

Non-collateralised Structured Products

Base Listing Document relating to Hong Kong Listed Structured Products

to be issued by



The Hongkong and Shanghai Banking Corporation Limited

(incorporated in Hong Kong with limited liability under the Companies Ordinance of Hong Kong)

The Hongkong and Shanghai Banking Corporation Limited (the “**Bank**”, “**Issuer**”, “**we**” or “**us**”) has published this document in respect of call/put warrants on single equities (“**Equity Warrants**”), call/put warrants on indices (“**Index Warrants**”) and call/put warrants on funds (“**Fund Warrants**”) (together the “**Warrants**”), inline warrants on single equities (“**Equity Inline Warrants**”) and inline warrants on indices (“**Index Inline Warrants**”) (together the “**Inline Warrants**”), callable bull/bear contracts on single equities (“**Equity Callable Bull/Bear Contracts**”), callable bull/bear contracts on indices (“**Index Callable Bull/Bear Contracts**”) and callable bull/bear contracts on funds (“**Fund Callable Bull/Bear Contracts**”) (together the “**CBBCs**”) and, together with the Warrants, the Inline Warrants and any other structured products approved by The Stock Exchange of Hong Kong Limited (the “**stock exchange**”) from time to time, the “**structured products**”) to be issued by us in series (each a “**series**”) from time to time and listed on the stock exchange.

Hong Kong Exchanges and Clearing Limited (“**HKEX**”), the stock exchange and Hong Kong Securities Clearing Company Limited (“**HKSCC**”) take no responsibility for the contents of this document, make no representation as to its accuracy or completeness and expressly disclaim any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this document.

This document, for which we accept full responsibility, includes particulars given in compliance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “**rules**”) for the purpose of giving information with regard to us and the structured products. We, having made all reasonable enquiries, confirm that to the best of our knowledge and belief the information contained in this document is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this document misleading. Additional terms relating to each series of our structured products will be set out in a launch announcement and supplemental listing document (each a “**launch announcement and supplemental listing document**”) which will be supplemental to, and should be read in conjunction with, this document.

The structured products involve derivatives. You should not invest in the structured products unless you fully understand and are willing to assume the risks associated with the structured products. The structured products are complex products. You should exercise caution in relation to them. You are warned that the price of our structured products may fall in value as rapidly as it may rise and you may sustain a total loss of your investment. Prospective purchasers should therefore ensure that they understand the nature of our structured products and carefully study the risk factors set out in this base listing document and the relevant launch announcement and supplemental listing document and, where necessary, seek professional advice, before they invest in any of our structured products. The Issuer is part of a large global financial institution and has many financial products and contracts outstanding at any given time.

The structured products constitute general unsecured contractual obligations of the Issuer and of no other person and will rank equally among themselves and with all of the Issuer’s other unsecured obligations (save for those obligations preferred by law) upon liquidation. If you purchase the structured products, you are relying upon the Issuer’s creditworthiness and have no rights under the structured products against (a) any company which has issued the underlying shares, (b) the fund which has issued the underlying securities, or its trustee or manager (as applicable), or (c) any company constituting the underlying index or the index compiler of any underlying index or any other person. If the Issuer becomes insolvent or defaults on its obligations under the structured products, you may not be able to recover all or even part of the amount due under the structured products (if any).

Dated 31 March 2026

IMPORTANT

If you are in any doubt as to any of the contents of this document, you should consult your stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

If at the time of issue of the structured products, any information in this base listing document needs to be updated and/or amended, we will either include the updated and/or amended information in the relevant launch announcement and supplemental listing document or publish an addendum to this base listing document.

You should read this document, together with any addendum to it and the relevant launch announcement and supplemental listing document, together with any addendum to it, before deciding whether to invest in the structured products.

We cannot give you investment advice. You must decide for yourself whether our structured products meet your investment needs, and obtain independent professional advice if appropriate. This document is for information purposes only and is not intended to be, and should not be considered as, a recommendation or advice by us or any of our affiliates that you should purchase any of our structured products, and you must make your own independent investigation of our financial condition and affairs and your own appraisal of our creditworthiness.

We undertake during the period in which our structured products are listed on the stock exchange to make the following documents available on the website of the HKEX at www.hkexnews.hk and our website which is presently at <https://www.warrants.hsbc.com.hk/en/warrant/latest-document-and-notice> :

- (a) a copy of this document and any addendum to this document (both the English version and the Chinese translation);
- (b) a copy of our latest audited consolidated financial statements and any interim or quarterly financial statements; and
- (c) a copy of the consent letter from our auditor referred to in this document.

本公司承諾，以下文件可於結構性產品在聯交所上市的期間內於香港交易所披露易網站(www.hkexnews.hk/index_c.htm)以及本公司網站(網址現為<https://www.warrants.hsbc.com.hk/tc/warrant/latest-document-and-notice>)瀏覽：

- (a) 本文件及本文件的任何增編(英文版本及中文譯本)；
- (b) 本公司最近期經審核綜合財務報表及任何中期或季度財務報表；及
- (c) 本文件所述本公司核數師的同意函件。

For the purpose of this document and where the context requires, references to “**Hong Kong**” are to the Hong Kong Special Administrative Region of the People’s Republic of China, to “**Macau**” are to the Macau Special Administrative Region of the People’s Republic of China and to the “**PRC**” are to The People’s Republic of China (which for the purposes of this document shall exclude Hong Kong, Macau and Taiwan).

Our structured products are not available to any person that is: (a) a U.S. person (as defined in Regulation S of the United States Securities Act of 1933, as amended); (b) a U.S. person as defined in 17 C.F.R. § 23.23(a)(23) (a “**CFTC U.S. Person**”) or to others for offer or sale to or for the account or benefit of any such CFTC U.S. Person or; (c) a “United States person” as defined in the Chinese Military-Industrial Complex Sanctions Regulations (31 C.F.R. Part 586) (“**E.O. 13959 U.S. Persons**”), to the extent that the underlyings for the relevant structured products (i) include securities whose purchase or sale by E.O. 13959 U.S. Persons is restricted under 31 C.F.R. Part 586 or (ii) provide any investment exposure to any such securities ((i) and (ii) collectively, “**E.O. 13959 Restricted Underlyings**”).

E.O. 13959 U.S. Persons are restricted from purchasing or selling the structured products with E.O. 13959 Restricted Underlyings after the effective date of the 31 C.F.R. Part 586 restrictions applicable to those underlyings and investors should seek their own independent legal advice regarding compliance with 31 C.F.R. Part 586.

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OVERVIEW OF OUR PROGRAMME

We have set up this **programme** for the purpose of offering from time to time to the public in Hong Kong **structured products** listed on the stock exchange. The following is an overview of the main features of the programme.

Who issues the structured products?	The Hongkong and Shanghai Banking Corporation Limited is the Issuer of the structured products. References in this base listing document to the “ Bank ”, “ we ”, “ our ” and “ us ” are to the Issuer and the “ Bank Group ” are to the Issuer and its subsidiaries.
Will the structured products be guaranteed?	No.
What types of structured products may we issue under the programme?	We may issue Warrants, Inline Warrants and CBBCs under the programme, each as described below. We may also issue from time to time under the programme other structured products approved by the stock exchange.
What types of Warrants may be issued under the programme?	<p>The Warrants which we may issue under the programme include:</p> <ul style="list-style-type: none">(a) call/put warrants on single equities (“Equity Warrants”);(b) call/put warrants on a single index (“Index Warrants”); and(c) call/put warrants on a single fund (“Fund Warrants”).
What types of Inline Warrants may be issued under the programme?	<p>The Inline Warrants which we may issue under the programme include:</p> <ul style="list-style-type: none">(a) inline warrants on single equities (“Equity Inline Warrants”); and(b) inline warrants on a single index (“Index Inline Warrants”).
What types of CBBCs may be issued under the programme?	<p>The callable bull/bear contracts (the “CBBCs”) which we may issue under the programme include:</p> <ul style="list-style-type: none">(a) callable bull/bear contracts on single equities (“Equity Callable Bull/Bear Contracts”);(b) callable bull/bear contracts on a single index (“Index Callable Bull/Bear Contracts”); and(c) callable bull/bear contracts on a single fund (“Fund Callable Bull/Bear Contracts”).
How are the structured products issued?	Our structured products will be issued in one or more series . Structured products within a series will have the same terms, but the terms of one series of structured products may be different from another.

What is the legal status of the structured products?	The structured products are our direct, unconditional, unsubordinated and unsecured obligations, ranking equally (<i>pari passu</i>) among themselves and with all our other present and future direct, unconditional, unsecured and unsubordinated obligations (save for those obligations preferred by law).
Will the structured products be listed?	Yes. We will apply to the stock exchange to list each series of the structured products which we issue under the programme. This base listing document has been published for the purposes of obtaining a listing of each series of structured products which we issue under the programme.
Will the structured products be admitted to CCASS?	Yes. We will make arrangements to ensure that each series of structured products will be accepted by HKSCC as eligible securities for deposit, clearance and settlement in the Central Clearing and Settlement System (“ CCASS ”). All activities under CCASS are subject to the General Rules of CCASS and CCASS Operational Procedures in effect from time to time (the “ CCASS Rules ”).
What are the listing documents for the structured products?	<p>We have published this base listing document to permit the listing of our structured products on the stock exchange. This base listing document sets out the terms and conditions of the structured products, common features of the structured products, the legal terms relating to the programme and information about us. This base listing document includes particulars given in compliance with the rules for the purpose of giving information with regard to us and the structured products.</p> <p>When we apply to list one or more series of structured products, we will publish a launch announcement and supplemental listing document, which will include information on the particular structured products to be listed. The launch announcement and supplemental listing document will be available in English and Chinese versions (which may be printed together in the same document).</p> <p>If any information in this base listing document needs to be updated and/or amended at the time we issue a launch announcement and supplemental listing document, we will either include the updated and/or amended information in the relevant launch announcement and supplemental listing document or publish an addendum to this base listing document.</p>
What will a launch announcement and supplemental listing document specify?	The launch announcement and supplemental listing document will, amongst other things, set out the terms of the series of structured products being offered to supplement the applicable set of master terms and conditions in this base listing document, which will include the following:
<i>Type of structured product</i>	The launch announcement and supplemental listing document will specify the type of the series of structured products offered.

<i>Exercise</i>	The launch announcement and supplemental listing document will specify the date on which the structured products may be exercised. The structured products which we issue under the programme may be exercised only upon the specified expiry date.
<i>Settlement Basis</i>	The holder of the structured products will be entitled to a cash payment upon exercise (assuming that the cash payment is greater than zero).
<i>Issue price</i>	The launch announcement and supplemental listing document will specify the issue price of the structured product.
<i>Underlying</i>	The launch announcement and supplemental listing document will specify the underlying for the structured product, which may be a share of a company, an index or a share or a unit of a fund. References in this base listing document to a “ fund ” are to a unit trust or an exchange-traded fund (“ ETF ”) (as the case may be) and the “ securities ” of a fund are to the units or shares of the fund (as the case may be).
<i>Expiry Date</i>	The launch announcement and supplemental listing document will specify the expiry date for the series of structured products offered.
<i>Liquidity Provider</i>	The launch announcement and supplemental listing document will specify the name and contact details of the liquidity provider appointed for the series of structured products offered, and the basis on which the appointed liquidity provider will provide liquidity in the relevant structured products.
How will the structured products be represented?	The structured products of each series will be issued in registered form and represented by a global certificate which will be registered in the name of HKSCC Nominees Limited (or such other nominee company as HKSCC may specify from time to time) and will be deposited with CCASS in accordance with the CCASS Rules.
Will you get any individual certificate representing an investment in a series of our structured products?	No, you will not receive any individual certificates.
In the Terms and Conditions for the structured products, there are references to “holders”. Who are they?	<p>The Issuer will maintain a register showing the details of each person who is entitled to a particular number of structured products of a series. The person registered will be treated by us as the absolute owner and holder of that number of structured products.</p> <p>The register for each series of structured products will record at all times that HKSCC Nominees Limited (or such other nominee company as HKSCC may specify for that series) is the holder of 100 per cent. of the structured products of that series.</p>

Accordingly you will not be recognised by us as the holder of the structured products in which you invest, and you must refer to the records of CCASS and/or your custodian/broker, and the statements that you receive, to determine your beneficial interest in the structured products.

How do we give notices and make payments under our structured products?

We will give any necessary notices by publishing such notices in English and in Chinese on the website of HKEX, or otherwise in accordance with the terms and conditions of the relevant structured products.

We will make all payments that are due under our structured products to the registered holder of the structured products. The registered holder will be HKSCC Nominees Limited (or such other nominee company as HKSCC may specify for that series). In this situation, the payments to which you are entitled will be made to you or to your custodian/broker through CCASS in accordance with the CCASS Rules.

Can we repurchase our structured products?

Yes, we or our affiliates may repurchase our structured products at any time. We may offer for sale any structured products which we repurchase, and may do so at prevailing market prices or in negotiated transactions at our discretion (acting in good faith and in a commercially reasonable manner). You should not therefore make any assumptions as to the number of structured products of any series which may be in issue from time to time.

RISK FACTORS

You should carefully consider the following information together with the other information contained in this base listing document (and any applicable addendum) and in the applicable launch announcement and supplemental listing document (and any applicable addendum) before purchasing our structured products.

This section highlights only some of the risks of dealing in the structured products but their inclusion in this document does not mean these are the only significant or relevant risks of dealing in our structured products. If you have any concerns or doubts about our structured products, you should obtain independent professional advice.

General Risk Factors relating to us and our Structured Products

(1) Non-collateralised structured products

Our structured products are not secured on any of our assets or any collateral.

(2) You must rely on our creditworthiness

If you purchase our structured products, you rely on our creditworthiness and of no other person (including the ultimate holding company of our group, HSBC Holdings plc) and you have no rights under the structured products against any company which has issued the underlying shares (in respect of equity-linked structured products), any company constituting the underlying index or the index compiler (in respect of index-linked structured products), or any fund which has issued the underlying securities, or its trustee or manager (as applicable) (in respect of fund-linked structured products). There is no assurance of protection against a default by us in respect of our obligations under our structured products. If we become insolvent or default on our obligations under the structured products, you can only claim as our unsecured creditor regardless of the performance of the underlying and you may not be able to recover all or even part of the amount due under the structured products (if any).

You should note that rating agencies usually receive a fee from the issuers that they rate. When evaluating our creditworthiness, you should not solely rely on our credit ratings (which are set out in the section headed "General Information" on page 132 of this base

listing document and the section headed "Important information" of the relevant launch announcement and supplemental listing document) because:

- (a) a credit rating is not a recommendation to buy, sell or hold our structured products;
- (b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;
- (c) a high credit rating is not necessarily indicative of low risk. Our credit ratings as set out in this base listing document and the relevant launch announcement and supplemental listing document are for reference only. Any downgrading of our ratings could result in a reduction in the value of the structured products;
- (d) a credit rating is not an indication of the liquidity or volatility of the structured products; and
- (e) a credit rating may be downgraded if the credit quality of the Issuer declines.

(3) Macroeconomic and geopolitical risk

Economic and market conditions and geopolitical developments may adversely affect the Bank Group's financial condition and results

The Bank Group's earnings are affected by global and local economic, financial and geopolitical changes. Uncertain economic conditions and volatile markets

can create a challenging operating environment for the Bank Group's business operations.

The Bank Group has experience of financial and operational loss sustained as a consequence of the economic cycle, financial crises and wars. Its earnings, operations and operating model have been and could in the future be affected by the following factors:

- The economic cycle: Deteriorating business, consumer or investor confidence and lower levels of investment and productivity growth, may lead to economic recession and lower customer and client activity. Rapid changes to the economic environment can also create challenging operating conditions for financial institutions such as the Bank Group and may affect its earnings and profits. The volatility of the United States (“U.S.”) trade and tariff policies remains a key source of uncertainty. Changes to tariff rates, including sector-specific levies, may deter capital investment and consumer spending, disrupt supply chains and reduce global trade growth. A broader escalation of tariffs, and a potential trade war remain a risk. Policy uncertainty may also deter businesses from hiring. During 2025, unemployment rose across many of our major markets, and there remains a risk of further increases if layoffs begin to increase more significantly, employment growth continues to be constrained by uncertainty, or if investment in artificial intelligence (“AI”) starts to yield productivity gains that reduce demand for labour. Slowing growth in the PRC over the second half of 2025 also suggests that additional economic policy support may be needed to stimulate domestic growth. Weak growth, higher unemployment and rising costs could affect the earnings and activity of our customers, which could, in turn, reduce demand for the Bank Group's products and services.
- Inflation and monetary policy: The future path for interest rates remains uncertain and changes to interest rate expectations could affect net interest income, the fair value of our assets and liabilities and overall financial performance. The combined pressure of tariffs, persistent inflation and restrictive interest rates could have material impacts on the Bank Group's customers as these factors could erode real purchasing power, increase debt service costs and weigh on real estate and other asset prices. High interest rates may affect the credit rating of its customers and their ability to repay debt. This could negatively impact the Bank Group's risk-weighted assets (“RWAs”) and capital position, resulting in increases in expected credit losses and other impairment charges (“ECL”) and potential liquidity stresses due to, amongst other factors, increased customer drawdowns. There could be further adverse impacts on the Bank Group's income if high rates were to result in lower lending volumes and weaker wealth and insurance revenue. Alternatively, lowering interest rates, while stimulating demand for new lending, could reduce revenue from net interest margins and profitability. Major central banks, including the U.S. Federal Reserve, the European Central Bank and the Bank of England, eased monetary policy during 2025 as higher inflation risks were seen to diminish as unemployment rose. However, that trajectory could be disrupted if wage growth, tariffs or key commodity prices keep inflation higher for longer.
- Financial stability: Changing economic conditions and shifting policy create a more uncertain and volatile environment for asset markets. Financial markets have seen significant gains over 2025, including in the AI and the technology sectors, supported by the decline in short-term interest rates. The investment in these sectors may lead to future gains to productivity,

while high equity market valuations may create a tailwind from positive wealth effects. However, current high valuations also raise the risk of a material fall in the markets, if the expected gains to productivity fail to materialise. This could adversely affect economic growth, which may, in turn, have an adverse impact on the Bank Group's risk profile and earnings by increasing the financial vulnerability of customers and decreasing the value of collateral and other claims. The depreciation of the U.S. dollar through 2025 driven by changing interest rates and tariff policy uncertainty, is also an area of focus due to the associated hedging and revaluation risks. Elevated volatility is expected to persist, reflecting concern over fiscal sustainability and an increasingly complex fiscal and monetary policy environment. Exchange rate volatility may affect our risk exposure through mark-to-market changes in trading positions and the translation effects of currency movements.

