued)*

(a) ***Fair value of financial instruments carried at fair value*** *(continued)*

Movement in Level 3 financial instruments *(continued)*

	Assets				*Liabilities*		
	Financial investments	*Trading assets*	*Financial assets mandatorily measured at fair value through profit or loss*	*Derivatives*	*Trading liabilities*	*Financial liabilities designated at fair value*	*Derivatives*
At 1 January 2024	1,072	–	27,475	–	–	13,749	–
Total gains or losses recognised in profit or loss							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	595	–	–	2	–
Total gains or losses recognised in other comprehensive income							
– fair value gains/(losses)	(72)	–	–	–	–	–	–
– exchange differences	–	–	–	–	–	142	–
Purchases	–	–	10,191	–	–	–	–
Issues/deposit taking	–	–	–	–	–	50,621	–
Sales	–	–	(158)	–	–	–	–
Settlements	–	–	(7,404)	–	–	(49,963)	–
Transfers out	–	–	(472)	–	–	(201)	–
Transfers in	–	–	–	–	–	49	–
At 31 December 2024	1,000	–	30,227	–	–	14,399	–
Unrealised gains or losses recognised in profit or loss relating to those assets and liabilities held at the end of reporting period							
– net income/(loss) from financial instruments measured at fair value through profit or loss	–	–	(706)	–	–	(8)	–

The transfers in of Level 3 financial assets mandatorily measured at fair value through profit or loss of HK$13.7bn mainly represents a movement of debt securities from Level 2 reflecting enhancements to the application of the levelling methodology. The transfer in/out of Level 3 financial liabilities designated at fair value reflected the change in observability of FX and equity volatility for pricing the instrument.

44 Fair value of financial instruments *(continued)*

(a) Fair value of financial instruments carried at fair value *(continued)*

Sensitivity of Level 3 fair values to reasonably possible alternative assumptions by instrument type

	2025				2024			
	Reflected in profit or loss		Reflected in OCI		Reflected in profit or loss		Reflected in OCI	
	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes	Favourable changes	Unfavourable changes
Investment funds and equity shares	**1,641**	**(1,641)**	**54**	**(54)**	1,381	(1,381)	67	(67)
Debt securities	**574**	**(574)**	**–**	**–**	183	(183)	–	–
	2,215	**(2,215)**	**54**	**(54)**	1,564	(1,564)	67	(67)

The sensitivity analysis aims to measure a range of fair values consistent with the application of a 95% confidence interval. Methodologies take account of the nature of the valuation technique employed, as well as the availability and reliability of observable proxy and historical data.

When the fair value of a financial instrument is affected by more than one unobservable assumption, the above table reflects the most favourable or the most unfavourable change from varying the assumptions individually.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Valuation technique(s)	Unobservable input(s)	Range 2025	Range 2024
Assets				
Investment funds and equity shares	See footnote 1	See footnote 1		
Debt securities	Discount cash flow	Credit Spread	**(2.22)% to 4.58%**	(2.19)% to 5.02%
	Market proxy	Bid quotes	**25.46 to 118.96**	N/A
Liabilities				
Structured notes	Option model	Equity Volatility	**5.35% to 89.44%**	8.95% to 69.87%
		Equity Correlation	**55.00% to 83.04%**	41.53% to 87.65%
		FX Volatility	**3.50% to 21.89%**	4.56% to 17.44%

[1] *Given the bespoke nature of the analysis in respect of each private equity holding, it is not practical to quote a range of key unobservable inputs. The valuation approach includes using a range of inputs that include company specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.*

44 Fair value of financial instruments *(continued)*

(b) Fair value of financial instruments not carried at fair value

The following table provides an analysis of the fair value of financial instruments not measured at fair value on the Consolidated Balance Sheet. For all other instruments, the fair value is equal to the carrying value.