- Fiscal policy and high levels of government debt: Debt levels in many of our major markets have continued to rise due to higher social welfare costs and increased expenditures on defence and climate transition. Rising government debt and high interest payments could adversely affect the fiscal capacity and debt sustainability of highly indebted sovereign issuers. Emerging markets with substantial debt and weak fiscal positions may also face increased repayment costs, heightened refinancing risks and greater likelihood of sovereign rating downgrades. A fragmented political landscape in many markets has diminished the political will for fiscal tightening. These factors could drive higher refinancing costs and could lead to tax increases that prove negative for growth. Uncertainty about future taxation could undermine confidence, business investment and consumer spending, which would be negative for the Bank Group's retail and

corporate operations in various markets. Additionally, where the Bank Group has exposure to such sovereigns or related parties, it could incur losses. At the same time, sovereign rating downgrades and/or a disorderly increase in long-term government funding costs, could increase the cost of funding for the Bank Group and/or limit access to market funding, resulting in an adverse impact on interest margins and liquidity.

- Longer term trends: Strategic competition between countries is reshaping trading relationships and increasing the focus on long-term economic and supply chain security, which could adversely affect the Bank Group and our customers. Diversification in trade invoicing currencies, payment systems and reserve holdings is also increasing as a consequence of these trends, raising liquidity and volatility risks, as well as increasing operational complexity. Evolving demographics, including population ageing and changing migration patterns, may also result in changes to long-term savings and investment behaviours, including reduced demand for bank borrowing.
- Geopolitical risks: Geopolitical risks remain high. The disruption of key supply routes caused by geopolitical conflicts has continued to add costs to impact global supply chains. The Russia-Ukraine war and further conflict or military action, in the Middle East, Venezuela or elsewhere, could impact economic activity regionally or globally which, if continued for a prolonged period, could have a material adverse effect on the Bank Group's business, financial condition, results of operations, prospects, liquidity, capital position and credit ratings. (For further details, see the sub-section headed "*The Bank Group is subject to political, social and other risks in the countries and territories in which it operates*" under this section).

Adverse changes to the current economic, financial and geopolitical situation including in relation to any of the factors listed above, could result in:

- **Idiosyncratic losses:** Impairment estimates attempt to capture the effects of economic, financial and geopolitical risks in the aggregate, but credit losses on specific exposures, with idiosyncratic features that make them particularly susceptible to the risks described above, may not be fully captured in the Bank Group's impairment estimates;
- **Sector-wide impairment:** Changing economic conditions, policies and funding costs may give rise to a deterioration in specific industries and sectors that may reduce the creditworthiness of our customers. For example, in mainland China, excess supply conditions continued to weigh on the property market, despite various central government policies introduced to the property market and wider economy. In contrast, the Hong Kong real estate market showed some signs of recovery in the second half of 2025, particularly in the residential segment, supported by lower interest rates. Nevertheless, valuation pressures and liquidity constraints are expected to continue in the near term, particularly for mid-sized and sub-investment grade corporates. In addition, certain products, sectors and countries may be targeted by material increases in trade tariffs, potentially driving a slowdown in export demand;
- **Reduced credit demand:** The demand for borrowing from creditworthy customers may diminish during periods of recession or where economic activity slows or remains subdued;
- **A tightening of financial market conditions:** The Bank Group's ability to borrow from other financial institutions or to engage in funding transactions may be adversely affected by market disruption; and

- **Goodwill and intangibles:** A changing economic and geopolitical outlook may change the recoverable value of assets and necessitate a write down in the value of intangible balance sheet items such as goodwill.

Provisioning against credit loss is conducted under the IFRS 9 'Financial Instruments' calculations of ECL, which use forward looking scenarios that incorporate the economic and financial risks detailed above. In the fourth quarter of 2025, the Bank Group's Central scenario, which has the highest probability weighting, assumes that the Gross Domestic Product ("GDP") growth in the Bank Group's key markets will remain stable, or slow down in 2026, relative to 2025. Slower growth is assumed to result from the higher global tariffs and weaker labour market conditions across major economies. The scenario also assumes that central banks will cut policy interest rates further over 2026, as inflation is expected to converge towards official target rates.

However, forecasts remain uncertain, and changing economic conditions and the materialisation of key risks could reduce the accuracy of the Central scenario. There remains uncertainty regarding the adequacy of the Bank Group's models in capturing credit losses under emerging risks which are not captured by the historical loss experience of its models, or to effectively distinguish risks for specific sectors and portfolios. The Bank Group's financial model outputs (including retail and wholesale credit models such as IFRS loss models) continue to be monitored and management judgemental adjustments are used where modelled ECL does not fully reflect the identified risks and related uncertainty, or to capture significant late-breaking events. Nevertheless, the Bank Group's model outputs may fail to accurately capture the effects of complex economic, financial and geopolitical risks.

The occurrence of any of these events or circumstances could have a material adverse effect on the Bank Group's business, financial condition, results of operations, prospects and customers.

The Bank Group is subject to political, social and other risks in the countries and territories in which it operates

The Bank Group operates through an international network of subsidiaries and affiliates across countries and territories around the world. The Bank Group's operations are subject to potentially unfavourable political, social, environmental and economic developments in such jurisdictions, which may include:

- coups, armed conflicts or acts of terrorism;
- political and/or social instability;
- geopolitical tensions;
- epidemics and pandemics (such as the Covid-19 pandemic);
- climate change, acts of God and natural disasters (such as floods and hurricanes); and
- infrastructure issues, such as transportation and power failures.

Each of the above could impact RWAs, and the financial losses caused by any of these risk events or developments could impair asset values and the creditworthiness of customers. These risk events or developments may also give rise to disruption to the Bank Group's services and some may result in physical damage to our operations and/or risks to the safety of our personnel and customers.

Geopolitical tensions could have significant ramifications for the Bank Group and its customers. In particular:

- Throughout 2025, the U.S. government announced far-reaching tariffs against a broad spectrum of countries, including the UK, the PRC, the European Union ("EU"), Canada, India, and Mexico. Although subsequent bilateral and multilateral negotiations have moderated certain tariff rates, particularly in sectors deemed critical to domestic supply chains, there is a possibility that

these deals are replaced by alternative U.S. tariffs on different terms, and the overall trade policy environment remains fluid and unpredictable;

- While globalisation appears to remain deeply embedded in the international system, it is increasingly challenged by protectionism, including trade tariffs. The broad geographic footprint and coverage of the Bank Group may make it and its customers susceptible to protectionist measures taken by national governments and authorities, including imposition of trade tariffs, restrictions on market access and investment, restrictions on the ability to transact on a cross-border basis, expropriation, restrictions on international ownership, interest rate caps, limits on dividend flows and increases in taxation. There may be uncertainty as to the conflicting nature of such measures, their duration, the potential for escalation, and their potential impact on global economies;
- Following the U.S. military operation in Venezuela, further action elsewhere remains possible. Such developments, including the actual global economic and political implications, may lead to further trade disruption. (For further details, see the sub-section headed "*Economic and market conditions and geopolitical developments may adversely affect the Bank Group's financial condition and results*" under this section);
- Sanctions and restrictions on trade and investment are continually evolving in response to geopolitical events and may adversely affect the Bank Group, its customers and the markets in which the Bank Group operates. These factors may result in increased legal, regulatory, reputational and market risks, and a more complex operating environment;

- The Russia-Ukraine war along with related financial sanctions, trade restrictions and Russian countermeasures, has had global economic and political implications. The U.S., the UK, and the EU, as well as other countries, have continued to impose sanctions against Russia. The U.S. retains broad discretion to impose sanctions on non-U.S. financial institutions that knowingly or unknowingly engage in transactions or provide services to sanctioned parties or otherwise involve Russia's military-industrial base. The imposition of such sanctions against any non-U.S. HSBC entity could result in significant adverse commercial, operational, and reputational consequences for the Bank Group;
- Strategic competition between the U.S. and the PRC, including in the form of escalation and de-escalation over tariffs, sanctions, export controls, the trade of rare earth minerals and semiconductors, and cross-border investment restrictions, have increased risk and uncertainty. Diplomatic tensions between the PRC and the U.S. and related actions, which may extend to and involve other countries, and developments in Hong Kong and Taiwan and the surrounding maritime region, may further adversely affect the Bank Group;

Developing alternative payment mechanisms, such as projects to explore how tokenised commercial and central bank money could be used for cross-border payments, continue with implications for the future architecture of global finance. Development of new payments infrastructure and use of alternative currencies may present operational and other challenges, if, for example, certain governments mandate the use of payment channels that do not integrate with the Bank Group's payment architecture and financial crime controls.

Global tensions over trade and technology are resulting in divergent regulatory standards and compliance regimes, presenting long-term strategic

challenges for multinational businesses such as the Bank Group. As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations or other initiatives in one jurisdiction may be seen as supporting the law or policy objectives of that jurisdiction over another, creating additional legal, regulatory, reputational and political risks for the Bank Group. While it is the Bank Group's policy to comply with all applicable laws and regulations of all jurisdictions in which it operates, geopolitical tensions, and potential ambiguities in the Bank Group's compliance obligations, continue to present challenges and risks for the Bank Group and could have a material adverse impact on the Bank Group's strategy, business, customers, operations, financial results, and reputation.

The Bank Group is subject to financial and non-financial risks associated with Environmental, Social and Governance ("ESG") related matters, such as climate change, nature-related and human rights issues

ESG related matters such as climate change, society's impact on nature and human rights issues bring risks to the Bank Group's business, its customers and wider society. If the Bank Group fails to meet evolving regulatory expectations or requirements relating to these matters, this could have regulatory compliance and reputational impacts.

Climate change could have both financial and non-financial impacts on the Bank Group either directly or indirectly through its business activities and relationships. The Bank Group's climate risk approach identifies physical risk and transition risk as primary drivers of climate risk. We continue to identify the risk of greenwashing as a thematic risk issues related to climate risk, which may arise if we knowingly or unknowingly make inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to our stakeholders.

Physical risk may arise from the increased frequency and severity of extreme weather events, such as

hurricanes and floods or chronic gradual shifts in weather patterns or rises in sea level. Transition risk may arise 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 in relation to the Bank Group's action or inaction.

The Bank Group currently expects that the following to be the most likely ways in which climate risk may materialise for the Bank Group:

- credit risk may increase if climate-related regulatory, legislative or technological changes impact customers' business models or if extreme weather events disrupt or interrupt customers' operations, resulting in financial difficulty for customers and/or stranded assets, or impacting their ability to repay their debts. The Bank Group's customers may find that their business models fail to align to a net zero economy or face disruption to their operations or deterioration to their assets as a result of extreme weather;
- trading losses if climate change results in changes to macroeconomic and financial variables which negatively impact the Bank Group's trading book exposures;
- liquidity impacts in the form of deposit outflows due to changes in customer behaviours driven by impacts to profitability and wealth, or from reputational concerns relating to the progress the Bank Group's make towards its ESG-related ambitions, targets and commitments;
- the Bank Group's real estate portfolio may be impacted due to changes to the climate, an increase in the frequency and severity of extreme weather events and chronic gradual shifts in weather patterns, which could impact both property values and the ability of borrowers to afford their mortgage payments.

This may lead to the reduced availability or increased cost of insurance, including insurance that protects property pledged as collateral of the Bank Group's mortgages;

- operational risk may increase if extreme weather events impact the Bank Group's critical operations and premises;
- regulatory compliance risk may result from the increasing pace, breadth and depth of climate-related regulatory expectations, including on the management of climate risk, and variations in climate-related external reporting standards and taxonomies, requiring implementation in short timeframes across multiple jurisdictions;
- conduct risk may arise in association with the increasing demand for "green" or "sustainable" products where there are differing and developing standards or taxonomies;
- reputational risks may arise from how the Bank Group decides to support its customers in high-emitting sectors in their transition to net zero, the preferences of different stakeholders in relation to the Bank Group's approach to the transition to net zero, and if the Bank Group makes insufficient progress in achieving its ESG-related ambitions, targets and commitments; and
- model risk may arise from the uncertain and evolving impacts of climate change, as well as data and methodology limitations, which present challenges to creating reliable and accurate model outputs.

The Bank Group may also face heightened reputational, regulatory compliance, and legal risks as it advances towards its ESG-related ambitions, targets and commitments. Stakeholders are likely to scrutinise the Bank Group's actions, including the formulation of its ESG and sustainability policies, its disclosures, and its financing

and investment decisions in relation to these ambitions, targets and commitments. Additional risks may arise if the Bank Group fails to:

- make sufficient progress towards its ESG-related ambitions, targets and commitments;
- set adequate plans and execute, or adapt those plans as necessary, in response to changes in the external environment;
- manage the risks associated both with meeting and not meeting its ESG-related ambitions, targets and commitments; and
- meet evolving regulatory expectations and requirements on the management of ESG risks.

The Bank Group may also face risks related to climate and ESG-related litigation and regulatory enforcement. This could occur directly if stakeholders believe the Bank Group is not effectively managing these risks, or indirectly if its customers are involved in litigation which might lead to a revaluation of their assets.

Requirements, policy objectives, expectations, views or market and public perceptions and preferences in connection with the transition to a net zero economy and ESG-related matters may vary by jurisdiction and stakeholder, particularly in light of the differing perspectives and responses of stakeholders in different markets, such as the UK, the U.S., the EU and others. The Bank Group may be subject to potentially conflicting approaches to ESG matters in certain jurisdictions, which may impact its ability to conduct certain business within those jurisdictions or result in additional regulatory compliance, reputational, political or litigation risks. For example, the Bank Group's reputation and client relationships may be damaged as a result of its decision to participate, or not to participate, in certain projects perceived to be associated with causing or exacerbating climate change, as well as any decisions the Bank Group makes to continue to conduct or change its

activities in response to considerations relating to climate change, including the transition to net zero. These risks may also arise from divergence in the implementation of ESG, climate policy and financial regulation in the many regions in which the Bank Group operates, including initiatives to apply and enforce policy and regulation with extraterritorial effect.

The Bank Group recognises the importance of nature-related risks, as well as the complex interactions and compounding effects of climate and nature-related risk drivers. Nature related-risks may emerge when dependencies on natural capital – such as plants, soils and minerals – and ecosystem services – such as water availability and air quality – are affected by key drivers of nature loss, or when there is a lack of alignment between an organisation's impact on the natural environment and actions to protect, restore or reduce negative impacts on nature. Such risks can affect both the Bank Group and our customers through various channels including macroeconomic, market, credit, reputational, regulatory compliance and legal risks.

Businesses are expected to be transparent about their efforts to identify and respond to the risk of adverse human rights impacts arising from their business activities and relationships. Failure to manage this risk may negatively impact people and communities, which in turn may result in reputational, regulatory compliance and legal risks for the Bank Group.

The Bank Group's strategy and business model, including its products, services, and risk management processes, will need to continue to evolve to align with evolving regulatory requirements, stakeholder expectations and to manage ESG-related risks. This may involve adapting the way it measures and manages both financial and non-financial risks associated with ESG matters. Achieving the Bank Group's strategy with respect to ESG matters, including any related ambitions, targets and commitments it may set, depends on a

number of factors beyond its control, such as technological advancements and supportive public policies in its operating markets. If these external factors do not materialise or are delayed, the Bank Group may not meet its ESG-related ambitions, targets and commitments.

The Bank Group may encounter financial reporting risks concerning our climate and ESG disclosures due to the limited quality and consistency of available data. Such uncertainty poses a risk of relying on incomplete or inaccurate data and models, potentially leading to sub-optimal decision-making. As methodologies, data, scenarios, and industry standards evolve with market practices, regulations, or scientific advancements, the Bank Group's ability to collect and process required data may be challenged, exposing it to financial reporting risk in relation to our climate and ESG disclosures. Such developments could also necessitate revisions to the Bank Group's internal measurement frameworks and reported data, including on financed emissions, making year-on-year comparisons difficult. This could result in the Bank Group having to reevaluate its progress towards its ESG-related ambitions, targets and commitments in the future, resulting in reputational, regulatory compliance and legal risks.

If any of the above risks materialise, this could have financial and non-financial impacts for the Bank Group, which could, in turn, have a material adverse effect on its business, financial condition, results of operations, reputation, prospects and strategy.

The Bank Group operates in markets that are highly competitive

The Bank Group competes with other financial institutions in a highly competitive industry that continues to undergo significant change as a result of financial regulatory reform, as well as increased public scrutiny and a continued challenging macro-economic environment.

The Bank Group targets internationally mobile customers who need sophisticated global financial solutions. It generally

competes on the basis of the quality of its customer service, the wide variety of products and services that the Bank Group can offer its customers, the ability of those products and services to satisfy its customers' needs, the extensive distribution channels available for its customers, its innovation and its reputation. Continued and increased competition in any one or all of these areas may negatively affect the Bank Group's market share and/or cause the Bank Group to increase its capital investment in its businesses in order to remain competitive.

In the highly competitive markets in which the Bank Group operates, its ability to reposition or reprice its products and services from time to time may be limited, and could be influenced significantly by the actions of its customers or competitors. Any changes in the types of products and services that the Bank Group offers its customers and/or the pricing for those products and services could result in a loss of customers and market share.

Developments in technology and changes to regulations are enabling new entrants to the industry. This challenges the Bank Group to continue innovating and taking advantage of new digital capabilities so that the Bank Group improves how it serves its customers, drive efficiency and adapt its products to attract and retain customers. As a result, the Bank Group may need to increase its investment in its business to adapt or develop new products and services to respond to the Bank Group's customers' evolving needs and regulatory requirements. New digital capabilities have the potential to weaken its resilience or wider risk management capabilities. If the Bank Group fails to develop and adapt its products and services to take advantage of new digital capabilities this could have an adverse impact on its business.

The digitisation of financial services continues to have an impact on the payment services ecosystem, including new market entrants and payment mechanisms, not all of which are subject to the same level of regulatory scrutiny or regulations as financial institutions. This

presents ongoing challenges in terms of maintaining required levels of payment transparency, notably where financial institutions serve as intermediaries. Developments around digital assets and currencies have continued at pace, with an increasing regulatory and enforcement focus.

Any of these factors could have a material adverse effect on the Bank Group's business, financial condition, results of operations, prospects and reputation.

Market fluctuations may reduce the Bank Group's income or the value of its portfolios

The Bank Group's businesses are inherently subject to risks in financial markets and in the wider economy, including changes in, and increased volatility of, interest rates, inflation rates, credit spreads, foreign exchange rates, commodity, equity, bond and property prices, and the risk that the Bank Group's customers act in a manner inconsistent with its business, pricing and hedging assumptions.

Market pricing can be volatile and ongoing market movements could significantly affect the Bank Group in a number of key areas. For example, banking and trading activities are subject to interest rate risk, foreign exchange risk, inflation risk and credit spread risk. Changes in interest rate levels, interbank spreads over official rates and yield curves affect the interest rate spread realised between lending and borrowing costs. The potential for future volatility and margin changes remains. See the sub-section headed "*Economic and market conditions and geopolitical developments may adversely affect the Bank Group's financial condition and results*" under this section regarding the impact of these on the interest rate environment.

Competitive pressures on fixed rates or product terms in existing loans and deposits sometimes restrict the Bank Group's ability to change interest rates

applying to customers in response to changes in official and wholesale market rates.

The Bank Group's insurance businesses are exposed to the risk that market fluctuations may cause mismatches to occur between product liabilities and the investment assets that back them. Market risks can affect the Bank Group's insurance products in a number of ways depending upon the product and the associated contract. For example, mismatches between assets and liability yields and maturities give rise to interest rate risk. Some of these risks are borne directly by the customer and some are borne by the insurance businesses, with their excess capital invested in the markets. Some insurance contracts involve guarantees and options that increase in value in adverse investment markets. There is a risk that the insurance businesses could bear some of the cost of such guarantees and options. The performance of the investment markets could thus have a direct effect upon the value embedded in the insurance and investment contracts and the Bank Group's operating results, financial condition and prospects.

It is difficult to predict with any degree of accuracy changes in market conditions, and such changes could have a material adverse effect on the Bank Group's business, financial condition, results of operations, capital position and prospects.

Liquidity, or ready access to funds, is essential to the Bank Group's businesses

The Bank Group's ability to borrow on a secured or unsecured basis, and the cost of doing so, can be affected by increases in interest rates or credit spreads, the availability of credit, regulatory requirements relating to liquidity or the market perceptions of risk relating to the Bank Group or the banking sector, including the Bank Group's perceived or actual creditworthiness.

Current accounts and savings deposits payable on demand or at short notice form a significant part of the Bank Group's funding, and the Bank Group

places considerable importance on maintaining their stability. For deposits, stability depends upon preserving investor confidence in the Bank Group's capital strength and liquidity, and on comparable and transparent pricing.

The Bank Group also accesses wholesale markets in order to provide funding for entities that do not accept deposits, to align asset and liability maturities and currencies, and to maintain a presence in local markets. An inability to obtain financing in the unsecured long-term or short-term debt capital markets, or to access the secured lending markets, could have a material adverse effect on the Bank Group's liquidity.

Unfavourable macroeconomic developments, market disruptions or regulatory developments may increase the Bank Group's funding costs or challenge the Bank Group's ability to raise funds to support or expand the Bank Group's businesses.

If the Bank Group is unable to raise sufficient funds through deposits and/or in the capital markets, the Bank Group's liquidity position could be adversely affected, and the Bank Group might be unable to meet deposit withdrawals on demand or at their contractual maturity, to repay borrowings as they mature, to meet the Bank Group's obligations under committed financing facilities and insurance contracts or to fund new loans, investments and businesses. The Bank Group may need to liquidate unencumbered assets to meet the Bank Group's liabilities. In a time of reduced liquidity, the Bank Group may be unable to sell some of the Bank Group's assets, or the Bank Group may need to sell assets at reduced prices, which in either case could materially adversely affect the Bank Group's business, financial condition, results of operations, capital position and prospects.

(4) Changes in accounting standards may have a material impact on how the Bank Group reports its financial results and financial condition

The Bank Group prepares its consolidated financial statements in conformity with the requirements of the Companies Ordinance (Cap. 622) of Hong Kong and in accordance with the Hong Kong Financial Reporting Standards ("HKFRS") as issued by the Financial Reporting Standards Committee ("FRSC") of the Hong Kong Institute of Certified Public Accountants.

From time to time, the FRSC may issue new accounting standards or interpretations that could materially impact how the Bank Group calculates, reports and discloses its financial results and financial condition, and which may affect its capital ratios, including the Common Equity Tier 1 (CET1) ratio. The Bank Group could be required to apply new or revised standards retrospectively, resulting in restating its prior period financial statements in material amounts. This could have a material adverse effect on the Bank Group's business, financial condition, results of operations and capital position.

(5) The Financial Institutions (Resolution) Ordinance may adversely affect the structured products

On 7 July 2017, the Financial Institutions (Resolution) Ordinance (Cap. 628) of Hong Kong (the "FIRO") came into operation. The FIRO provides for, among other things, the establishment of a resolution regime for authorized institutions and other within scope financial institutions in Hong Kong which may be designated by the relevant resolution authorities, which includes us as the issuer of the structured products. The resolution regime seeks to provide the relevant resolution authorities with administrative powers to bring about timely and orderly resolution in order to stabilise and secure continuity for a failing authorized institution or within scope financial institution in Hong Kong. In particular, the relevant resolution authority is provided with powers to affect contractual and property rights as well as

payments (including in respect of any priority of payment) that creditors would receive in resolution. These may include, but are not limited to, powers to cancel, write off, modify, convert or replace all or a part of the structured products or cash payment under the structured products, and powers to amend or alter the contractual provisions of the structured products, all of which may adversely affect the value of the structured products, and the holders thereof may suffer a loss of some or all of their investment as a result. Holders of the structured products may become subject to and bound by the FIRO.

On 25 June 2021, the government of Hong Kong published the Financial Institutions (Resolution) (Contractual Recognition of Suspension of Termination Rights – Banking Sector) Rules (the “**Stay Rules**”) in the Gazette. The Stay Rules have come into operation on 27 August 2021 following completion of the vetting process by the Legislative Council of Hong Kong. Subject to certain transitional periods, entities subject to the Stay Rules are required to adopt appropriate provisions in certain financial contracts to the effect that the contractual parties agree to be bound by the temporary stay that may be imposed by the Hong Kong Monetary Authority under the FIRO, which may in turn affect any in-scope financial contracts between a qualifying entity and its counterparty(ies).

As the implementation of FIRO remains untested and certain details relating to FIRO will be set out through secondary legislation and supporting rules, we are unable to assess the full impact of FIRO, the Stay Rules, any potential secondary legislation and/or supporting rules and regulations made under FIRO on the financial system generally, our counterparties, us, any of our consolidated subsidiaries, our operations and/or our financial position. **In the worst case scenario, you may get nothing back and the maximum loss could be 100% of your initial investment amount.**

(6) Recent and future U.S. government actions

The U.S. government’s recent and future actions against mainland China and Hong Kong may affect the price or value of the underlying equities or indices (as applicable) and the prevailing trading price of the structured products. There can be no assurances that any future actions taken by the U.S. government (or other governments) against mainland China and Hong Kong will not have an adverse effect on the trading price or value of the structured products.

(7) Restrictions on E.O. 13959 U.S. Persons

To the extent the structured products include underlying securities that are or become E.O. 13959 Restricted Underlyings, E.O. 13959 U.S. Persons are or will be restricted under 31 C.F.R. Part 586 from purchasing and selling the structured products, which may adversely affect the prevailing trading price of the structured products. E.O. 13959 U.S. Persons are urged to seek independent legal advice regarding compliance with 31 C.F.R. Part 586.

(8) The structured products are not principal protected and may become worthless

Although the cost of a structured product may cost a fraction of the value of the underlying, the structured product’s price may change more rapidly than the price or level of the underlying. Given the gearing feature inherent in the structured products, a small change in the price or level of the underlying may lead to a substantial price movement in the structured products. You may suffer higher losses in percentage terms if you expect the price or level of the underlying to move one way but it moves in the opposite direction. In the worst case, the structured products may become worthless and you will lose all of your investment (or, in the case of Inline Warrants, a substantial part of your investment). The structured products may only be suitable for experienced investors who are willing to accept the risk that

they may lose all their investment (or, in the case of Inline Warrants, a substantial part of their investment).

(9) The price of our structured products may fluctuate to a great extent

The price of our structured products may fall or rise rapidly in value and our structured products may expire or become worthless, resulting in a total loss of your investment (or, in the case of Inline Warrants, a substantial part of your investment). Before dealing in our structured products, you should carefully consider, among other things, (i) the prevailing trading price of the structured products; (ii) the value or level and volatility of the underlying; (iii) in the case of an Inline Warrant, the range between the upper strike price/upper strike level and the lower strike price/lower strike level (both inclusive) of the Inline Warrant and the expected probability of the average price/closing level falling within the range between the upper strike price/upper strike level and the lower strike price/lower strike level (both inclusive) at expiry; (iv) the time remaining to expiration; (v) any change(s) in interim interest rates and dividend yields; (vi) any change(s) in currency exchange rates; (vii) the demand and supply of the structured products; (viii) any related transaction costs; and (ix) our creditworthiness.

(10) The secondary market for our structured products may be limited

We cannot predict if and to what extent a secondary market may develop for the structured products or whether that market will be liquid or illiquid. Whilst we intend to apply to list each series of our structured products on the stock exchange, the fact that a particular series of structured products is listed does not necessarily lead to greater liquidity. In addition, even if a series of structured products is listed on the stock exchange, there can be no assurance that any such listing can be maintained. Our appointed liquidity provider may be the only person quoting prices on the stock exchange for the structured products. Therefore, the secondary market may be limited. The more limited the secondary market, the

more difficult it may be for you to realise the value in the structured products prior to expiry.

(11) The liquidity provider may not be able to provide liquidity for the structured products

You should also be aware that the appointed liquidity provider may not be able to provide liquidity when there are operational and technical problem hindering its ability to do so. Even if the appointed liquidity provider is able to provide liquidity in such circumstances, its performance of liquidity provision may be adversely affected. For example: (i) the spread between bid and ask prices quoted by the appointed liquidity provider may be significantly wider than its normal standard; (ii) the quantity for which liquidity will be provided by the appointed liquidity provider may be significantly smaller than its normal standard; and/or (iii) the appointed liquidity provider's response time for a quote may be significantly longer than its normal standard.

(12) The structured products constitute our unsecured and unsubordinated contractual obligations

The structured products constitute our general unsecured contractual obligations and of no other person and shall rank equally (*pari passu*) among themselves and with all our other unsecured obligations (save for certain obligations required to be preferred by law). At any given time, the number of our structured products outstanding may be substantial. We issue a large number of financial instruments on a global basis. We have no obligation to you other than to pay amounts in accordance with the terms set out in the applicable launch announcement and supplemental listing document. We do not in any respect underwrite or guarantee the performance of any structured product or the return on an investment in any structured product. We shall have the absolute discretion (acting in good faith and in a commercially reasonable manner) to put in place any hedging transaction or

arrangement appropriate in connection with any structured product or the applicable underlying.

(13) Trading in the structured products may be affected by suspension of trading in the underlying

If an underlying is suspended from trading or dealing for whatever reason on the market on which it is listed or dealt in (including the stock exchange), trading in the relevant series of the structured products may be suspended for a similar period. In addition, if an underlying is an index and the calculation and/or publication of the index level by the index compiler is suspended for whatever reasons, trading in the relevant series of the structured products may be suspended for a similar period. Without taking into account: (i) interim interest rates and (ii) expected dividend payments or other distributions on the underlying shares (in respect of equity-linked structured products), expected dividend payments or other distributions on any components comprising the underlying index (in respect of index-linked structured products), or expected dividend payments or other distributions on the underlying securities of the fund (in respect of fund-linked structured products), and assuming all other factors remain constant, the value of a Warrant or a CBBC is likely to decrease over time while the value of an Inline Warrant is likely to decrease over time when the price or level of the underlying falls outside the range between the upper strike price/upper strike level and the lower strike price/lower strike level (both inclusive). You should note that in the case of a prolonged suspension period, the market price of the structured products may be subject to a significant impact of time decay of such prolonged suspension period and may fluctuate significantly upon resumption of trading after the suspension period of the structured products. This may adversely affect your investment in the structured products.

In respect of our structured products linked to foreign underlying assets, you should note that the trading hours of the foreign underlying assets (based on Hong

Kong time) on a stock exchange outside Hong Kong (a “**Foreign Stock Exchange**”) may be different from the trading hours of the stock exchange. In the case where trading in the foreign underlying assets on a Foreign Stock Exchange is suspended during non-trading hours of the stock exchange, trading in the relevant structured products on the stock exchange will be suspended as soon as practicable afterwards. Such suspension may be lifted and trading of foreign underlying assets on the Foreign Stock Exchange may resume during non-trading hours of the stock exchange, in which case, trading in the relevant structured products on the stock exchange will also resume as soon as practicable afterwards.

You should also note that if trading in the underlying remains suspended at the time the relevant structured products expire, we may pay you the cash settlement amount as determined by us in good faith and in a commercially reasonable manner, which could be substantially less than the amount you invested and can be as low as zero.

(14) There is a time lag between exercise of the structured products and payment to you

Any delay between exercise of the structured products and payment to you will be specified in the applicable launch announcement and supplemental listing document or in the relevant terms and conditions. We will not compensate you for any loss you suffer as a result of any such time lag.

(15) Time decay

Without taking into account: (i) interim interest rates and (ii) expected dividend payments or other distributions on the underlying shares (in respect of equity-linked structured products), expected dividend payments or other distributions on any components comprising the underlying index (in respect of index-linked structured products) or expected dividend payments or other distributions on the underlying securities of the fund (in respect of fund-linked structured products), and

assuming all other factors remain constant, the value of a Warrant or a CBBC is likely to decrease over time while the value of an Inline Warrant is likely to decrease over time when the price or level of the underlying falls outside the range between the upper strike price/upper strike level and the lower strike price/lower strike level (both inclusive). Therefore, the structured product should not be viewed as a product for long term investments.

(16) The value of the underlying may fluctuate

An investment in our structured products involves risks relating to changes in the value of the underlying. The value of the underlying will vary over time, including as a result of corporate actions (where the underlying is a share of a company or a share or a unit of a fund) or changes in computation (where the underlying is an index). Certain of such events which affect the value of the underlying may require an adjustment to the structured products. However, even if such event does not require an adjustment to the structured products, the price of our structured products or the return on an investment in our structured products may be affected.

(17) Investments in the structured products are not the same as investments in the underlying

The value of our structured products may not correlate directly with the movements of the underlying and may be affected by the time remaining to expiry. In addition, buying our structured products is not the same as buying the underlying or having a direct investment in the underlying or in the components comprising the underlying index (where the underlying is an index). You will not have any voting rights and rights to dividends or other distributions and any other rights in the underlying securities (where the underlying is a share of a company or a share or a unit of a fund) or voting rights or rights to dividends or other distributions or any other rights with respect to any company constituting the underlying index (where the underlying is an index).

(18) Gearing effects

Since the structured products are leveraged, the percentage change in the price of a structured product is greater compared with that of the underlying. You may suffer higher losses in percentage terms if you expect the price or level of the underlying to move one way but it moves in the opposite direction. It is possible that while the price or level of the underlying is moving up, the value of the Warrant or CBBC is falling. In the case of Inline Warrants, generally, without taking into account interim interest rates and expected dividend payments or other distributions on the underlying shares or on any components comprising the underlying index and assuming all other factors remain constant, the closer the price/level of the underlying towards the mid-way of the upper strike price/upper strike level and the lower strike price/lower strike level, the greater the value of the Inline Warrants; conversely, the farther the price/level of the underlying from the mid-way of the upper strike price/upper strike level and the lower strike price/lower strike level, the lower the value of the Inline Warrants.

(19) There could be conflicts of interests which may affect our structured products

Various potential and actual conflicts of interest may arise from our overall activities or activities of our subsidiaries and affiliates. Such actions and conflicts may include, without limitation, the exercise of voting power, the purchase and sale of securities, financial advisory relationships and exercise of creditor rights. Such activities, information and/or research reports may involve or affect the company which has issued the underlying shares, the fund which has issued the underlying securities, the underlying index and/or any components comprising the underlying index and may cause consequences adverse to you or otherwise create conflicts of interests in connection with the issue of the structured products. We have no obligation to disclose such information and may issue research reports and engage in any such activities without regard to the issue of the structured

products. In the ordinary course of our business, we and our subsidiaries and affiliates may effect transactions on our own account or for the account of our customers and may enter into one or more transactions with respect to the company which has issued the underlying shares, the fund which has issued the underlying securities, the underlying index and/or any components comprising the underlying index or related derivatives. This may indirectly affect your interests. Any such activities in the ordinary course of our business may also affect the price of the underlying asset and could potentially lead to a negative impact on the value and/or market price of our structured products as well as the cash settlement amount (if any). In respect of CBCs, such activities may also lead to a mandatory call event.

(20) We and/or members of our group (acting as a dealer) may offer commission rebates or other incentives

We and/or members of our group may, from time to time, act in the capacity of a dealer of our structured products. When acting in such capacity, we and/or members of our group may, in the ordinary course of our/their business, offer commission rebates or other incentives to our/their customers in respect of our structured products. Your investment decision should not be based solely on the benefit of the offer of such commission rebates or other incentives. Before deciding to invest in our structured products, you should fully understand the nature and product features of our structured products and carefully study the risk factors set out in this base listing document and the relevant launch announcement and supplemental listing document and, where necessary, seek independent professional advice. You should also consider your financial position and investment objectives before deciding to invest in our structured products.

(21) Our structured products will be issued in global registered form

Our structured products are issued in global registered form and are held within CCASS. This means that evidence of your interest in the structured products, and the efficiency of the ultimate payment of any cash settlement amount will be governed by the CCASS Rules.

Our structured products in global registered form will be registered in the name of a nominee for HKSCC (currently HKSCC Nominees Limited), who will be treated by us as the holder of the structured products. You are not entitled to any definitive certificates representing your beneficial interests in the structured products. You will have to rely on CCASS and/or your custodian/broker to (a) determine your beneficial interest in the structured products, (b) receive announcements and/or information relating to the structured products and (c) receive any payments under the structured products. Our obligation to you will be duly performed by the delivery of the cash settlement amount (less any exercise expenses) (if any) to HKSCC Nominees Limited as the registered holder of the structured products in accordance with the relevant terms and conditions of the structured products. The amounts will be delivered to you or your custodian/broker through CCASS in accordance with the CCASS Rules.

(22) There may be exchange rate risks and interest rate risks

You should note that there may be exchange rate risks. For example, the underlying may be denominated in a currency other than that of our structured products, our structured products may be denominated in a currency other than the currency of your home jurisdiction and our structured products may settle in a currency other than the currency in which you wish to receive funds.

Changes in the exchange rate(s) between the currency of the underlying, the currency in which the structured products settle and/or the currency of your home jurisdiction may adversely affect the return of your investment in the structured

products. We cannot assure that current exchange rates at the issue date of the structured products will be representative of the future exchange rates used in computing the value of our structured products. Fluctuations in exchange rates may therefore affect the value of the structured products.

In addition, you should be aware that an investment in the structured products may involve interest rate risks in that the intrinsic value of a structured product may be sensitive to fluctuations in interest rates. Interest rates are determined by factors of supply and demand in the international money markets which are affected by macroeconomic factors, speculation and central bank and government intervention. Fluctuations in interest rates (whether short term or long term, and whether of the currency in which the structured products are settled or of the currency in which the underlying is denominated) may affect the value of the structured products.