	Carrying amount	*Quoted market price Level 1*	*Using observable inputs Level 2*	*With significant unobservable inputs Level 3*	*Fair value*
2025					
Financial Assets					
Reverse repurchase agreements – non-trading	**80,814**		**80,802**	**–**	**80,802**
Placings with and advances to banks	**85,356**	**–**	**85,356**	**–**	**85,356**
Loans and advances to customers	**787,349**	**–**	**–**	**764,801**	**764,801**
Financial investments – at amortised cost	**113,521**	**93,532**	**20,347**	**–**	**113,879**
Financial Liabilities					
Deposits from banks	**8,022**	**–**	**8,022**	**–**	**8,022**
Current, savings and other deposit accounts	**1,259,003**	**–**	**1,259,003**	**–**	**1,259,003**
Repurchase agreements – non-trading	**21,792**	**–**	**21,792**	**–**	**21,792**
Certificates of deposit in issue	**3,436**	**–**	**3,436**	**–**	**3,436**
Subordinated liabilities	**21,248**	**–**	**21,626**	**–**	**21,626**
2024					
Financial Assets					
Reverse repurchase agreements – non-trading	33,479	–	33,470	–	33,470
Placings with and advances to banks	76,221	–	76,223	–	76,223
Loans and advances to customers	819,136	–	–	795,652	795,652
Financial investments – at amortised cost	130,039	108,394	20,815	–	129,209
Financial Liabilities					
Deposits from banks	14,279	–	14,279	–	14,279
Current, savings and other deposit accounts	1,238,224	–	1,239,100	–	1,239,100
Repurchase agreements – non-trading	19,387	–	19,387	–	19,387
Certificates of deposit in issue	4,948	–	4,948	–	4,948
Subordinated liabilities	27,475	–	27,922	–	27,922

Other financial instruments not carried at fair value are typically short-term in nature or reprice to current market rates frequently. Accordingly, their carrying amounts are reasonable approximations of their fair values.

The calculation of fair values of financial instruments that are not carried at fair value is described below.

The calculation of fair value incorporates the Group's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Group expects to flow from the instruments' cash flows over their expected future lives.

44 Fair value of financial instruments *(continued)*

(b) Fair value of financial instruments not carried at fair value (continued)

(i) Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as their balances are generally short dated.

(ii) Loans and advances to banks and customers

To determine the fair value of loans and advances to banks and customers, loans are segregated, as far as possible, into portfolios of similar characteristics. Fair values are based on observable market transactions, when available. When they are unavailable, fair values are estimated using valuation models incorporating a range of input assumptions. These assumptions may include: value estimates from third-party brokers reflecting over-the-counter trading activity; forward-looking discounted cash flow models, taking account of expected customer prepayment rates, using assumptions that the Group believes are consistent with those that would be used by market participants in valuing such loans; new business rates estimates for similar loans; and trading inputs from other market participants including observed primary and secondary trades. The fair value of loans reflects expected credit losses at the balance sheet date and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of repricing between origination and the balance sheet date. For credit impaired loans, fair value is estimated by discounting the future cash flows over the time period they are expected to be recovered.

(iii) Deposits from banks and customer accounts

Fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities. The fair value of a deposit repayable on demand is assumed to be the amount payable on demand at the balance sheet date.

(iv) Debt securities in issue

Fair values are determined using quoted market prices at the balance sheet date where available, or by reference to quoted market prices for similar instruments.

The fair values in this note are stated at a specific date and may be significantly different from the amounts which will actually be paid on the maturity or settlement dates of the instruments. In many cases, it would not be possible to realise immediately the estimated fair values given the size of the portfolios measured. Accordingly, these fair values do not represent the value of these financial instruments to the Group as a going concern.

45 Unconsolidated structured entities

The Group enters into transactions with unconsolidated structured entities in the normal course of business through the holding of collective investment funds established by HSBC Group and third parties. The majority of these funds held related to the insurance business. At 31 December 2025, the total asset value of unconsolidated structured entities amounted to HK$6,419.5bn (2024: HK$2,918.8bn). The Group's interests were recognised in financial assets mandatorily measured at fair value through profit or loss of HK$51,396m and trading assets of HK$24m (2024: financial assets mandatorily measured at fair value through profit or loss of HK$37,387m and trading assets of HK$26m). These collective investment funds include investment in unit trusts, private equity funds and infrastructure funds which provide the Group with a variety of investment opportunities through managed investment strategies.