(23) There may be certain events relating to an index underlying that affect index-linked structured products

In the case of index-linked structured products, the level of the index may vary over time and may increase or decrease due to various factors including changes in the formula for or the method of calculating the index. In addition, a level for the index may be published by the index compiler (as defined in the relevant terms and conditions) at a time when one or more shares comprised in the relevant index are not trading. If this occurs on a valuation date (as defined in the relevant terms and conditions) and there is no market disruption event (as defined in the relevant terms and conditions) under the terms of the relevant index-linked structured products, then the closing level of the index will be calculated by reference to the remaining shares comprised in the relevant index. Certain events relating to the index permit us to determine in good faith and in a commercially reasonable manner the level of the index on the basis of the formula or method last in effect prior to such change in formula or method.

(24) Risks relating to structured products linked to an index of Hang Seng family

Some of our structured products may be linked to an index of Hang Seng family (including but not limited to the Hang Seng Index, Hang Seng China Enterprises Index or Hang Seng TECH Index) (each a **“Hang Seng Family Index”**). In the event Hang Seng Indexes Company Limited, as the index compiler of the Hang Seng Family Indices, publishes a notice regarding the occurrence of system outage of the index compiler which affects the normal index level dissemination of one or more Hang Seng Family Indices (each an **“Affected Index”**) and failure of the index compiler to provide a periodic publication of the index level with respect to the Affected Index at a minimum of every 15 minute interval on its website under the contingency mode (an **“Index Disruption Event”**), trading in the structured products relating to the Affected Index (the **“Affected Structured Products”**) will be halted as early as practicable. In such case, we will publish an announcement in relation to the trading halt of the Affected Structured Products.

If the index compiler publishes a notice (an **“index resumption notice”**) regarding resumption of normal index level dissemination of the Affected Index no later than 15 minutes prior to the end of a continuous trading session, the Affected Structured Products will resume trading on the stock exchange as early as practicable following the index resumption notice in the same continuous trading session. Otherwise, if the index resumption notice is published less than 15 minutes prior to the end of a continuous trading session, the Affected Structured Products will resume trading on the stock exchange in the subsequent continuous trading session. Following the publication of the index resumption notice, we will publish an announcement in relation to the resumption of trading of the Affected Structured Products.

In such case, the value of the structured products may be subject to a significant impact of time decay and may fluctuate

significantly upon resumption of trading, which may adversely affect your investment in the structured products.

You should note that outstanding orders of the Affected Structured Products will not be automatically cancelled during the trading halt of the Affected Structured Products and will remain valid when trading is resumed on the same day. You should contact your broker(s) before resumption of trading if you wish to cancel your order(s) of the Affected Structured Products.

You should also note that in respect of CBBCs relating to the Affected Index (the “**Affected CBBCs**”), once the index level dissemination of the Affected Index is resumed, the Affected CBBCs will be subject to the mandatory call event as set out in the terms and conditions of the Affected CBBCs and a mandatory call event may occur notwithstanding that (i) the Affected Index is updated on the index compiler’s website under the contingency mode at an interval which is less frequent than normal index level dissemination; or (ii) the Affected CBBCs have not resumed trading on the stock exchange, which may adversely affect your investment in the Affected CBBCs.

(25) Trading halt and resumption of trading arrangements in connection with an Index Disruption Event

You should note that there are potential risks associated with the occurrence of an Index Disruption Event and the implementation of the trading halt and resumption in connection with the Index Disruption Event as specified under the risk factor headed “Risks relating to structured products linked to an index of Hang Seng family” above (the “**Trading Arrangements**”), which may adversely affect your investment in the Affected Structured Products. The stock exchange, HKEX and its affiliates, shall not incur any liability (whether based on contract, tort, (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the stock exchange, HKEX and/or its affiliates) for, any direct,

consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the Trading Arrangements or an Index Disruption Event, including without limitation, any delay, failure, mistake or error in the stock exchange effecting the Trading Arrangements.

Except in the case of wilful misconduct on the part of us, we and our affiliates shall not have any responsibility for any loss or damage suffered or incurred by any party arising from or in connection with the Trading Arrangements or an Index Disruption Event, including without limitation, any delay, failure, mistake or error in the Trading Arrangements.

(26) Two or more risk factors may simultaneously affect the structured products

Two or more risk factors may simultaneously have an effect on the value of a structured product such that the effect of any individual risk factor may not be predicted. No assurance can be given as to the effect any combination of risk factors may have on the value of a structured product.

(27) We are not the holding company of the group to which we belong

We are not the ultimate holding company of the group to which we belong and with which our name is identified. The ultimate holding company of the group to which we belong is HSBC Holdings plc.

(28) U.S. Foreign Account Tax Compliance Withholding

The U.S. Foreign Account Tax Compliance Act (“**FATCA**”) generally imposes a 30 per cent. United States withholding tax (“**FATCA Withholding**”) on certain United States source payments (“**Withholdable Payments**”) paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the United States Treasury to collect and provide to the United States Treasury

substantial information regarding United States account holders with such institution (including certain account holders that are foreign entities with United States owners) or such institution otherwise complies with its obligations under FATCA. FATCA Withholding generally is also imposed on Withholdable Payments made to a “recalcitrant holder” or to a non-financial foreign entity unless, in general, such entity provides the withholding agent with a certification that it does not have any substantial United States owners (or a certification identifying the direct and indirect substantial United States owners of the entity), demonstrates that it or an affiliate is publicly traded or that it has an active business, or otherwise establishes an exemption. A “recalcitrant holder” generally is a holder of an account with a foreign financial institution that fails to comply with certain requests for information that will enable the relevant foreign financial institution to comply with its obligations under FATCA. “Withholdable Payments” generally includes “dividend equivalent” payments as described under “Legislation Affecting Dividend Equivalent Payments” under the section headed “Taxation”.

In addition, under FATCA, “foreign passthru payments” made by a foreign financial institution to recalcitrant holders or non-compliant foreign financial institutions or non-financial foreign entities generally are subject to FATCA Withholding. The term “foreign passthru payment” has not yet been defined under current U.S. Treasury Regulations.

Under the current U.S. Treasury Regulations and related guidance, FATCA Withholding generally will apply to foreign passthru payments no earlier than the second anniversary of the date on which final U.S. Treasury Regulations defining the term “foreign passthru payments” are published in the U.S. Federal Register. In addition, payments made with respect to our structured products that are not Withholdable Payments generally will not be subject to FATCA Withholding if such structured products are executed on or before the “Grandfather Date” and are not

materially modified thereafter. For these purposes: “**Grandfather Date**” is the date that is six months after the date on which final U.S. Treasury Regulations defining the term “foreign passthru payment” are filed with the United States Federal Register.

Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products. We are not required to pay any additional amounts with respect to FATCA Withholding.

(29) Changes in the landscape of financial sector regulation

The global landscape of financial sector regulation is undergoing significant change. The extensive programme of regulatory change carries significant implementation risks for authorities and industry participants. Many official measures are proposals in development and negotiation, and have yet to be enacted into regional and national legislation. These processes could result in differing, fragmented and overlapping implementation around the world, leading to risks of regulatory arbitrage, a far from level competitive playing field and increased compliance costs. Any regulatory changes may affect our ability to perform our obligations under the structured products or to continue to issue structured products under the programme.

(30) We may early terminate the structured products on the grounds of illegality or impracticability

We are entitled to terminate the structured products if we determine in good faith and in a commercially reasonable manner that, for reasons beyond our control, it has become or it will become illegal or impracticable for us to perform our obligations under the structured products, in whole or in part, as a result of a change in law event (as defined in the relevant terms and conditions), or for us or any of our affiliates to maintain our hedging

arrangements with respect to the structured products due to a change in law event.

Upon the occurrence of a change in law event, we will, if and to the extent permitted by applicable law or regulation, pay to you a cash amount that we determine in good faith and in a commercially reasonable manner to be the fair market value in respect of each structured product held by you immediately prior to such termination (ignoring such illegality or impracticability) less the cost to us of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as we determine in our sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Such amount could be substantially less than the amount you invested and can be as low as zero.

(31) We may adjust the terms and conditions of our structured products upon the occurrence of certain corporate events or extraordinary events affecting the underlying

We may determine in good faith and in a commercially reasonable manner that certain corporate events or extraordinary events affecting the underlying have occurred and may make corresponding adjustments to the terms and conditions of our structured products, including adjustments to the value or level of the underlying or changing the composition of the underlying. Such events and/or adjustments (if any) may have an adverse impact on the value and/or market price of our structured products. We may also in our sole discretion (acting in good faith and in a commercially reasonable manner) adjust the entitlement of our structured products for dilution events such as stock subdivisions and stock dividends.

However, we have no obligation to make an adjustment for every event that can affect the underlying. The value and/or market price of our structured products may be adversely affected by such events

in the absence of an adjustment by us. If adjustments were made, we do not assure that such adjustments can negate any adverse impact of such events on the value and/or market price of our structured products.

(32) Modification to the terms and conditions

Under the terms and conditions of the structured products, we may, without the consent of the holder of the structured products, modify the terms and conditions applicable to the structured products if such modification, in our opinion, is (a) not materially prejudicial to the interests of any holder of the structured products generally (without considering circumstances of any individual holder of the structured products or the tax or other consequences of such modification in any particular jurisdiction), (b) of a formal, minor or technical nature, (c) made to correct a manifest error, or (d) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

(33) Risks in using our structured products for hedging

If you intend to purchase our structured products to hedge against the market risk associated with investing in or having an exposure to any underlying, you should recognise the risks of utilising the structured products in this manner. There is no assurance that the value of the structured products will correlate with movements of the relevant underlying. You may therefore incur substantial losses in the structured products, notwithstanding any losses already incurred with respect to investments in or exposures to the relevant underlying.

(34) Liquidation of the underlying company

In the case of structured products linked to shares, in the event of liquidation or dissolution or winding up of the company that issues the underlying shares or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or

substantially the whole of the undertaking, property or assets of the company (each an “**Insolvency Event**”), the relevant structured products will terminate automatically upon the occurrence of the relevant Insolvency Event, save in the case of (i) put Warrants, (ii) Inline Warrants and (iii) bear CBBCs, whereby if we determine in good faith and in a commercially reasonable manner that there is any residual value in the relevant put Warrant, Inline Warrant or bear CBBC (as the case may be) upon the occurrence of such Insolvency Event, we will pay you the residual value of such put Warrant, Inline Warrant or bear CBBC (as applicable) in cash representing the fair market value in respect of each put Warrant, Inline Warrant or bear CBBC (as applicable) held by you on or about the occurrence of such Insolvency Event, less the cost to us of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as we determine in our sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Such amount could be substantially less than the amount you invested and can be as low as zero. If we determine in good faith and in a commercially reasonable manner that there is no residual value in the relevant put Warrant, Inline Warrant or bear CBBC (as the case may be) upon the occurrence of such Insolvency Event, such put Warrant, Inline Warrant or bear CBBC (as the case may be) will lapse. For further details, please refer to the relevant terms and conditions of the structured products.

(35) Liquidation or termination of the underlying fund

In the case of structured products linked to securities of a fund, in the event of (i) a liquidation, dissolution, termination or winding up of the fund or (ii) a liquidation or dissolution or winding up of the trustee of the fund (including any successor trustee appointed from time to time) or where applicable, the trustee ceases to be authorised under the fund to hold the property of the fund in its name and perform its obligations under the trust

deed constituting the fund or (iii) the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the fund’s or the trustee’s (as the case may be) undertaking, property or assets or (iv) the withdrawal of the Securities and Futures Commission’s authorisation of the fund under the Securities and Futures Ordinance (each a “**Fund Termination Event**”), the relevant structured products will terminate automatically upon the occurrence of the relevant Fund Termination Event, save in the case of (i) put Warrants and (ii) bear CBBCs, whereby if we determine in good faith and in a commercially reasonable manner that there is any residual value in the relevant put Warrant or bear CBBC (as the case may be) upon the occurrence of such Fund Termination Event, we will pay you the residual value of such put Warrant or bear CBBC (as applicable) in cash representing the fair market value in respect of each put Warrant or bear CBBC (as applicable) held by you on or about the occurrence of such Fund Termination Event, less the cost to us of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as we determine in our sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Such amount could be substantially less than the amount you invested and can be as low as zero. If we determine in good faith and in a commercially reasonable manner that there is no residual value in the relevant put Warrant or bear CBBC (as the case may be) upon the occurrence of such Fund Termination Event, such put Warrant or bear CBBC (as the case may be) will lapse. For further details, please refer to the relevant terms and conditions of the structured products.

(36) Commodity market risk

In the case of structured products linked to securities of a fund and the value of the underlying securities relates directly to the value of a commodity, you should note that fluctuations in the price of the

commodity could materially adversely affect the value of the underlying securities. Commodity market is generally subject to greater risks than other markets. The price of a commodity is highly volatile. Price movement of a commodity is influenced by, among other things, interest rates, changing market supply and demand relationships, trade, fiscal, monetary and exchange control programmes and policies of governments, and international political and economic events and policies.

(37) Risks relating to structured products linked to exchange-traded funds

Some of our structured products may be linked to an ETF. You should note that:

- (a) an ETF is exposed to the economic, political, currency, legal and other risks of a specific sector or market related to the underlying asset pool or index or market that the ETF is designed to track;
- (b) there may be disparity between the performance of the ETF and the performance of the underlying asset pool or index or market that the ETF is designed to track as a result of, for example, failure of the tracking strategy, currency differences, fees and expenses;
- (c) where the underlying asset pool or index or market that the ETF tracks is subject to restricted access, the efficiency in the creation or redemption of securities to keep the price of the ETF in line with its net asset value may be disrupted, causing the ETF to trade at a higher premium or discount to its net asset value; and
- (d) where the ETF is not managed like a corporation or an active investment vehicle and no manager has been appointed, the performance of the ETF may be adversely affected by losses that, if the ETF had been actively managed, might have been possible to avoid.

Hence, the market price of the structured products will also be indirectly subject to these risks.

(38) Risks relating to structured products linked to synthetic exchange-traded funds

An ETF is designed to replicate the performance of an underlying index (or in some cases, a group of assets such as commodities). Some ETFs gain exposure to the underlying index by investing in shares, bonds or other assets that make up the index. An increasing number of ETFs, however, adopt a synthetic replication investment strategy to achieve its investment objectives by investing in financial derivative instruments linked to the performance of an underlying asset pool or index that the ETF is designed to track ("**synthetic ETF**"). You should note that:

- (a) investments in financial derivative instruments will expose the synthetic ETF to the credit, potential contagion and concentration risks of the counterparties who issued such financial derivative instruments. As such counterparties are predominantly international financial institutions, the failure of one such counterparty may have a negative effect on other counterparties of the synthetic ETF. Even if the synthetic ETF has collateral to reduce the counterparty risk, there may still be a risk that the market value of the collateral has fallen substantially when the synthetic ETF seeks to realise the collateral; and
- (b) the synthetic ETF may be exposed to higher liquidity risk if the synthetic ETF invests in financial derivative instruments which do not have an active secondary market.

Accordingly, investing in the structured products is also exposed to the credit risk of the counterparties who issued the derivatives in addition to the risks associated with the underlying index the performance of which the synthetic ETF is designed to replicate. The above risks may have a significant impact on the

performance of the synthetic ETF and hence the market price of our structured products.

(39) Risks relating to structured products linked to real estate investment trust

Some of our structured products may be linked to a real estate investment trust (“REIT”). The primary investment objective of REIT is to invest in a real estate portfolio. A REIT is exposed to risks relating to investments in real estate, including but not limited to (a) adverse changes in political or economic conditions; (b) changes in interest rates and the availability of debt or equity financing, which may result in an inability by the REIT to maintain or improve the real estate portfolio and finance future acquisitions; (c) changes in environmental, zoning and other governmental rules; (d) changes in market rents; (e) any required repair and maintenance of the portfolio properties; (f) breach of any property laws or regulations; (g) the relative illiquidity of real estate investment; (h) real estate taxes; (i) any hidden interests in the portfolio properties; (j) any increase in insurance premiums and (k) any uninsurable losses.

There may also be disparity between the market price of the units of a REIT and the net asset value per unit. This is because the market price of the units of a REIT also depends on many factors, including but not limited to (a) the market value and perceived prospects of the real estate portfolio; (b) changes in economic or market conditions; (c) changes in market valuations of similar companies; (d) changes in interest rates; (e) the perceived attractiveness of the units of the REIT against those of other equity securities; (f) the future size and liquidity of the market for the units and the REIT market generally; (g) any future changes to the regulatory system, including the tax system and (h) the ability of the REIT to implement its investment and growth strategies and to retain its key personnel.

The above risks may have a significant impact on the performance of the units and the price of our structured products.

(40) Risks relating to structured products linked to an ETF investing through the QFI regimes and/or China Connect

Some of our structured products may be linked to securities of an ETF (“China ETF”) issued and traded outside the PRC with direct investment in the mainland Chinese securities markets through the Qualified Foreign Institutional Investor regime and the Renminbi Qualified Foreign Institutional Investor regime (collectively, the “QFI” regimes) and/or the Shanghai-Hong Kong Stock Connect and Shenzhen-Hong Kong Stock Connect (collectively, “China Connect”). You should note that, amongst others:

- (a) the policy and rules for the QFI regimes and China Connect prescribed by the PRC government are subject to change, and there may be uncertainty to their interpretation and/or implementation. The uncertainty and change of the laws and regulations in the PRC may adversely impact on the performance of the China ETFs and the trading price of the securities;
- (b) a China ETF primarily invests in securities traded in the mainland Chinese securities markets and is subject to concentration risk. Investment in the mainland Chinese securities markets (which are inherently stock markets with restricted access) involves certain risks and special considerations as compared with investment in more developed economies or markets, such as greater political, tax, economic, foreign exchange, liquidity and regulatory risks. The operation of a China ETF may also be affected by interventions by the applicable government(s) and regulators in the financial markets;
- (c) trading of securities invested by a China ETF under China Connect will be subject to a daily quota which is

utilised on a “first-come-first-serve” basis under China Connect. In the event that the daily quota under China Connect is reached, the manager may need to suspend creation of further securities of such China ETF, and therefore may affect liquidity in trading of the securities of such China ETF. In such event, the trading price of the securities of such China ETF is likely to be at a significant premium to its net asset value, and may be highly volatile. The People’s Bank of China and the State Administration of Foreign Exchange have jointly published detailed implementation rules removing the investment quota under the QFI regimes with effect from 6 June 2020; and

- (d) there are risks and uncertainties associated with the current PRC tax laws applicable to China ETFs investing in the PRC through the QFI regimes and/or China Connect. Although such China ETF may have made a tax provision in respect of potential tax liability, any such provision may be excessive or inadequate. Any shortfall between the provisions and actual tax liabilities may be covered by the assets of such China ETF and may therefore adversely affect the net asset value of such China ETF and the market value and/or potential payout of the structured products.

The above risks may have a significant adverse impact on the performance of the securities of a China ETF and the market value and/or potential payout of our structured products. Please read the offering documents of the relevant China ETF to understand its key features and risks.

(41) Risks relating to structured products linked to underlying asset adopting the multiple counters model

Some of our structured products may be linked to an underlying asset that adopts the multiple counters model. If our structured products are linked to an underlying asset that adopts the multiple

counters model for trading its securities on the stock exchange in Hong Kong dollars (“HKD”) and one or more other currencies (such as Renminbi and/or U.S. dollars) (each an “Other Currency”) separately, you need to consider the following additional risks in light of the novelty and relatively untested nature of the stock exchange’s multiple counters model:

- (a) our structured products may be linked to the HKD-traded securities or the Other Currency traded securities. If the underlying asset is securities traded in one currency counter, movements in the trading prices of securities traded in another currency counter should not directly affect the price of our structured products; and
- (b) the trading prices on the stock exchange of securities traded in one currency counter may deviate significantly from the trading prices on the stock exchange of securities traded in another currency counter due to different factors, such as market liquidity, foreign exchange conversion risk, supply and demand in each counter and exchange rate fluctuation. Changes in the trading price of the underlying asset in the relevant currency counter may adversely affect the price of our structured products.

Risk Factors relating to Inline Warrants

(42) Inline Warrants are exotic warrants and are not comparable to standard derivative warrants

Inline Warrants are exotic warrants with different terms and risk and return profile compared to standard call or put derivative warrants listed on the stock exchange and are not comparable to standard derivative warrants. Inline Warrants carry exotic features and their terms and pricing may be more complicated than standard derivative warrants. Inline Warrants may behave quite differently from standard derivative warrants and other exotic warrants in its

response to the price levels/levels or movements in the price/level of the underlying asset/index. The pricing structure of Inline Warrants requires investors to assess accurately the value of Inline Warrants in relation to the expected probability of the average price/closing level falling within the range between the upper strike price/upper strike level and the lower strike price/lower strike level (both inclusive). Inline Warrants are highly complicated and risky financial instruments and may be difficult for investors to properly value and/or to use as a hedging tool. You should carefully review and understand the terms and conditions, including the exotic features, before deciding to invest in Inline Warrants. In particular, you should note that Inline Warrants provide a pre-fixed potential payoff at either a **capped amount or a floor amount** at expiry. If the average price/closing level falls outside the range between the lower strike price/lower strike level and the upper strike price/upper strike level (both inclusive), you will receive a lower fixed and floor amount equal to the minimum payoff amount per Inline Warrant (which may be substantially less than your initial investment) at expiry and may suffer loss in your investment. You will still receive the minimum payoff amount per Inline Warrant in this scenario because such amount is included in the price you pay for buying the Inline Warrants. Do not invest in Inline Warrants unless you fully understand them and are willing to assume the risks associated with them.

(43) Maximum potential payoff is fixed and capped

If the average price/closing level stays within the range between the lower strike price/lower strike level and the upper strike price/upper strike level (both inclusive), we will only pay you a fixed and capped amount equal to the maximum payoff amount per Inline Warrant at expiry. This is the maximum potential payoff under the Inline Warrants.

(44) Rejection of orders and trades at the price above HK\$1

You should note that any orders and reported trades of Inline Warrants at the price above HK\$1 will be automatically rejected upon their entry to the stock exchange's trading system. The stock exchange and its recognised exchange controller, HKEX, will not incur any liability (whether based on contract, tort (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the stock exchange and/or HKEX) for any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with such rejection of orders and trades, including without limitation, any delay, failure, mistake or error in such rejection of orders and trades.

We and our subsidiaries and affiliates shall not have any responsibility for any losses suffered as a result of such rejection of orders and trades in any circumstances.

(45) Prohibition on the sale of certain binary options in European retail markets

There have been regulatory concerns over the sale of certain binary options to retail investors across the European Union in recent years. Such binary options are typically traded over-the-counter with bespoke structures and are very short-term, making them extremely speculative in nature. Until recently, the European Securities and Markets Authority ("**ESMA**") implemented a temporary ban on the marketing, distribution or sale of binary options to retail customers in the European Union except for securitised binary options. The temporary ban expired and was lifted by ESMA on 1 July 2019 based on the fact that most national competent authorities within the European Union had taken permanent national product intervention

measures relating to binary options that are at least as stringent as ESMA's measure. For example, the Financial Conduct Authority ("FCA") in the United Kingdom (a then European Union member) imposed a permanent ban effective from 2 April 2019 on the marketing, distribution or sale of all binary options (including securitised binary options) to retail customers in the United Kingdom while the Federal Financial Supervisory Authority ("BaFin") in Germany and the Autorite des Marches Financiers ("AMF") of France had also permanently banned the marketing, distribution or sale of binary options (other than securitised binary options) to retail customers.

Inline Warrants are a form of securitised binary options. Unlike the binary options in the European retail markets as described above, Inline Warrants listed on the stock exchange have a more standardised structure and relatively longer period to expiry (with a minimum duration of 6 months before expiry).

Irrespective of the differences between Inline Warrants listed on the stock exchange and the binary options in Europe, you should nevertheless note the approach taken by the European regulators over binary options. Inline Warrants are complex products. You should fully understand the structure and terms and conditions of the Inline Warrants and are willing to assume the risks associated with them before investing in the Inline Warrants.

Risk Factors relating to CBBCs

(46) Our CBBCs could automatically expire worthless in certain circumstances

In the case of CBBCs, you should note that you can lose your entire investment on or prior to the expiry date. Unlike Warrants and Inline Warrants, CBBCs has a mandatory call feature and trading in the CBBCs will be suspended when the price or level of the underlying reaches the call price or call level (as defined in the relevant terms and conditions) (subject to the circumstances in which a

mandatory call event will be reversed as set out in the sub-section titled "A mandatory call event is irrevocable" below). No investors can sell the CBBCs after the occurrence of a mandatory call event. Even if the price or level of the underlying bounces back in the right direction, the CBBCs which have been terminated as a result of the mandatory call event will not be revived and investors will not be able to profit from the bounce-back. Investors may receive a residual value per board lot (if positive) (as defined in the relevant terms and conditions) (less any exercise expenses) after the occurrence of a mandatory call event but such amount may be zero. If a mandatory call event occurs, the CBBCs will automatically expire. The CBBCs may become worthless.

(47) The trading price of a CBBC may not be the same as the theoretical value of such CBBC

A CBBC can be terminated when the price or level of the underlying reaches or goes beyond the call price or call level (as defined in the relevant terms and conditions). When the price or level of the underlying approaches the call price or call level, the trading price and theoretical value of the CBBC will likely be more volatile and any change in the trading price of the CBBCs may not be comparable and may be disproportionate with the change in the price or level of the underlying. This is because it is more likely that a mandatory call event will occur.

Once a mandatory call event has occurred in respect of a CBBC, the CBBC will be settled at the residual value (as defined in the relevant terms and conditions) (less exercise expenses), and you will not be able to benefit under that CBBC from any changes to the price or level of the underlying after the occurrence of a mandatory call event.

Further, when you sell your CBBC holdings in the market at any time prior to the expiry of such CBBC, the price realised may not be the same as the theoretical value of the CBBC, as the

price will be determined by the levels of supply and demand in the market at that time.

(48) The residual value payable (if any) will not include residual funding cost

The residual value (if any) payable by us following the occurrence of a mandatory call event will not include the residual funding cost for the CBBCs. When a mandatory call event occurs, you will lose the funding cost for the full period.

(49) A mandatory call event is irrevocable

A mandatory call event is irrevocable unless it is triggered due to the occurrence of one of the following events:

- (i) report of system malfunction or other technical errors of the stock exchange (e.g. the setting up of the wrong call level or call price or other parameters) by the stock exchange to us; or
- (ii) report of manifest errors caused by the relevant third party price sources where applicable (e.g. miscalculation of the index level by the relevant index compiler) by us to the stock exchange.

And, in each case, we agree with the stock exchange that such mandatory call event is to be revoked provided that such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the trading day of the stock exchange immediately following the day on which the mandatory call event occurs, or such other time as prescribed by the stock exchange from time to time.

In such case, the mandatory call event so triggered will be reversed and all trades cancelled (if any) will be reinstated and the trading of the CBBCs will resume.

(50) Delay in mandatory call event notification

We will notify the market as soon as reasonably practicable after the occurrence of a mandatory call event. You should be aware that there may be a delay in our announcement of a mandatory call event due to technical errors, system failures and other factors that are beyond the reasonable control of the stock exchange and us.

(51) Non-Recognition of Post MCE Trades

The stock exchange and its recognised exchange controller, HKEX, will not incur any liability (whether based on contract, tort, (including, without limitation, negligence), or any other legal or equitable grounds and without regard to the circumstances giving rise to any purported claim except in the case of wilful misconduct on the part of the stock exchange and/or HKEX) for, any direct, consequential, special, indirect, economic, punitive, exemplary or any other loss or damage suffered or incurred by us or any other party arising from or in connection with the mandatory call event or the suspension of trading (“**Trading Suspension**”) or the non-recognition of trades after a mandatory call event (“**Non-Recognition of Post MCE Trades**”), including without limitation, any delay, failure, mistake or error in the Trading Suspension or Non-Recognition of Post MCE Trades.

We and our affiliates shall not have any responsibility for any losses suffered as a result of the Trading Suspension and/or Non-Recognition of Post MCE Trades in connection with the occurrence of a mandatory call event, notwithstanding that such Trading Suspension or Non-Recognition of Post MCE Trades may have occurred as a result of an error in the observation of the event.

(52) Fluctuation in the funding cost

The issue price of the CBBCs is set by reference to the difference between the initial reference spot price of the underlying securities and the strike price or the initial reference spot level of the

underlying index and the strike level (as the case may be), plus the applicable funding cost as of the relevant launch date. The initial funding cost applicable to the CBBCs as set out in the relevant launch announcement and supplemental listing document will fluctuate throughout the life of the CBBCs as the funding rate may change from time to time. The funding rate is a rate determined by us based on one or more of the following factors, including but not limited to the strike price or the strike level (as the case may be), the prevailing interest rate, the expected life of the CBBCs, any expected notional dividend payments or other distributions in respect of the underlying securities or any securities comprising the index (as the case may be) and the margin financing provided by us.

(53) Our hedging activities

Our trading and/or hedging activities or those of our related parties related to the CBBCs and/or other financial instruments issued by us from time to time may have an impact on the price or level of the underlying and may trigger a mandatory call event.

In particular, when the price or level of the underlying is close to the call price or call level (as defined in the relevant terms and conditions), our unwinding activities in relation to the underlying may cause a fall or rise (as the case may be) in the price or level of the underlying leading to a mandatory call event as a result of such unwinding activities.

We or our related party may unwind our hedging transactions relating to the CBBCs in proportion to the amount of the CBBCs we repurchase from the market from time to time. Such activity may lead to greater volatility of the price or level of the underlying, and may lead to a mandatory call event as a result. Upon the occurrence of a mandatory call event, we or our related party may unwind any hedging transactions relating to the CBBCs. Such unwinding activities after the occurrence of a mandatory call event may affect the price or level of the underlying and consequently the residual value (if any) for the CBBCs.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE EQUITY WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The call/put Warrants (the “**Warrants**”) (which expression shall, unless the context otherwise requires, include any further Warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”). Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of Warrants shall be treated by the Issuer as the absolute owner and holder of such number of Warrants. The expression “**Warrantheolder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Board Lot gives each Warrantheolder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount (as defined below), if any, less any Exercise Expenses (as defined below).
- (b) *Exercise Expenses.* On exercise of the Warrants, Warrantheolders are required to pay Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the applicable Cash Settlement Amount is deemed to be given by a Warrantheolder to the Issuer upon purchase of the Warrants. Any Exercise Expenses which have not been determined on the Expiry Date (as defined below) shall be notified to the Warrantheolder as soon as practicable after determination thereof by the Issuer and shall be paid by the Warrantheolder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“**Average Price**” means the arithmetic mean of the closing prices of a Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below);

“**Board Lot**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“**Cash Settlement Amount**” means in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as equal to:

(1) in the case of a series of call Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(2) in the case of a series of put Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount it shall be deemed to be zero;

“**CCASS**” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“**Company**” means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Entitlement**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Warrants;

“Exercise Price” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Expiry Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Market Disruption Event” means:

- (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions;

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant Warrantholder (**“Designated Bank Account”**);

“Shares” means the shares of the Company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Stock Exchange” means The Stock Exchange of Hong Kong Limited; and

“Valuation Date” means, with respect to the exercise of Warrants, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

3. Exercise of Warrants, Automatic Exercise and Expiry

- (a) *Exercise of Warrants.* The Warrants are exercisable only on the Expiry Date.
- (b) *Automatic Exercise.* Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Warrantheholders). The Warrantheholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantheholders the Cash Settlement Amount (if any) less any Exercise Expenses in accordance with Condition 4(d).
- (c) *Expiry.* Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Warrantheholder and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

- (a) Warrants may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The Warrantheholders will not be required to deliver an exercise notice for any purpose in relation to the Warrants.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (ii) have expired worthless, and thereby cancel the relevant Warrants.
- (d) *Cash Settlement.* Subject to automatic exercise of Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Warrantheholder equal to the Cash Settlement Amount less any Exercise Expenses. If the Cash Settlement Amount is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount shall be payable by the Issuer.

The Cash Settlement Amount less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantheholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantheholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantheholder for any interest in respect of the amount due or any loss or damage that such Warrantheholder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less

than five closing prices used to determine the Average Price. If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then: (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments

- (a) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Exercise Price} \div \text{Adjustment Factor}$$

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

“**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (b) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement will be increased on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Exercise Price} \div \text{Adjustment Factor}$$

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (c) *Share Subdivisions or Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a “**Subdivision**”) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a “**Consolidation**”), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly.

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (d) *Merger or Consolidation*. If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or

may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner) be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion (acting in good faith and in a commercially reasonable manner)).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (d) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

- (e) *Cash Distributions.* Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for two per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

OD: Amount of the relevant ordinary cash dividend per Share, provided that OD shall be deducted from S only if the Business Day on which trading in the Shares of the Company becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash dividend by the Company falls on the same date. For the avoidance of doubt, OD shall be deemed to be zero if the ex-entitlement dates of the relevant ordinary cash dividend and the Cash Distribution are different

CD: Amount of the relevant Cash Distribution per Share

E: Existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares of the Company are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Exercise Price} \div \text{Adjustment Factor}$$

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
- (i) not materially prejudicial to the interests of the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction); or
 - (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (g) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheolders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part, as a result of:
 - (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each Warrantheolder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantheolder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and

absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 11.

8. Purchases

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Warrantheolders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

10. Meetings of Warrantheolders; Modification

- (a) *Meetings of Warrantheolders.* The Instrument contains provisions for convening meetings of the Warrantheolders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Warrantheolders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantheolders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantheolders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantheolders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantheolders shall be binding on all the Warrantheolders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantheolders being held if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warrantheolders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such modification in any particular jurisdiction);
 - (ii) of a formal, minor or technical nature;
 - (iii) made to correct a manifest error; or

- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantheolders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to Warrantheolders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company (each an “**Insolvency Event**”), all unexercised Warrants will terminate automatically upon the occurrence of the Insolvency Event and the Issuer shall have no further obligation under such Warrants, save in the case of a series of put Warrants:

- (a) if the Issuer determines in good faith and in a commercially reasonable manner that there is any residual value in the put Warrants upon the occurrence of such Insolvency Event:
 - (i) the Issuer will pay to each Warrantheolder the residual value of the put Warrants in cash representing the fair market value in respect of each put Warrant held by such Warrantheolder on or about the occurrence of such Insolvency Event less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 11; and
 - (ii) the Issuer may, but shall not be obliged to, determine such cash amount by having regard to the manner in which options contracts or futures contracts relating to the Shares traded on the Stock Exchange (if any) are calculated; and
- (b) for the avoidance of doubt, if the Issuer determines in good faith and in a commercially reasonable manner that there is no residual value in the put Warrants upon the occurrence of such Insolvency Event, the put Warrants will lapse and cease to be valid for any purpose upon the occurrence of the Insolvency Event.

For the purposes of this Condition 12, an Insolvency Event occurs, (i) in the case of a voluntary liquidation or winding up of the Company, on the effective date of the relevant resolution; or (ii) in the case of an involuntary liquidation or dissolution or winding up of the Company, on the date of the relevant court order; or (iii) in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of applicable law.

13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further Warrants so as to form a single series with the Warrants.

14. Delisting

- (a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion (acting in good faith and in a commercially reasonable manner), consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion (acting in good faith and in a commercially reasonable manner), any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 11 as soon as practicable after they are determined.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

16. Governing Law

The Warrants, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE INDEX WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The call/put Warrants (the “**Warrants**”) (which expression shall, unless the context otherwise requires, include any further Warrants issued pursuant to Condition 12) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”). Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of Warrants shall be treated by the Issuer as the absolute owner and holder of such number of Warrants. The expression “**Warrantholder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Board Lot entitles each Warrantholder, upon due exercise and compliance with Condition 4, to payment of the Cash Settlement Amount (as defined below), if any, less any Exercise Expenses (as defined below).
- (b) *Exercise Expenses.* On exercise of the Warrants, Warrantholders are required to pay Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the applicable Cash Settlement Amount is deemed to be given by a Warrantholder to the Issuer upon purchase of the Warrants. Any Exercise Expenses which have not been determined on the Expiry Date shall be notified to the Warrantholder as soon as practicable after determination thereof by the Issuer and shall be paid by the Warrantholder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“**Board Lot**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“**Cash Settlement Amount**” means in respect of every Board Lot, an amount, converted (if applicable) into the Settlement Currency at the Exchange Rate, calculated by the Issuer as equal to:

(1) in the case of a series of call Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(2) in the case of a series of put Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

provided that if the Cash Settlement Amount is a negative amount it shall be deemed to be zero;

“**CCASS**” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“**Closing Level**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“**Divisor**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Exchange Rate**” means the rate specified in the relevant Launch Announcement and Supplemental Listing Document (if applicable);

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Warrants;

“**Expiry Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Index” means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Index Compiler” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Index Currency Amount” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Index Exchange” means the exchange specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Market Disruption Event” means:

- (1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
 - (i) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or
 - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
 - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

for the purposes of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (2) where the Index Exchange is the Stock Exchange, the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these Conditions;

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant Warrantholder (**“Designated Bank Account”**);

“Stock Exchange” means The Stock Exchange of Hong Kong Limited;

“Strike Level” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6; and

“Valuation Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document.

3. Exercise of Warrants, Automatic Exercise and Expiry

- (a) *Exercise of Warrants.* The Warrants are exercisable only on the Expiry Date.
- (b) *Automatic Exercise.* Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Warrantholders). The Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantholders the Cash Settlement Amount (if any) less any Exercise Expenses in accordance with Condition 4(d).
- (c) *Expiry.* Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Warrantholder and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

- (a) Warrants may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The Warrantholders will not be required to deliver an exercise notice for any purpose in relation to the Warrants.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions or (ii) have expired worthless, and thereby cancel the relevant Warrants.
- (d) *Cash Settlement.* Subject to automatic exercise of Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Warrantholder equal to the Cash Settlement Amount less any Exercise Expenses. If the Cash Settlement Amount is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount shall be payable by the Issuer.