Owing to the passive nature of these investments, the maximum exposure to loss from these interests is limited to the associated equity price risk and the capital commitments. The maximum exposure to loss, which represents the maximum loss that the Group could be required to report as a result of its involvement with these collective investment funds regardless of the probability of the loss being incurred, is equivalent to the carrying amount of these investments and the outstanding capital commitments of HK$19,278m (2024: HK$12,991m) to invest in several alternative investment funds for funding future alternative investments in global companies under respective investment mandates.

46 Immediate and ultimate holding companies

The immediate and ultimate holding companies of the Bank are The Hongkong and Shanghai Banking Corporation Limited (incorporated in Hong Kong) and HSBC Holdings plc (incorporated in England) respectively.

47 Bank balance sheet and statement of changes in equity

(a) Bank balance sheet at 31 December 2025

	2025	2024
ASSETS		
Cash and balances at central banks	**10,277**	10,417
Trading assets	**51,036**	37,406
Derivative financial instruments	**10,222**	15,103
Financial assets mandatorily measured at fair value through profit or loss	**335**	215
Reverse repurchase agreements – non-trading	**80,368**	33,479
Placings with and advances to banks	**64,197**	58,358
Loans and advances to customers	**732,701**	762,743
Amounts due from subsidiaries	**5,926**	10,935
Financial investments	**456,706**	510,417
Investments in subsidiaries	**19,643**	19,859
Investment properties	**3,838**	4,137
Premises, plant and equipment	**20,946**	21,817
Intangible assets	**3,754**	3,730
Other assets	**31,289**	18,940
Total assets	**1,491,238**	1,507,556
LIABILITIES AND EQUITY		
Liabilities		
Deposits from banks	**6,804**	12,378
Current, savings and other deposit accounts	**1,196,796**	1,182,241
Repurchase agreements – non-trading	**18,091**	12,584
Trading liabilities	**13,014**	18,093
Derivative financial instruments	**8,393**	9,046
Financial liabilities designated at fair value	**35,075**	35,344
Certificates of deposit in issue	**–**	1,714
Amounts due to subsidiaries	**7,735**	8,741
Other liabilities	**24,143**	42,895
Current tax liabilities	**367**	206
Deferred tax liabilities	**3,171**	2,953
Subordinated liabilities	**21,248**	27,475
Total liabilities	**1,334,837**	1,353,670
Equity		
Share capital	**9,658**	9,658
Retained profits	**117,516**	116,436
Other equity instruments	**11,587**	11,587
Other reserves	**17,640**	16,205
Shareholders' equity	**156,401**	153,886
Total equity and liabilities	**1,491,238**	1,507,556

Luanne LIM Hui Hung Executive Director and Chief Executive
SAW Say Pin Executive Director and Chief Financial Officer

47 Bank balance sheet and statement of changes in equity *(continued)*

(b) Bank statement of changes in equity for the year ended 31 December 2025

	Share capital	Other equity instruments	Retained profits[1]	Other reserves: Premises revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Others[2]	Total equity
At 1 January 2025	**9,658**	**11,587**	**116,436**	**13,668**	**2,013**	**(150)**	**17**	**657**	**153,886**
Profit for the year	–	–	15,672	–	–	–	–	–	15,672
Other comprehensive income (net of tax)	–	–	119	(461)	931	1,561	2	(8)	2,144
Debt instruments at FVOCI	–	–	–	–	485	–	–	–	485
Equity instruments designated at FVOCI	–	–	–	–	446	–	–	–	446
Cash flow hedges	–	–	–	–	–	1,561	–	–	1,561
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(8)	(8)
Property revaluation	–	–	–	(461)	–	–	–	–	(461)
Actuarial gains on defined benefit plans	–	–	119	–	–	–	–	–	119
Others	–	–	–	–	–	–	2	–	2
Total comprehensive income for the year	–	–	15,791	(461)	931	1,561	2	(8)	17,816
Dividends paid[3]	–	–	(13,350)	–	–	–	–	–	(13,350)
Coupon paid on AT1 capital instruments	–	–	(837)	–	–	–	–	–	(837)
Movement in respect of share-based payment arrangements	–	–	(19)	–	–	–	–	(19)	(38)
Share buy-back[4]	–	–	(1,079)	–	–	–	–	–	(1,079)
Others	–	–	1	2	–	–	–	–	3
Transfers[5]	–	–	573	(573)	–	–	–	–	–
At 31 December 2025	**9,658**	**11,587**	**117,516**	**12,636**	**2,944**	**1,411**	**19**	**630**	**156,401**