The Cash Settlement Amount less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warranholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warranholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warranholder for any interest in respect of the amount due or any loss or damage that such Warranholder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level or, if applicable, the Exchange Rate on the basis of its good faith estimate of the Closing Level or, if applicable, the Exchange Rate that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that in the case of determining the Closing Level, the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments to the Index

(a) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index.*

If:

- (i) on or prior to a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or
- (ii) on a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure.

- (c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
- (i) not materially prejudicial to the interests of the Warrantholders generally (without considering the circumstances of any individual Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or
 - (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (d) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 11.

7. **Illegality or Impracticability**

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part, as a result of:
 - (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each Warrantholder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantholder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 11.

8. **Purchases**

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Warranholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

10. Meetings of Warranholders; Modification

- (a) *Meetings of Warranholders.* The Instrument contains provisions for convening meetings of the Warranholders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Warranholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warranholders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warranholders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warranholders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warranholders shall be binding on all the Warranholders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warranholders being held if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warranholders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Warranholders generally (without considering the circumstances of any individual Warranholder or the tax or other consequences of such modification in any particular jurisdiction);
 - (ii) of a formal, minor or technical nature;
 - (iii) made to correct a manifest error; or
 - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warranholders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to Warrantholders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further Warrants so as to form a single series with the Warrants.

13. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

14. Governing Law

The Warrants, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE FUND WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The call/put Warrants (the “**Warrants**”) (which expression shall, unless the context otherwise requires, include any further Warrants issued pursuant to Condition 13) relating to the Units of the Fund are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”). Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of Warrants shall be treated by the Issuer as the absolute owner and holder of such number of Warrants. The expression “**Warrantheolder**” shall be construed accordingly.

2. Warrant Rights and Exercise Expenses

- (a) *Warrant Rights.* Every Board Lot gives each Warrantheolder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount (as defined below), if any, less any Exercise Expenses (as defined below).
- (b) *Exercise Expenses.* On exercise of the Warrants, Warrantheolders are required to pay Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the applicable Cash Settlement Amount is deemed to be given by a Warrantheolder to the Issuer upon purchase of the Warrants. Any Exercise Expenses which have not been determined on the Expiry Date (as defined below) shall be notified to the Warrantheolder as soon as practicable after determination thereof by the Issuer and shall be paid by the Warrantheolder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“**Average Price**” means the arithmetic mean of the closing prices of a Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below);

“**Board Lot**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“**Cash Settlement Amount**” means in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as equal to:

(1) in the case of a series of call Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Average Price} - \text{Exercise Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

(2) in the case of a series of put Warrants:

$$\begin{array}{l} \text{Cash Settlement} \\ \text{Amount per} \\ \text{Board Lot} \end{array} = \frac{\text{Entitlement} \times (\text{Exercise Price} - \text{Average Price}) \times \text{one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount it shall be deemed to be zero;

“**CCASS**” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“**Entitlement**” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Warrants;

“**Exercise Price**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Expiry Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Fund” means the unit trust or exchange-traded fund (as the case may be) specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Market Disruption Event” means:

- (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units; or (ii) any options or futures contracts relating to the Units if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions;

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant Warrantholder (**“Designated Bank Account”**);

“Stock Exchange” means The Stock Exchange of Hong Kong Limited;

“Units” means the units or shares (as the case may be) of the Fund specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

“Valuation Date” means, with respect to the exercise of Warrants, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

3. Exercise of Warrants, Automatic Exercise and Expiry

- (a) *Exercise of Warrants.* The Warrants are exercisable only on the Expiry Date.
- (b) *Automatic Exercise.* Any Warrant will automatically be exercised if the Cash Settlement Amount on the Expiry Date is greater than zero (without notice being given to the Warrantheholders). The Warrantheholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Warrantheholders the Cash Settlement Amount (if any) less any Exercise Expenses in accordance with Condition 4(d).
- (c) *Expiry.* Any Warrant which has not been automatically exercised in accordance with Condition 3(b) shall expire immediately without value thereafter and all rights of the Warrantheholder and obligations of the Issuer with respect to such Warrant shall cease.

4. Exercise of Warrants

- (a) Warrants may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The Warrantheholders will not be required to deliver an exercise notice for any purpose in relation to the Warrants.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Warrants which (i) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (ii) have expired worthless, and thereby cancel the relevant Warrants.
- (d) *Cash Settlement.* Subject to automatic exercise of Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Warrantheholder equal to the Cash Settlement Amount less any Exercise Expenses. If the Cash Settlement Amount is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount shall be payable by the Issuer.

The Cash Settlement Amount less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantheholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Warrantheholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantheholder for any interest in respect of the amount due or any loss or damage that such Warrantheholder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Units on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five

closing prices used to determine the Average Price. If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then: (i) the Business Day immediately preceding the Expiry Date (the “**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer shall determine the closing price of the Units on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments

- (a) *Rights Issues.* If and whenever the Fund shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a “**Rights Offer**”), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of the Units on the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit as specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Exercise Price} \div \text{Adjustment Factor}$$

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

“Rights” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (b) *Bonus Issues.* If and whenever the Fund shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip dividend or distribution or similar scheme for the time being operated by the Fund or otherwise in lieu of a cash dividend or distribution and without any payment or other consideration being made or given by such holders) (a **“Bonus Issue”**) the Entitlement will be increased on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Exercise Price} \div \text{Adjustment Factor}$$

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (c) *Unit Subdivisions or Consolidations.* If and whenever the Fund shall subdivide its Units or any class of its outstanding units or shares into a greater number of units or shares (a **“Subdivision”**) or consolidate the Units or any class of its outstanding units or shares into a smaller number of units or shares (a **“Consolidation”**), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Exercise Price (which shall be rounded to the nearest 0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly.

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (d) *Merger or Consolidation.* If it is announced that the Fund is to or may merge or consolidate with or into any other fund or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Fund is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Warrants may in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner) be amended no later than the Business Day preceding the consummation of such

merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion (acting in good faith and in a commercially reasonable manner)).

The rights attaching to the Warrants after the adjustment shall, after such Restructuring Event, relate to the number of units or shares of the fund(s) or corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the Warrants related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (d) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

- (e) *Cash Distributions.* Generally, no adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Fund, no adjustment will be made unless the value of the Cash Distribution accounts for two per cent. or more of the Unit’s closing price on the day of announcement by the Fund.

If and whenever the Fund shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

OD: Amount of the relevant ordinary cash distribution per Unit, provided that OD shall be deducted from S only if the Business Day on which trading in the Units of the Fund becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash distribution by the Fund falls on the same date. For the avoidance of doubt, OD shall be deemed to be zero if the ex-entitlement dates of the relevant ordinary cash distribution and the Cash Distribution are different

CD: Amount of the relevant Cash Distribution per Unit

E: Existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Unit price being the closing price of the Units on the Stock Exchange on the last Business Day on which the Units of the Fund are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Exercise Price in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Exercise Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Exercise Price} \div \text{Adjustment Factor}$$

Adjustment to the Exercise Price shall take effect on the same day that the Entitlement is adjusted.

- (f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
- (i) not materially prejudicial to the interests of the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such adjustment in any particular jurisdiction); or
 - (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (g) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Warrantheolders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Warrants, in whole or in part, as a result of:
 - (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or
 - (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each Warrantheolder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Warrant held by such Warrantheolder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Warrantheolders in accordance with Condition 11.

8. Purchases

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Warrants at any price in the open market or by tender or by private treaty. Any Warrants so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Warrantheolders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

10. Meetings of Warrantheolders; Modification

- (a) *Meetings of Warrantheolders.* The Instrument contains provisions for convening meetings of the Warrantheolders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Warrantheolders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantheolders holding not less than 10 per cent. of the Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Warrantheolders whatever the number of Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Warrantheolders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Warrantheolders shall be binding on all the Warrantheolders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Warrantheolders being held if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Warrantheolders, effect any modification of the terms and conditions of the Warrants or the Global Certificate which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Warrantheolders generally (without considering the circumstances of any individual Warrantheolder or the tax or other consequences of such modification in any particular jurisdiction);
 - (ii) of a formal, minor or technical nature;
 - (iii) made to correct a manifest error; or
 - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Warrantheolders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to Warrantholders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Liquidation

In the event of (i) a liquidation, dissolution, termination or winding up of the Fund or (ii) a liquidation or dissolution or winding up of the trustee of the Fund (including any successor trustee appointed from time to time) (“**Trustee**”) or where applicable, the Trustee ceases to be authorised under the Fund to hold the property of the Fund in its name and perform its obligations under the trust deed constituting the Fund or (iii) the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Fund’s or the Trustee’s (as the case may be) undertaking, property or assets or (iv) the withdrawal of the Securities and Futures Commission’s authorisation of the Fund under the Securities and Futures Ordinance (each a “**Fund Termination Event**”), all unexercised Warrants will terminate automatically upon the occurrence of the Fund Termination Event and the Issuer shall have no further obligation under such Warrants, save in the case of a series of put Warrants:

- (a) if the Issuer determines in good faith and in a commercially reasonable manner that there is any residual value in the put Warrants upon the occurrence of such Fund Termination Event:
 - (i) the Issuer will pay to each Warrantholder the residual value of the put Warrants in cash representing the fair market value in respect of each put Warrant held by such Warrantholder on or about the occurrence of such Fund Termination Event less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Warrantholders in accordance with Condition 11; and
 - (ii) the Issuer may, but shall not be obliged to, determine such cash amount by having regard to the manner in which options contracts or futures contracts relating to the Units traded on the Stock Exchange (if any) are calculated; and
- (b) for the avoidance of doubt, if the Issuer determines in good faith and in a commercially reasonable manner that there is no residual value in the put Warrants upon the occurrence of such Fund Termination Event, the put Warrants will lapse and cease to be valid for any purpose upon the occurrence of the Fund Termination Event.

For the purposes of this Condition 12, a Fund Termination Event occurs, (i) in the case of a voluntary liquidation or winding up of the Fund or the Trustee (as the case may be), on the effective date of the relevant resolution; (ii) in the case of an involuntary liquidation or dissolution or winding up of the Fund or the Trustee (as the case may be), on the date of the relevant court order; (iii) in the case of a termination of the Fund, on the effective date of the termination; (iv) in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Fund’s or the Trustee’s (as the case may be) undertaking, property or assets, on the date on which such appointment is effective; or (v) in the case of withdrawal of authorisation, on the date on which such withdrawal becomes effective, but subject (in any such case) to any contrary mandatory requirement of applicable law.

13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Warrantholders, to create and issue further Warrants so as to form a single series with the Warrants.

14. Delisting

- (a) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Warrants as it shall, in its absolute discretion (acting in good faith and in a commercially reasonable manner), consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Warrantholders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Warrantholder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Warrantholders, make such adjustments to the entitlements of Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion (acting in good faith and in a commercially reasonable manner), any adjustment or amendment and its determination shall be conclusive and binding on the Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Warrantholders in accordance with Condition 11 as soon as practicable after they are determined.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Warrants.

16. Governing Law

The Warrants, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Warrantholder (by its purchase of the Warrants) shall be deemed to have submitted for all purposes in connection with the Warrants, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE EQUITY INLINE WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The inline warrants (the “**Inline Warrants**”) (which expression shall, unless the context otherwise requires, include any further Inline Warrants issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”). Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The Inline Warrantholders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The Inline Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the Inline Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of Inline Warrants shall be treated by the Issuer as the absolute owner and holder of such number of Inline Warrants. The expression “**Inline Warrantholder**” shall be construed accordingly.

2. Inline Warrant Rights and Exercise Expenses

- (a) *Inline Warrant Rights.* Every Board Lot gives each Inline Warrantholder, upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount (as defined below), less any Exercise Expenses (as defined below).
- (b) *Exercise Expenses.* On exercise of the Inline Warrants, Inline Warrantholders are required to pay Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the applicable Cash Settlement Amount is deemed to be given by the Inline Warrantholder to the Issuer upon purchase of the Inline Warrants. Any Exercise Expenses which have not been determined on the Expiry Date (as defined below) shall be notified to the Inline Warrantholder as soon as practicable after determination thereof by the Issuer and shall be paid by the Inline Warrantholder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“**Average Price**” means the arithmetic mean of the closing prices of a Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing prices as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) for each Valuation Date (as defined below);

“**Board Lot**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“**Cash Settlement Amount**” means in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as equal to:

(1) if the Average Price is at or below the Upper Strike Price and at or above the Lower Strike Price:

Cash Settlement
Amount per Board Lot = Maximum Payoff Amount per Inline Warrant x one Board Lot

OR

(2) if the Average Price is above the Upper Strike Price or below the Lower Strike Price:

Cash Settlement
Amount per Board Lot = Minimum Payoff Amount per Inline Warrant x one Board Lot

“**CCASS**” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“**Company**” means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Inline Warrants;

“**Expiry Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Inline Warrants**” means the warrants specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Lower Strike Price” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Market Disruption Event” means:

- (1) the occurrence or existence on any Valuation Date during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; or (ii) any options or futures contracts relating to the Shares if, in any such case, such suspension or limitation is, in the determination of the Issuer, material;
- (2) the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“Maximum Payoff Amount per Inline Warrant” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Minimum Payoff Amount per Inline Warrant” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Average Price is determined in accordance with these Conditions;

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant Inline Warrantholder (**“Designated Bank Account”**);

“Shares” means the shares of the Company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Stock Exchange” means The Stock Exchange of Hong Kong Limited;

“Upper Strike Price” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6; and

“Valuation Date” means, with respect to the exercise of Inline Warrants, and subject as provided below in relation to a Market Disruption Event, each of the five Business Days immediately preceding the Expiry Date.

3. Exercise of Inline Warrants and Automatic Exercise

- (a) *Exercise of Inline Warrants.* The Inline Warrants are exercisable only on the Expiry Date.
- (b) *Automatic Exercise.* Any Inline Warrant will automatically be exercised on the Expiry Date (without notice being given to the Inline Warranholders). The Inline Warranholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Inline Warranholders the Cash Settlement Amount less any Exercise Expenses in accordance with Condition 4(d).

4. Exercise of Inline Warrants

- (a) Inline Warrants may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The Inline Warranholders will not be required to deliver an exercise notice for any purpose in relation to the Inline Warrants.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Inline Warrants which are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions, and thereby cancel the relevant Inline Warrants.
- (d) *Cash Settlement.* Subject to automatic exercise of Inline Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Inline Warranholder equal to the Cash Settlement Amount less any Exercise Expenses. If the Cash Settlement Amount is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount shall be payable by the Issuer.

The Cash Settlement Amount less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Inline Warranholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Inline Warranholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Inline Warranholder for any interest in respect of the amount due or any loss or damage that such Inline Warranholder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that a Market Disruption Event has occurred on any Valuation Date, then that Valuation Date shall be postponed until the first succeeding Business Day on which there is no Market Disruption Event, irrespective of whether that postponed Valuation Date would fall on a Business Day that is already or is deemed to be a Valuation Date. For the avoidance of doubt, in the event that a Market Disruption Event has occurred and a Valuation Date is postponed as aforesaid, the closing price of the Shares on the first succeeding Business Day will be used more than once in determining the Average Price, so that in no event shall there be less than five closing prices used to determine the Average Price. If the postponement of the Valuation Date as aforesaid would result in the Valuation Date falling on or after the Expiry Date, then: (i) the Business Day immediately preceding the Expiry Date (the

“**Last Valuation Date**”) shall be deemed to be the Valuation Date notwithstanding the Market Disruption Event; and (ii) the Issuer shall determine the closing price of the Shares on the basis of its good faith estimate of the price that would have prevailed on the Last Valuation Date but for the Market Disruption Event.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments

- (a) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Upper Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Upper Strike Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Lower Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Lower Strike Price} \div \text{Adjustment Factor}$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

S: Cum-Rights Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that no adjustment will be made if the Adjustment Factor is equal to or less than 1.

For the purposes of these Conditions:

“**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.

- (b) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being

operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) will be adjusted on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Upper Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Upper Strike Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Lower Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Lower Strike Price} \div \text{Adjustment Factor}$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.

(c) *Share Subdivisions or Consolidations.* If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a “**Subdivision**”) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a “**Consolidation**”) then:

- (i) in the case of a Subdivision, the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) will be decreased in the same ratio as the Subdivision; and
- (ii) in the case of a Consolidation, the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) will be increased in the same ratio as the Consolidation.

in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect.

For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.

(d) *Merger or Consolidation.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the Inline Warrants may in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner) be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion (acting in good faith and in a commercially reasonable manner)) so that the interests of the Inline Warrantholders generally are not materially prejudiced as a consequence of such Restructuring Event (without considering the individual circumstances of any Inline Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.

- (e) *Cash Distributions.* Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for two per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Upper Strike Price and the Lower Strike Price (which shall be rounded to the nearest 0.001) will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\begin{array}{l} \text{Adjusted Upper Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Upper Strike Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Lower Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Lower Strike Price} \div \text{Adjustment Factor}$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

OD: Amount of the relevant ordinary cash dividend per Share, provided that OD shall be deducted from S only if the Business Day on which trading in the Shares of the Company becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash dividend by the Company falls on the same date. For the avoidance of doubt, OD shall be deemed to be zero if the ex-entitlement dates of the relevant ordinary cash dividend and the Cash Distribution are different

CD: Amount of the relevant Cash Distribution per Share

S: Cum-Cash Distribution Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares of the Company are traded on a cum-Cash Distribution basis

For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.

- (f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Inline Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
- (i) not materially prejudicial to the interests of the Inline Warrantholders generally (without considering the circumstances of any individual Inline Warrantholder or the tax or other consequences of such adjustment in any particular jurisdiction); or

- (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

For the avoidance of doubt, the entitlement of the Inline Warrants is always 1 Share and no adjustment will be made to the entitlement.

- (g) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Inline Warrantheolders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the Inline Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Inline Warrants, in whole or in part, as a result of: (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Inline Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each Inline Warrantheolder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Inline Warrant held by such Inline Warrantheolder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Inline Warrantheolders in accordance with Condition 11.

8. Purchases

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Inline Warrants at any price in the open market or by tender or by private treaty. Any Inline Warrants so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The Inline Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Inline Warrantheolders will not be entitled to definitive certificates in respect of any Inline Warrants issued or transferred to them.