1 *Retained profits are the cumulative net earnings of the Bank that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Bank is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2025, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK$768m.*

2 *Other reserves comprise of share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Bank by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

3 *Dividends paid represented the payment of fourth interim dividend of 2024 and the first three interim dividends of 2025 amounted to HK$6,023m and HK$7,327m respectively.*

4 *In July 2025, the Bank announced a share buy-back programme of up to HK$3.0bn, which was originally expected to be completed by end of January 2026. Such programme has ceased with immediate effect from the publication of the joint announcement of proposed privatisation of the Bank in October 2025.*

5 *This includes transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.*

47 Bank balance sheet and statement of changes in equity *(continued)*

(b) Bank statement of changes in equity for the year ended 31 December 2025 (continued)

	Share capital	Other equity instruments	Retained profits[1]	Other reserves: Premises revaluation reserve	Other reserves: Financial assets at FVOCI reserve	Other reserves: Cash flow hedge reserve	Other reserves: Foreign exchange reserve	Other reserves: Others[2]	Total equity
At 1 January 2024	9,658	11,744	114,042	14,800	1,475	(96)	18	667	152,308
Profit for the year	–	–	18,062	–	–	–	–	–	18,062
Other comprehensive income (net of tax)	–	–	336	(539)	538	(54)	(1)	(1)	279
Debt instruments at FVOCI	–	–	–	–	120	–	–	–	120
Equity instruments designated at FVOCI	–	–	–	–	418	–	–	–	418
Cash flow hedges	–	–	–	–	–	(54)	–	–	(54)
Change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	–	–	–	–	–	–	–	(1)	(1)
Property revaluation	–	–	–	(539)	–	–	–	–	(539)
Actuarial gains on defined benefit plans	–	–	336	–	–	–	–	–	336
Others	–	–	–	–	–	–	(1)	–	(1)
Total comprehensive income for the year	–	–	18,398	(539)	538	(54)	(1)	(1)	18,341
Redemption and repayment of AT1 capital instruments[3]	–	(11,744)	–	–	–	–	–	–	(11,744)
Issue of new AT1 capital instruments[3]	–	11,587	–	–	–	–	–	–	11,587
Dividends paid4	–	–	(12,923)	–	–	–	–	–	(12,923)
Coupon paid on AT1 capital instruments	–	–	(699)	–	–	–	–	–	(699)
Movement in respect of share-based payment arrangements	–	–	(9)	–	–	–	–	(9)	(18)
Share buy-back[5]	–	–	(3,006)	–	–	–	–	–	(3,006)
Others	–	–	40	–	–	–	–	–	40
Transfers[6]	–	–	593	(593)	–	–	–	–	–
At 31 December 2024	9,658	11,587	116,436	13,668	2,013	(150)	17	657	153,886

1 *Retained profits are the cumulative net earnings of the Bank that have not been paid out as dividends, but retained to be reinvested in the business. To satisfy the provisions of the Hong Kong Banking Ordinance and local regulatory requirements for prudential supervision purposes, the Bank is required to earmark a 'regulatory reserve' from retained profits. Movements in the reserve are made directly through retained earnings. As at 31 December 2024, the effect of this requirement is to restrict the amount of reserves which can be distributed by the Bank to shareholders by HK$831m.*

2 *Other reserves comprise of share-based payment reserve and own credit risk reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the Bank by the ultimate holding company. The own credit risk reserve is for the change in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk.*

3 *The Bank has redeemed and repaid the AT1 capital instrument of US$600m and issued new AT1 capital instrument of US$600m in June 2024 and has redeemed and repaid another AT1 capital instrument of US$900m and issued new AT1 capital instrument of US$900m in September 2024.*

4 *Dividends paid represented the payment of fourth interim dividend of 2023 and the first three interim dividends of 2024 amounted to HK$6,118m and HK$6,805m respectively.*

5 *In April 2024, the Bank announced an automatic share buy-back programme of up to HK$3.0bn, which was completed in September 2024.*

6 *This included transfers from the premises revaluation reserve to retained earnings in relation to depreciation of revalued properties.*

48 Events after the balance sheet date

On 8 January 2026, the Proposal to privatise Hang Seng Bank Limited by The Hongkong and Shanghai Banking Corporation Limited through a scheme of arrangement was approved by the Bank's shareholders. On 26 January 2026, the Scheme became effective and the Bank was subsequently delisted from The Stock Exchange of Hong Kong on 27 January 2026. Consequentially, the Bank then became a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, and therefore HSBC Holdings plc. The issued share capital remains as HK$9,658m.

49 Approval of financial statements

The financial statements were approved and authorised for issue by the Board of Directors on 24 February 2026.

To the Members of Hang Seng Bank Limited

(incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of Hang Seng Bank Limited (the 'Bank') and its subsidiaries (together, the 'Group'), which are set out on pages 104 to 198, comprise:

– the consolidated balance sheet as at 31 December 2025;

– the consolidated income statement for the year then ended;

– the consolidated statement of comprehensive income for the year then ended;

– the consolidated statement of changes in equity for the year then ended;

– the consolidated statement of cash flows for the year then ended; and

– the notes[1] to the consolidated financial statements, comprising material accounting policies and other explanatory information.

1 *Certain required disclosures as described in Note 1(b) have been presented elsewhere in the Annual Report 2025, rather than in the notes to the consolidated financial statements. These are cross-referenced from the consolidated financial statements and are identified as audited.*

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2025, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with HKFRS Accounting Standards as issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ('HKSAs') as issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ('the Code'), as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other Information

The directors of the Bank are responsible for the other information. The other information obtained at the date of this auditor's report is the information included in the Annual Report 2025 (excluding the Banking Disclosure Statement as at 31 December 2025), but does not include the consolidated financial statements and our auditor's report thereon. The other information does not include the specific information presented therein that is identified as being an integral part of the consolidated financial statements and, therefore, covered by our audit opinion on the consolidated financial statements.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and the Audit Committee for the Consolidated Financial Statements

The directors of the Bank are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRS Accounting Standards as issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

– Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

– Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

– Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

– Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

– Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

– Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. We are responsible for the direction, supervision and review of the audit work performed for purposes of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

The engagement partner on the audit resulting in this independent auditor's report is Mr. Poon, Raymond Tak-cheong (practising certificate number: P05526)

PricewaterhouseCoopers
Certified Public Accountants

24 February 2026

TCFD Explanatory Statements TCFD

Where we have not included climate-related financial disclosures consistent with all the TCFD recommendations and recommended disclosures, the reasons for non-disclosure and steps being undertaken are set out accordingly. We will continue to develop and refine its reporting and disclosures on climate matters in line with our obligations under the HKMA SPM GS-1.

With respect to our obligations under HKMA SPM GS-1 as part of considering what to measure and publicly report, we perform an assessment to ascertain the appropriate level of detail to be included in the climate-related financial disclosures that is set out in our Annual Report. The assessment takes into account factors such as the level of our exposure to climate-related risks and opportunities, the scope and objectives of our climate-related strategy, transitional challenges, and the nature, size and complexity of our business.

With the aim to enhance the clarity of the reasons for non-disclosure and steps being undertaken listed above, we have decided to revamp the presentation to ensure the information is conveyed in a simpler and more engaging manner, allowing our stakeholders to better understand the connection between our obligation under HKMA SPM GS-1 and the corresponding explanatory statements.