10. Meetings of Inline Warrantheolders; Modification

- (a) *Meetings of Inline Warrantheolders.* The Instrument contains provisions for convening meetings of the Inline Warrantheolders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Inline Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Inline Warrantheolders shall be decided by poll. Such a meeting may be convened by the Issuer or by Inline Warrantheolders holding not less than 10 per cent. of the Inline Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Inline Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Inline Warrantheolders whatever the number of Inline Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Inline Warrantheolders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Inline Warrantheolders shall be binding on all the Inline Warrantheolders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Inline Warrantheolders being held if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Inline Warrantheolders, effect any modification of the terms and conditions of the Inline Warrants or the Global Certificate which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Inline Warrantheolders generally (without considering the circumstances of any individual Inline Warrantheolder or the tax or other consequences of such modification in any particular jurisdiction);
 - (ii) of a formal, minor or technical nature;
 - (iii) made to correct a manifest error; or
 - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Inline Warrantheolders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to Inline Warrantheolders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company (each an “**Insolvency Event**”), all unexercised Inline Warrants will terminate automatically upon the occurrence of the Insolvency Event and the Issuer shall have no further obligation under such Inline Warrants, save for:

- (a) if the Issuer determines in good faith and in a commercially reasonable manner that there is any residual value in the Inline Warrants upon the occurrence of such Insolvency Event:
 - (i) the Issuer will pay to each Inline Warrantholder the residual value of the Inline Warrants in cash representing the fair market value in respect of each Inline Warrant held by such Inline Warrantholder on or about the occurrence of such Insolvency Event less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Inline Warrantholders in accordance with Condition 11; and
 - (ii) the Issuer may, but shall not be obliged to, determine such cash amount by having regard to the manner in which options contracts or futures contracts relating to the Shares traded on the Stock Exchange (if any) are calculated; and
- (b) for the avoidance of doubt, if the Issuer determines in good faith and in a commercially reasonable manner that there is no residual value in the Inline Warrants upon the occurrence of such Insolvency Event, the Inline Warrants will lapse and cease to be valid for any purpose upon the occurrence of the Insolvency Event.

For the purposes of this Condition 12, an Insolvency Event occurs, (i) in the case of a voluntary liquidation or winding up of the Company, on the effective date of the relevant resolution; or (ii) in the case of an involuntary liquidation or dissolution or winding up of the Company, on the date of the relevant court order; or (iii) in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of applicable law.

13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Inline Warrantholders, to create and issue further Inline Warrants so as to form a single series with the Inline Warrants.

14. Delisting

- (a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the Inline Warrants as it shall, in its absolute discretion (acting in good faith and in a commercially reasonable manner), consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the Inline Warrantholders

generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any Inline Warrantholder or the tax or other consequences that may result in any particular jurisdiction).

- (b) Without prejudice to the generality of Condition 14(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the Inline Warrantholders, make such adjustments to the entitlements of Inline Warrantholders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion (acting in good faith and in a commercially reasonable manner), any adjustment or amendment and its determination shall be conclusive and binding on the Inline Warrantholders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the Inline Warrantholders in accordance with Condition 11 as soon as practicable after they are determined.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Inline Warrants.

16. Governing Law

The Inline Warrants, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Inline Warrantholder (by its purchase of the Inline Warrants) shall be deemed to have submitted for all purposes in connection with the Inline Warrants, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE INDEX INLINE WARRANTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The inline warrants (the “**Inline Warrants**”) (which expression shall, unless the context otherwise requires, include any further Inline Warrants issued pursuant to Condition 12) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”). Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The Inline Warrantheolders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The Inline Warrants represent general, unsecured, contractual obligations of the Issuer and of no other person and rank pari passu among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the Inline Warrants may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of Inline Warrants shall be treated by the Issuer as the absolute owner and holder of such number of Inline Warrants. The expression “**Inline Warrantheolder**” shall be construed accordingly.

2. Inline Warrant Rights and Exercise Expenses

- (a) *Inline Warrant Rights.* Every Board Lot entitles each Inline Warrantheolder, upon due exercise and compliance with Condition 4, to payment of the Cash Settlement Amount (as defined below), less any Exercise Expenses (as defined below).
- (b) *Exercise Expenses.* On exercise of the Inline Warrants, Inline Warrantheolders are required to pay Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct all Exercise Expenses from the applicable Cash Settlement Amount is deemed to be given by the Inline Warrantheolder to the Issuer upon purchase of the Inline Warrants. Any Exercise Expenses which have not been determined on the Expiry Date shall be notified to the Inline Warrantheolder as soon as practicable after determination thereof by the Issuer and shall be paid by the Inline Warrantheolder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“**Board Lot**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“**Business Day**” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“**Cash Settlement Amount**” means in respect of every Board Lot, an amount, converted (if applicable) into the Settlement Currency at the Exchange Rate, calculated by the Issuer as equal to:

(1) if the Closing Level is at or below the Upper Strike Level and at or above the Lower Strike Level:

Cash Settlement
Amount per Board Lot = Maximum Payoff Amount per Inline Warrant x one Board Lot

OR

(2) if the Closing Level is above the Upper Strike Level or below the Lower Strike Level:

Cash Settlement
Amount per Board Lot = Minimum Payoff Amount per Inline Warrant x one Board Lot

“**CCASS**” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“**CCASS Rules**” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“**CCASS Settlement Day**” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“**Closing Level**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“**Exchange Rate**” means the rate specified in the relevant Launch Announcement and Supplemental Listing Document (if applicable);

“**Exercise Expenses**” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the exercise of the Inline Warrants;

“**Expiry Date**” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“**Index**” means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Index Compiler” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Index Exchange” means the exchange specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Lower Strike Level” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Market Disruption Event” means:

- (1) the occurrence or existence, on the Valuation Date during the one-half hour period that ends at the close of trading on the Index Exchange, of any of:
 - (i) the suspension or material limitation of the trading of a material number of securities that comprise the Index; or
 - (ii) the suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; or
 - (iii) the imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount;

for the purposes of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or

- (2) where the Index Exchange is the Stock Exchange, the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

“Minimum Payoff Amount per Inline Warrant” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Maximum Payoff Amount per Inline Warrant” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after the later of: (i) the Expiry Date; and (ii) the day on which the Closing Level is determined in accordance with these Conditions;

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant Inline Warrantholder (**“Designated Bank Account”**);

“Stock Exchange” means The Stock Exchange of Hong Kong Limited;

“Upper Strike Level” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document; and

“Valuation Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document.

3. Exercise of Inline Warrants and Automatic Exercise

- (a) *Exercise of Inline Warrants.* The Inline Warrants are exercisable only on the Expiry Date.
- (b) *Automatic Exercise.* Any Inline Warrant will automatically be exercised on the Expiry Date (without notice being given to the Inline Warrantholders). The Inline Warrantholders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the Inline Warrantholders the Cash Settlement Amount less any Exercise Expenses in accordance with Condition 4(d).

4. Exercise of Inline Warrants

- (a) Inline Warrants may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The Inline Warrantholders will not be required to deliver an exercise notice for any purpose in relation to the Inline Warrants.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the Expiry Date, remove from its register the name of the person in respect of the Inline Warrants which are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions, and thereby cancel the relevant Inline Warrants.
- (d) *Cash Settlement.* Subject to automatic exercise of Inline Warrants in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant Inline Warrantholder equal to the Cash Settlement Amount less any Exercise Expenses. If the Cash Settlement Amount is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount shall be payable by the Issuer.

The Cash Settlement Amount less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Inline Warrantholder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the Inline Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Inline Warrantholder for any interest in respect of the amount due or any loss or damage that such Inline Warrantholder may suffer as a result of the existence of the Settlement Disruption Event.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that on the Valuation Date a Market Disruption Event has occurred, then the Issuer shall determine the Closing Level or, if applicable, the Exchange Rate on the basis of its good faith estimate of the Closing Level or, if applicable, the Exchange Rate that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that in the case of determining the Closing Level, the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments to the Index

(a) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) Modification and Cessation of Calculation of Index.

If:

- (i) on or prior to a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or
- (ii) on a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure.

- (c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the Inline Warrants as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
- (i) not materially prejudicial to the interests of the Inline Warrantholders generally (without considering the circumstances of any individual Inline Warrantheader or the tax or other consequences of such adjustment in any particular jurisdiction); or
 - (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (d) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the Inline Warrantholders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 11.

7. **Illegality or Impracticability**

The Issuer is entitled to terminate the Inline Warrants if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the Inline Warrants, in whole or in part, as a result of: (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the Inline Warrants due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each Inline Warrantheader a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each Inline Warrant held by such Inline Warrantheader immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the Inline Warrantheaders in accordance with Condition 11.

8. **Purchases**

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase Inline Warrants at any price in the open market or by tender or by private treaty. Any Inline Warrants so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The Inline Warrants are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. Inline Warrantheolders will not be entitled to definitive certificates in respect of any Inline Warrants issued or transferred to them.

10. Meetings of Inline Warrantheolders; Modification

- (a) *Meetings of Inline Warrantheolders.* The Instrument contains provisions for convening meetings of the Inline Warrantheolders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the Inline Warrants or of the Global Certificate.

Any resolution to be passed in a meeting of the Inline Warrantheolders shall be decided by poll. Such a meeting may be convened by the Issuer or by Inline Warrantheolders holding not less than 10 per cent. of the Inline Warrants for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the Inline Warrants for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing Inline Warrantheolders whatever the number of Inline Warrants so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such Inline Warrantheolders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the Inline Warrantheolders shall be binding on all the Inline Warrantheolders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the Inline Warrantheolders being held if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the Inline Warrantheolders, effect any modification of the terms and conditions of the Inline Warrants or the Global Certificate which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the Inline Warrantheolders generally (without considering the circumstances of any individual Inline Warrantheolder or the tax or other consequences of such modification in any particular jurisdiction);
 - (ii) of a formal, minor or technical nature;
 - (iii) made to correct a manifest error; or
 - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the Inline Warrantheolders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to Inline Warrantheolders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the Inline Warrantheolders, to create and issue further Inline Warrants so as to form a single series with the Inline Warrants.

13. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the Inline Warrants.

14. Governing Law

The Inline Warrants, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each Inline Warrantheolder (by its purchase of the Inline Warrants) shall be deemed to have submitted for all purposes in connection with the Inline Warrants, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE EQUITY CALLABLE BULL/BEAR CONTRACTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The Callable Bull/Bear Contracts (the “**CBBCs**”) (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 13) relating to the Shares of the Company are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”). Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The CBBC Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of CBBCs shall be treated by the Issuer as the absolute owner and holder of such number of CBBCs. The expression “**CBBC Holder**” shall be construed accordingly.

2. CBBC Rights and Exercise Expenses

- (a) *CBBC Rights.* Every Board Lot gives each CBBC Holder, (i) upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount, (if any) less any Exercise Expenses or (ii) upon compliance with Condition 4, the right to receive the payment of the Residual Value, (if any) less any Exercise Expenses following the occurrence of a Mandatory Call Event (all as defined below).
- (b) *Exercise Expenses.* On expiry of the CBBCs or upon the occurrence of a Mandatory Call Event, CBBC Holders are required to pay the Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct the Exercise Expenses from the applicable Cash Settlement Amount or the Residual Value (as the case may be) is deemed to be given by a CBBC Holder to the Issuer upon purchase of the CBBCs. Any Exercise Expenses which have not been determined on the Expiry Date or

following the Mandatory Call Event shall be notified to the CBBC Holder as soon as practicable after determination thereof by the Issuer and shall be paid by the CBBC Holder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“Board Lot” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Business Day” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“Call Price” means the price of the Shares specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Cash Settlement Amount” means:

(1) in the case of a series of bull CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as equal to:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(2) in the case of a series of bear CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as equal to:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount it shall be deemed to be zero;

“CCASS” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“CCASS Rules” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“CCASS Settlement Day” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“Closing Price” means the official closing price of one Share (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing price as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) on the Valuation Date (as defined below);

“Company” means the company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Entitlement” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Exercise Expenses” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the expiry of the CBBCs or the occurrence of a Mandatory Call Event (as the case may be);

“Expiry Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“IEP” means the indicative equilibrium price, as determined in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time (the **“Trading Rules”**);

“Mandatory Call Event” occurs:

- (1) in the case of a series of bull CBBCs, if the Spot Price is at or below the Call Price at any time during a Trading Day in the Observation Period; and
- (2) in the case of a series of bear CBBCs, if the Spot Price is at or above the Call Price at any time during a Trading Day in the Observation Period;

“Market Disruption Event” means:

- (1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Shares; and/or (ii) any options or futures contracts relating to the Shares if, in any such case, that suspension or limitation is, in the determination of the Issuer, material;
- (2) the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“Maximum Trade Price” means the highest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“MCE Valuation Period” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the **“First Session”**) and up to the end of

the trading session on the Stock Exchange immediately following the First Session (the “**Second Session**”) unless, in the determination of the Issuer in good faith, the Second Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the Second Session) does not contain any continuous period of one hour or more than one hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed, in which case the MCE Valuation Period shall be extended to the end of the subsequent trading session following the Second Session during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least one hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of one hour or more than one hour during which trading in the Shares is permitted on the Stock Exchange with no limitation imposed. In that case:

- (i) the period commencing from the First Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and
- (b) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

“**Minimum Trade Price**” means the lowest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**Observation Commencement Date**” has the meaning specified in the relevant Launch Announcement and Supplemental Listing Document;

“**Observation Period**” means the period from the Observation Commencement Date to the Trading Day immediately preceding the Expiry Date (both dates inclusive);

“**Post MCE Trades**” means, subject to such modification and amendment prescribed by the Stock Exchange from time to time, (i) if the Mandatory Call Event occurs during a pre-opening session or a closing auction session (if applicable), as the case may be, of the Stock Exchange, all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in

such session; or (ii) if the Mandatory Call Event occurs during a continuous trading session of the Stock Exchange, all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event;

“Price Determination Date” means the date on which the Maximum Trade Price or the Minimum Trade Price (as the case may be) is determined by the Issuer;

“Residual Value” means an amount in the Settlement Currency calculated in accordance with the formula specified below:

(1) in the case of a series of bull CBBCs and in respect of every Board Lot:

$$\frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(2) in the case of a series of bear CBBCs and in respect of every Board Lot:

$$\frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Residual Value is a negative amount it shall be deemed to be zero;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these Conditions (as the case may be);

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant CBBC Holder (**“Designated Bank Account”**);

“Shares” means the shares of Company specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Spot Price” means:

- (i) in respect of a continuous trading session of the Stock Exchange, the price per Share concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and
- (ii) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final IEP of the Share (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable) (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“**Stock Exchange**” means The Stock Exchange of Hong Kong Limited;

“**Strike Price**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“**Trading Day**” means a day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

“**Valuation Date**” means the Trading Day immediately preceding the Expiry Date.

3. Exercise of CBBCs, Mandatory Call Event, Automatic Exercise and Expiry

- (a) *Exercise of CBBCs.* The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.
- (b) *Mandatory Call Event.*
 - (i) Any CBBC in respect of which a Mandatory Call Event has occurred will automatically expire upon the occurrence of a Mandatory Call Event and every Board Lot will entitle the CBBC Holder to receive the Residual Value (if any) less any Exercise Expenses on the Settlement Date. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

Revocation

- (ii) A Mandatory Call Event is irrevocable unless it is triggered due to the occurrence of one of the following events:
 - (1) report of system malfunction or other technical errors of the Stock Exchange (e.g. the setting up of the wrong Call Price or other parameters) by the Stock Exchange to the Issuer; or
 - (2) report of manifest errors caused by the relevant third party price sources where applicable by the Issuer to the Stock Exchange.

and, in each case, the Issuer agrees with the Stock Exchange that such Mandatory Call Event is to be revoked provided that such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs, or such other time as prescribed by the Stock Exchange from time to time.

- (c) *Automatic Exercise.* Any CBBC which has not automatically expired will automatically be exercised if, on the Expiry Date, the value of the Cash Settlement Amount is greater than zero (without prior notice being given to the CBBC Holders). The CBBC Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the CBBC Holders the Cash Settlement Amount (if any) less any Exercise Expenses in accordance with Condition 4(d).
- (d) *Issuer's Obligations.* For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically expired upon the occurrence of a Mandatory Call Event (as the case may be), payment of the Cash Settlement Amount

or the Residual Value (if any) (as the case may be) less any Exercise Expenses shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made, the Issuer shall have no obligation towards the relevant CBBC Holder under the CBBCs subsequent to such Expiry Date or the date on which a Mandatory Call Event occurs (as the case may be).

- (e) *Expiry.* Any CBBC which does not automatically expire in accordance with Condition 3(b) or which has not been automatically exercised in accordance with Condition 3(c) (as the case may be) shall expire immediately without value thereafter and all rights of the CBBC Holder and obligations of the Issuer with respect to such CBBC shall cease.

4. Exercise of CBBCs, Cancellation and Payment

- (a) *Board Lots.* CBBCs may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The CBBC Holders will not be required to deliver an exercise notice for any purpose in relation to the CBBCs.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the date on which a Mandatory Call Event occurs or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; (ii) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (iii) have expired worthless, and thereby cancel the relevant CBBCs.
- (d) *Cash Settlement.* Subject to automatic exercise of CBBCs or the occurrence of a Mandatory Call Event in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant CBBC Holder equal to the Cash Settlement Amount or the Residual Value (if any) (as the case may be) less any Exercise Expenses. If the Cash Settlement Amount or the Residual Value is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount or Residual Value shall be payable by the Issuer.

The Cash Settlement Amount or the Residual Value (as the case may be) less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the CBBC Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the CBBC Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the CBBC Holder for any interest in respect of the amount due or any loss or damage that such CBBC Holder may suffer as a result of the existence of the Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that a Market Disruption Event has occurred on the Valuation Date, then that Valuation Date shall be postponed to the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event,

unless the Issuer determines that there is a Market Disruption Event on each of the four Trading Days immediately following the original date that, but for the Market Disruption Event, would have been the Valuation Date. In that case:

- (i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date, notwithstanding the Market Disruption Event; and
- (ii) the Issuer shall determine the closing price of the Shares having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer determines to be relevant in good faith.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments

- (a) *Rights Issues*. If and whenever the Company shall, by way of Rights (as defined below), offer new Shares for subscription at a fixed subscription price to the holders of existing Shares pro rata to existing holdings (a “**Rights Offer**”), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares are traded on a cum-Rights basis

R: Subscription price per new Share as specified in the Rights Offer plus an amount equal to any dividends or other benefits foregone to exercise the Rights

M: Number of new Share(s) (whether a whole or a fraction) per existing Share each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Call Price and/or Strike Price in accordance with the following formulas:

$$\begin{array}{l} \text{Adjusted Call Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Call Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Strike Price} \div \text{Adjustment Factor}$$

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

“**Rights**” means the right(s) attached to each existing Share or needed to acquire one new Share (as the case may be) which are given to the holders of existing Shares to subscribe at a fixed subscription price for new Shares pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (b) *Bonus Issues*. If and whenever the Company shall make an issue of Shares credited as fully paid to the holders of Shares generally by way of capitalisation of profits or reserves (other than pursuant to a scrip dividend or similar scheme for the time being operated by the Company or otherwise in lieu of a cash dividend and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement will be increased on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Shares (whether a whole or a fraction) received by a holder of existing Shares for each Share held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Call Price and/or Strike Price in accordance with the following formulas:

$$\begin{array}{l} \text{Adjusted Call Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Call Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Strike Price} \div \text{Adjustment Factor}$$

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (c) *Share Subdivisions or Consolidations*. If and whenever the Company shall subdivide its Shares or any class of its outstanding share capital comprised of the Shares into a greater number of shares (a “**Subdivision**”) or consolidate the Shares or any class of its outstanding share capital comprised of the Shares into a smaller number of shares (a “**Consolidation**”), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Call Price and/or Strike Price (each of which shall be rounded to the nearest 0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly.