Strategy (b) relating to impact on strategy, business, and financial planning: we currently do not disclose how we consider climate-related risks and opportunities in the merger and acquisition process, as the climate-related impacts are not separately identifiable. We may also consider these forward-looking impacts as commercially sensitive. We have used climate scenario analysis to inform our organisation's business, strategy and financial planning. We used climate scenario analysis to assess the impacts of climate-related risks on financial performance and our financial position, which is largely focused on how expected credit losses will be impacted under different climate scenarios. We do not fully disclose impacts from climate-related issues on financial planning and performance, including on business lines, revenue, costs, and the balance sheet assets, detailed climate risk exposures for all sectors and geographies, or physical risk metrics. This is due to transitional challenges in relation to data limitations, although nascent work is ongoing in these areas. However, we have disclosed the progress against HSBC Group's ambition of providing and facilitating US$750bn – US$1tn sustainable finance and investment by 2030. We expect these data limitations to be addressed in the medium term as more reliable data becomes available and technology solutions are implemented.

Strategy (b) relating to impact on access to capital: we do not disclose the changes in financial position over the short, medium and long term with respect to access to capital. We have however, considered how the implementation of our climate strategy may impact our businesses, strategy and financial planning. Our access to capital may be impacted by reputational concerns as a result of climate action or inaction. In addition, if we are perceived to mislead stakeholders on our business activities or if we fail to achieve our stated net zero ambitions, we could potentially face reputational damage, impacting our revenue-generating ability and our access to capital markets. To manage these risks, we have integrated climate risk into our existing risk taxonomy, and incorporated it within the risk management framework through the policies and controls for the existing risks where appropriate. The relevant access to capital is therefore not individually identifiable. We are exploring ways to enhance our methodologies and data capabilities to improve granularity of these disclosures in the medium term.

Strategy (b) relating to transition plan: we do not currently disclose our transition plan. In 2020, the HSBC Group set an ambition to become a net zero bank by 2050. Since then, the HSBC Group has made good progress and published its updated transition plan incorporating revised interim 2030 financed emission targets in November 2025, which reflects the realities of an evolving transition playing out very differently across the global economy. For details, please refer to the HSBC Group's Net Zero Transition Plan. We currently do not disclose the planned sources of funding to implement our climate strategy. Our planned sources of funding take into consideration our overall bank strategy. Our climate strategy is part of this, and the specific climate-related sources of funding are not separately identifiable. The relevant access to capital is therefore not individually identifiable. As part of enhancing our disclosures for upcoming regulatory requirements, we plan to reassess our approach to these requirements in the medium term.

Metrics and targets (a) relating to metrics used to assess progress against opportunities: we currently do not fully disclose the key metrics used to measure and manage climate-related opportunities (proportion of revenue, assets, or other business activities aligned with climate-related opportunities). This is due to challenges in quantifying such metrics as well as constraints on obtaining supportable information without incurring undue cost or effort. It may also involve disclosing commercially sensitive non-public information. We are exploring ways to enhance our methodologies and data capabilities to improve granularity of these disclosures in the medium term.

Metrics and targets (a) relating to metrics used to assess progress against capital deployment: we currently do not disclose the proportion of revenue, amount and percentage of assets or capital deployment aligned with climate-related opportunities, including revenue from low-carbon products and forward-looking metrics. This is due to transitional data and system limitations, and the absence of standardised methodologies. We are working to improve our data and enhance our disclosures in the medium term.

Metrics and targets (a) relating to internal carbon price: we do not currently use an internal carbon price, and are still developing the relevant implementation strategy. We aim to provide further disclosures in the medium term. For details on the external carbon prices used in HSBC Group's climate scenario analysis, please see its Annual Report and Accounts

Metrics and targets (a) relating to metrics used to assess the impact of climate risk on lending and financial intermediary business: we do not fully disclose the amount and percentage of carbon-related assets relative to total assets or business activities vulnerable to climate-related physical and transition risks, or the metrics (including forward-looking metrics) used to assess the impact of climate-related physical (acute, chronic) and transition (policy and legal, technology, market and reputation) risks on parts of wholesale, retail lending and other financial intermediary business activities (specifically credit exposure, equity and debt holdings, or trading positions, broken down by industry, geography, credit quality and average tenor). In addition, we do not fully disclose how our lending and other financial intermediary business activities are aligned with a well below 2°C scenario. This is due to transitional challenges. We are developing the appropriate systems, data and processes to provide these disclosures the medium term.

Metrics and targets (a) and (b) relating to scope 3 emissions metrics: we do not currently disclose scope 3 GHG emissions. In 2025 the HSBC Group conducted a materiality assessment on upstream scope 3 categories, and it has identified categories 1 (purchased goods and services), 2 (capital goods), and 6 (business travel) as material. We follow the HSBC Group's practice but we do not disclose category 1, 2 and 6 due to transitional challenges. We are working on enhancing the data quality, including engaging an additional supply chain data source to complement the existing data. In relation to financed emissions, the HSBC Group published on-balance sheet financed emissions for its in-scope target-sectors. It also published facilitated emissions for the oil and gas, and power and utilities sectors. For details, please refer to the HSBC Group's Annual Report and Accounts and ESG Data Pack. We recognise the need to provide early transparency on climate disclosures but balance this with the recognition that existing data and reporting processes continue to evolve in the medium term.

Metrics and targets (c) relating to details of targets set and whether they are absolute or intensity based: we aim to achieve net zero in our own operations in Hong Kong by 2030[1], and contribute to the HSBC Group's climate ambitions. We continue to contribute to the HSBC Group's ambition of providing and facilitating between US$750 billion and US$1 trillion of sustainable finance and investment by 2030.

We do not currently set our targets used to measure and manage physical and transition risk, capital deployment, remuneration or climate-related opportunities. We are working to enhance the appropriate systems, data and processes to expand our disclosures to align with TCFD requirements in the medium term. We recognise the need to provide early transparency on climate disclosures but balance this with the recognition that existing data and reporting processes continue to evolve.

1 *This includes only Scope 1 and Scope 2 emissions.*

Additional cautionary statement regarding ESG data, metrics and forward-looking statements

The Annual Report 2025 contains a number of forward-looking statements (as defined above) with respect to the Group's (and HSBC Group's) ESG-related ambitions, targets and commitments, climate-related pathways, processes and plans, and the methodologies and scenarios the Group (and HSBC Group) use, or intend to use, to assess the Group's (and HSBC Group's) progress in relation to these ('ESG-related forward-looking statements').

In preparing the ESG-related information contained in the Annual Report 2025, the Group (and HSBC Group) have made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. The Group (and HSBC Group) have used ESG (including climate) data, models and methodologies that we consider, as of the date on which they were used, to be appropriate and suitable to understand and assess climate change risk and its impact, to analyse financed emissions and operational and supply chain emissions, to set ESG-related ambitions, targets and commitments and to evaluate the classification of sustainable finance and investments. However, these data, models and methodologies are often new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In particular, it is not possible to rely on historical data as a strong indicator of future trajectories in the case of climate change and its evolution. Outputs of models, processed data and methodologies are also likely to be affected by underlying data quality, which can be hard to assess and the Group (and HSBC Group) expect industry guidance, market practice, and regulations in this field to continue to change. The Group (and HSBC Group) also face challenges in relation to its ability to access data on a timely basis, lack of consistency and comparability between data that is available and its ability to collect and process relevant data. Consequently, the ESG-related forward-looking statements and ESG metrics disclosed in the Annual Report 2025 carry an additional degree of inherent risk and uncertainty.

Due to the unpredictable evolution of climate change and its future impact and the uncertainty of future policy and market response to ESG-related issues and the effectiveness of any such response, the Group (and HSBC Group) may have to re-evaluate its progress towards its ESG-related ambitions, targets and commitments in the future, update the methodologies it uses or alter its approach to ESG (including climate) analysis and may be required to amend, update and recalculate its ESG-related disclosures and assessments in the future, as market practice and data quality and availability develop.

No assurance can be given by or on behalf of the Group (and HSBC Group) as to the likelihood of the achievement or reasonableness of any projections, estimates, forecasts, ambitions, targets, commitments, prospects or returns contained herein. Readers are cautioned that a number of factors, both external and those specific to the Group (and HSBC Group), could cause actual achievements, results, performance or other future events or conditions to differ, in some cases materially, from those stated, implied and/or reflected in any ESG-related forward-looking statement or metric due to a variety of risks, uncertainties and other factors (including without limitation those referred to below):

- Climate change projection risk: this includes, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts;
- ESG projection risk: ESG-related metrics are complex and are still subject to development. In addition, the scenarios employed in relation to them, and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty, and cannot fully capture all of the potential effects of climate, policy and technology-driven outcomes;
- Changes in the ESG regulatory landscape: this involves changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets;
- Variation in reporting standards: ESG reporting standards are still developing and are not standardised or comparable across all sectors and markets, and new reporting standards in relation to different ESG metrics are still emerging;

– Data availability, accuracy, verifiability and data gaps: the Group's (and HSBC Group's) disclosures are limited by the availability of high quality data in some areas and the Group's (and HSBC Group's) own ability to timely collect and process such data as required. Where data is not available for all sectors or consistently year on year, there may be an impact to the Group's (and HSBC Group's) data quality scores. We may not be able to fully mitigate financial reporting risks related to our climate and ESG disclosures due to due to the limited quantity and consistency of available data. The accuracy and reliability of data is also impacted by the diverse range of internal and external data sources and data structures needed for climate-related reporting. While the Group (and HSBC Group) expect its data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be unexpected fluctuations within sectors year on year, and/or differences between the data quality scores between sectors. Any such changes in the availability and quality of data over time, or the Group's (and HSBC Group's) ability to collect and process such data, could result in revisions to reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on year;

– Developing methodologies and scenarios: the methodologies and scenarios the Group (and HSBC Group) use to assess financed emissions and set ESG-related ambitions, targets and commitments may develop over time in line with market practice, industry standards, regulation and/or developments in science, where applicable. Such developments could result in revisions to reported data, including on financed emissions or the classification of sustainable finance and investments, meaning that data outputs may not be reconcilable or comparable year-on year. Consequently, we might need to reassess our progress towards ESG-related ambitions, targets and commitments in the future; and

– Risk management capabilities: global actions, including the Group's (and HSBC Group's) own actions, may not be effective in transitioning to net zero and in managing relevant ESG risks, including in particular climate, nature-related and human rights risks, each of which can impact the Group (and HSBC Group) both directly and indirectly through its customers, and which may result in potential financial and non-financial impacts to the Group (and HSBC Group). In particular:

  • The Group (and HSBC Group) may not be able to achieve its ESG-related ambitions, targets and commitments (including with respect to the positions set forth in HSBC Group's thermal coal phase-out policy and energy policy, and targets to reduce on-balance sheet financed emissions and, where applicable, facilitated emissions in HSBC Group's portfolio of selected high-emitting sectors), which may result in the Group's (and HSBC Group's) failure to achieve some or all of the expected outcomes of its strategic priorities and raise reputational concerns; and
  • The Group (and HSBC Group) may not be able to develop sustainable finance and ESG-related products consistent with the evolving expectations of its regulators, and its capacity to measure the environmental and social impacts from its financing activity may diminish (including as a result of data and model limitations and changes in methodologies), which may affect its ability to achieve the ESG-related ambitions, targets, and commitments, including its net zero ambition, its targets to reduce its on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors and the positions set forth in its thermal coal phase-out policy and energy policy, and increase the risk of greenwashing. We may face additional risks if we knowingly or unknowingly make inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to our stakeholders.

Any forward-looking statements made by or on behalf of the Group (and HSBC Group) speak only as of the date they are made. The Group (and HSBC Group) expressly disclaim any obligation to revise or update these ESG forward-looking statements, other than as expressly required by applicable law.

Written and/or oral ESG-related forward-looking statements may also be made in the Group's (and HSBC Group's) periodic reports to its regulators, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by the Group's (and HSBC Group's) Directors, officers or employees to third parties, including financial analysts.

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