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (d) *Merger or Consolidation.* If it is announced that the Company is to or may merge or consolidate with or into any other corporation (including becoming, by agreement or otherwise, a subsidiary of any corporation or controlled by any person or corporation) (except where the Company is the surviving corporation in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner) be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion (acting in good faith and in a commercially reasonable manner)).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of shares of the corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Shares, as the case may be, to which the holder of such number of Shares to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Shares shall not be affected by this paragraph (d) and, where cash is offered in substitution for Shares or is deemed to replace Substituted Securities as described above, references in these Conditions to the Shares shall include any such cash.

- (e) *Cash Distributions.* Generally, no adjustment will be made for an ordinary cash dividend (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Company, such as a cash bonus, special dividend or extraordinary dividend, no adjustment will be made unless the value of the Cash Distribution accounts for two per cent. or more of the Share’s closing price on the day of announcement by the Company.

If and whenever the Company shall make a Cash Distribution credited as fully paid to the holders of Shares generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Shares of the Company becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

OD: Amount of the relevant ordinary cash dividend per Share, provided that OD shall be deducted from S only if the Business Day on which trading in the Shares of the Company becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash dividend by the Company falls on the same date. For the avoidance of doubt, OD shall be deemed to be zero if the ex-entitlement dates of the relevant ordinary cash dividend and the Cash Distribution are different

CD: Amount of the relevant Cash Distribution per Share

E: Existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Share price being the closing price of the Shares on the Stock Exchange on the last Business Day on which the Shares of the Company are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Call Price and/or Strike Price in accordance with the following formulas:

$$\begin{array}{l} \text{Adjusted Call Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Call Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Strike Price} \div \text{Adjustment Factor}$$

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
- (i) not materially prejudicial to the interests of the CBBC Holders generally (without considering the circumstances of any individual CBBC Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
 - (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

For the avoidance of doubt, such adjustments may, but need not, be determined by reference to the adjustment(s) made in respect of such event or events by an options exchange to options on the relevant Shares traded on such options exchange.

- (g) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the CBBC Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part, as a result of: (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or

- (b) for it or any of its affiliates to maintain the Issuer's hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each CBBC Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such CBBC Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the CBBC Holders in accordance with Condition 11.

8. Purchases

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. CBBC Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

10. Meetings of CBBC Holders; Modification

- (a) *Meetings of CBBC Holders.* The Instrument contains provisions for convening meetings of the CBBC Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolution to be passed in a meeting of the CBBC Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by CBBC Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing CBBC Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such CBBC Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the CBBC Holders shall be binding on all the CBBC Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the CBBC Holders being held if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the CBBC Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is:

- (i) not materially prejudicial to the interests of the CBBC Holders generally (without considering the circumstances of any individual CBBC Holder or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the CBBC Holders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to CBBC Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Liquidation

In the event of a liquidation or dissolution or winding up of the Company or the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company (each an “**Insolvency Event**”), all unexercised CBBCs will terminate automatically upon the occurrence of the Insolvency Event and the Issuer shall have no further obligation under such CBBCs, save in the case of a series of bear CBBCs:

- (a) if the Issuer determines in good faith and in a commercially reasonable manner that there is any residual value in the bear CBBCs upon the occurrence of such Insolvency Event:
 - (i) the Issuer will pay to each CBBC Holder the residual value of the bear CBBCs in cash representing the fair market value in respect of each bear CBBC held by such CBBC Holder on or about the occurrence of such Insolvency Event less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the CBBC Holders in accordance with Condition 11; and
 - (ii) the Issuer may, but shall not be obliged to, determine such cash amount by having regard to the manner in which options contracts or futures contracts relating to the Shares traded on the Stock Exchange (if any) are calculated; and
- (b) for the avoidance of doubt, if the Issuer determines in good faith and in a commercially reasonable manner that there is no residual value in the bear CBBCs upon the occurrence of such Insolvency Event, the bear CBBCs will lapse and cease to be valid for any purpose upon the occurrence of the Insolvency Event.

For the purposes of this Condition 12, an Insolvency Event occurs, (i) in the case of a voluntary liquidation or winding up of the Company, on the effective date of the relevant resolution; or (ii) in the case of an involuntary liquidation or dissolution or winding up of the Company, on the date of the relevant court order; or (iii) in the case of the appointment of a

liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the undertaking, property or assets of the Company, on the date when such appointment is effective but subject (in any such case) to any contrary mandatory requirement of applicable law.

13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the CBBC Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

14. Delisting

- (a) If at any time the Shares cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion (acting in good faith and in a commercially reasonable manner), consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the CBBC Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any CBBC Holder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Shares are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the CBBC Holders, make such adjustments to the entitlements of CBBC Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion (acting in good faith and in a commercially reasonable manner), any adjustment or amendment and its determination shall be conclusive and binding on the CBBC Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the CBBC Holders in accordance with Condition 11 as soon as practicable after they are determined.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

16. Governing Law

The CBBCs, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each CBBC Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE INDEX CALLABLE BULL/BEAR CONTRACTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The Callable Bull/Bear Contracts (the “**CBBCs**”) (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 12) relating to the Index as published by the Index Compiler are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”). Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The CBBC Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of CBBCs shall be treated by the Issuer as the absolute owner and holder of such number of CBBCs. The expression “**CBBC Holder**” shall be construed accordingly.

2. CBBC Rights and Exercise Expenses

- (a) *CBBC Rights.* Every Board Lot entitles each CBBC Holder, (i) upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount, (if any) less any Exercise Expenses or (ii) upon compliance with Condition 4, the right to receive the payment of the Residual Value, (if any) less any Exercise Expenses following the occurrence of a Mandatory Call Event (all as defined below).
- (b) *Exercise Expenses.* On expiry of the CBBCs or upon the occurrence of a Mandatory Call Event, CBBC Holders are required to pay the Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct the Exercise Expenses from the applicable Cash Settlement Amount or the Residual Value (as the case may be) is deemed to be given by a CBBC Holder to the Issuer upon purchase of the CBBCs. Any Exercise Expenses which have not been determined on the Expiry Date or

following the Mandatory Call Event shall be notified to the CBBC Holder as soon as practicable after determination thereof by the Issuer and shall be paid by the CBBC Holder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“Board Lot” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Business Day” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“Call Level” means the level of the Index specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Cash Settlement Amount” means:

(1) in the case of a series of bull CBBCs and in respect of every Board Lot, an amount, converted (if applicable) into the Settlement Currency at the Exchange Rate, calculated by the Issuer as equal to:

$$\begin{array}{r} \text{Cash Settlement} \\ \text{Amount per Board} \\ \text{Lot} \end{array} = \frac{(\text{Closing Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

(2) in the case of a series of bear CBBCs and in respect of every Board Lot, an amount, converted (if applicable) into the Settlement Currency at the Exchange Rate, calculated by the Issuer as equal to:

$$\begin{array}{r} \text{Cash Settlement} \\ \text{Amount per Board} \\ \text{Lot} \end{array} = \frac{(\text{Strike Level} - \text{Closing Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

provided that if the Cash Settlement Amount is a negative amount it shall be deemed to be zero;

“CCASS” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“CCASS Rules” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“CCASS Settlement Day” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“Closing Level” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Divisor” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Exchange Rate” means the rate specified in the relevant Launch Announcement and Supplemental Listing Document (if applicable);

“Exercise Expenses” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the expiry of the CBBCs or the occurrence of a Mandatory Call Event (as the case may be);

“Expiry Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Index” means the index specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Index Business Day” means a day on which the Index Exchange is scheduled to open for trading for its regular trading sessions;

“Index Compiler” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Index Currency Amount” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Index Exchange” means the exchange specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Mandatory Call Event” occurs:

- (1) in the case of a series of bull CBBCs, if the Spot Level is at or below the Call Level at any time during an Index Business Day in the Observation Period; and
- (2) in the case of a series of bear CBBCs, if the Spot Level is at or above the Call Level at any time during an Index Business Day in the Observation Period;

“Market Disruption Event” means:

- (1) the occurrence or existence, on any Index Business Day during the one-half hour period that ends at the close of trading on the Index Exchange, of any:
 - (i) suspension or material limitation of the trading of a material number of securities that comprise the Index; and/or
 - (ii) suspension or material limitation of the trading of options or futures contracts relating to the Index on any exchanges on which such contracts are traded; and/or
 - (iii) imposition of any exchange controls in respect of any currencies involved in determining the Cash Settlement Amount or the Residual Value (as the case may be);

for the purposes of paragraph (1), (x) the limitation of the number of hours or days of trading will not constitute a Market Disruption Event if it results from an announced change in the regular business hours of any relevant exchange, and

- (y) a limitation on trading imposed by reason of the movements in price exceeding the levels permitted by any relevant exchange will constitute a Market Disruption Event; or
- (2) where the Index Exchange is the Stock Exchange, the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Index Exchange due to any unforeseen circumstances; or
- (4) any circumstances beyond the control of the Issuer in which the Closing Level or, if applicable, the Exchange Rate cannot be determined by the Issuer in the manner set out in these Conditions or in such other manner as the Issuer considers appropriate at such time after taking into account all the relevant circumstances;

“Maximum Index Level” means the highest Spot Level during the MCE Valuation Period;

“MCE Valuation Period” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the **“First Session”**) and up to the end of the trading session on the Index Exchange immediately following the First Session (the **“Second Session”**) unless, in the determination of the Issuer in good faith, the Second Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the Second Session) does not contain any continuous period of one hour or more than one hour during which Spot Levels are available, in which case the MCE Valuation Period shall be extended to the end of the subsequent trading session on the Index Exchange following the Second Session during which Spot Levels are available for a continuous period of at least one hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in good faith that each trading session on each of the four Index Business Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of one hour or more than one hour during which Spot Levels are available. In that case:

- (i) the period commencing from the First Session up to, and including, the last trading session of the fourth Index Business Day on the Index Exchange immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Index Level or the Minimum Index Level (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Level of the Index and such other factors as the Issuer may determine to be relevant in good faith.

For the avoidance of doubt, all Spot Levels available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Index Level or the Minimum Index Level (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and
- (b) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

“Minimum Index Level” means the lowest Spot Level during the MCE Valuation Period;

“Observation Commencement Date” has the meaning specified in the relevant Launch Announcement and Supplemental Listing Document;

“Observation Period” means the period from the Observation Commencement Date to the Trading Day immediately preceding the Expiry Date (both dates inclusive);

“Post MCE Trades” means, subject to such modification and amendment prescribed by the Stock Exchange from time to time, (i) if the Mandatory Call Event occurs during a pre-opening session or a closing auction session (if applicable), as the case may be, of the Stock Exchange, all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in such session; or (ii) if the Mandatory Call Event occurs during a continuous trading session of the Stock Exchange, all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event;

“Price Determination Date” means the date on which the Maximum Index Level or the Minimum Index Level (as the case may be) is determined by the Issuer;

“Residual Value” means, an amount, converted (if applicable) into the Settlement Currency at the Exchange Rate, calculated in accordance with the formula specified below:

- (1) in the case of a series of bull CBBCs and in respect of every Board Lot:

$$\frac{(\text{Minimum Index Level} - \text{Strike Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

- (2) in the case of a series of bear CBBCs and in respect of every Board Lot:

$$\frac{(\text{Strike Level} - \text{Maximum Index Level}) \times \text{one Board Lot} \times \text{Index Currency Amount}}{\text{Divisor}}$$

provided that if the Residual Value is a negative amount it shall be deemed to be zero;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of (a) the Expiry Date; and (b) the day on which the Closing Level is determined in accordance with these Conditions (as the case may be);

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant CBBC Holder (**“Designated Bank Account”**);

“Spot Level” means the spot level of the Index as compiled and published by the Index Compiler;

“Stock Exchange” means The Stock Exchange of Hong Kong Limited;

“Strike Level” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Trading Day” means a day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions; and

“Valuation Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document.

3. Exercise of CBBCs, Mandatory Call Event, Automatic Exercise and Expiry

- (a) *Exercise of CBBCs.* The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.
- (b) *Mandatory Call Event.*
 - (i) Any CBBC in respect of which a Mandatory Call Event has occurred will automatically expire upon the occurrence of a Mandatory Call Event and every Board Lot will entitle the CBBC Holder to receive the Residual Value (if any) less any Exercise Expenses on the Settlement Date. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

Revocation

- (ii) A Mandatory Call Event is irrevocable unless it is triggered due to the occurrence of one of the following events:
 - (1) report of system malfunction or other technical errors of the Stock Exchange (e.g. the setting up of the wrong Call Level or other parameters) by the Stock Exchange to the Issuer; or
 - (2) report of manifest errors caused by the relevant third party price sources where applicable (e.g. miscalculation of the index level by the relevant index compiler) by the Issuer to the Stock Exchange.

and, in each case, the Issuer agrees with the Stock Exchange that such Mandatory Call Event is to be revoked provided that such mutual agreement must be reached no later than 30 minutes before the commencement of trading

(including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs, or such other time as prescribed by the Stock Exchange from time to time.

- (c) *Automatic Exercise.* Any CBBC which has not automatically expired will automatically be exercised if, on the Expiry Date, the value of the Cash Settlement Amount is greater than zero (without prior notice being given to the CBBC Holders). The CBBC Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the CBBC Holders the Cash Settlement Amount (if any) less any Exercise Expenses in accordance with Condition 4(d).
- (d) *Issuer's Obligations.* For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically expired upon the occurrence of a Mandatory Call Event (as the case may be), payment of the Cash Settlement Amount or the Residual Value (if any) (as the case may be) less any Exercise Expenses shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made, the Issuer shall have no obligation towards the relevant CBBC Holder under the CBBCs subsequent to such Expiry Date or the date on which a Mandatory Call Event occurs (as the case may be).
- (e) *Expiry.* Any CBBC which does not automatically expire in accordance with Condition 3(b) or which has not been automatically exercised in accordance with Condition 3(c) (as the case may be) shall expire immediately without value thereafter and all rights of the CBBC Holder and obligations of the Issuer with respect to such CBBC shall cease.

4. Exercise of CBBCs, Cancellation and Payment

- (a) *Board Lots.* CBBCs may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The CBBC Holders will not be required to deliver an exercise notice for any purpose in relation to the CBBCs.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the date on which a Mandatory Call Event occurs or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; (ii) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions or (iii) have expired worthless, and thereby cancel the relevant CBBCs.
- (d) *Cash Settlement.* Subject to automatic exercise of CBBCs or the occurrence of a Mandatory Call Event in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant CBBC Holder equal to the Cash Settlement Amount or the Residual Value (if any) (as the case may be) less any Exercise Expenses. If the Cash Settlement Amount or the Residual Value is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount or Residual Value shall be payable by the Issuer.

The Cash Settlement Amount or the Residual Value (as the case may be) less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the CBBC Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the CBBC Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the CBBC Holder for any interest in respect of the amount due or any loss or damage that such CBBC Holder may suffer as a result of the existence of the Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that a Market Disruption Event has occurred on the Valuation Date, then the Issuer shall determine the Closing Level or, if applicable, the Exchange Rate on the basis of its good faith estimate of the Closing Level or, if applicable, the Exchange Rate that would have prevailed on that day but for the occurrence of the Market Disruption Event provided that in the case of determining the Closing Level, the Issuer, if applicable, may, but shall not be obliged to, determine such Closing Level by having regard to the manner in which futures contracts relating to the Index are calculated.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments to the Index

(a) *Successor Index Compiler Calculates and Reports Index.* If the Index is (i) not calculated and announced by the Index Compiler but is calculated and published by a successor to the Index Compiler (the “**Successor Index Compiler**”) acceptable to the Issuer or (ii) replaced by a successor index using, in the determination of the Issuer, the same or a substantially similar formula for and method of calculation as used in the calculation of the Index, then the Index will be deemed to be the index so calculated and announced by the Successor Index Compiler or that successor index, as the case may be.

(b) *Modification and Cessation of Calculation of Index.*

If:

- (i) on or prior to a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler makes a material change in the formula for or the method of calculating the Index or in any other way materially modifies the Index (other than a modification prescribed in that formula or method to maintain the Index in the event of changes in constituent stock, contracts or commodities and other routine events); or
- (ii) on a Valuation Date the Index Compiler or (if applicable) the Successor Index Compiler fails to calculate and publish the Index (other than as a result of a Market Disruption Event),

then the Issuer shall determine the Closing Level using, in lieu of a published level for the Index, the level for the Index as at that Valuation Date as determined by the Issuer in accordance with the formula for and method of calculating the Index last in effect prior to that change or failure, but using only those securities, contracts or commodities that comprised the Index immediately prior to that change or failure.

- (c) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
 - (i) not materially prejudicial to the interests of the CBBC Holders generally (without considering the circumstances of any individual CBBC Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
 - (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.
- (d) *Notice of Determinations.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the CBBC Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any determinations by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part, as a result of: (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each CBBC Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such CBBC Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the CBBC Holders in accordance with Condition 11.

8. Purchases

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. CBBC Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

10. Meetings of CBBC Holders; Modification

- (a) *Meetings of CBBC Holders.* The Instrument contains provisions for convening meetings of the CBBC Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolution to be passed in a meeting of the CBBC Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by CBBC Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing CBBC Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such CBBC Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the CBBC Holders shall be binding on all the CBBC Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the CBBC Holders being held if passed unanimously.

- (b) *Modification.* The Issuer may, without the consent of the CBBC Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is:
- (i) not materially prejudicial to the interests of the CBBC Holders generally (without considering the circumstances of any individual CBBC Holder or the tax or other consequences of such modification in any particular jurisdiction);
 - (ii) of a formal, minor or technical nature;
 - (iii) made to correct a manifest error; or
 - (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the CBBC Holders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to CBBC Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the CBBC Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

13. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

14. Governing Law

The CBBCs, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each CBBC Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

15. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

The relevant terms and conditions will, together with the supplemental provisions contained in the relevant launch announcement and supplemental listing document and subject to completion and amendment, be endorsed on the global certificate. The applicable launch announcement and supplemental listing document in relation to the issue of any series of structured products may specify additional terms and conditions which shall, to the extent so specified or to the extent inconsistent with the relevant terms and conditions, replace or modify the relevant terms and conditions for the purpose of such series of structured products. Capitalised terms used in the relevant terms and conditions and not otherwise defined therein shall have the meaning given to them in the relevant launch announcement and supplemental listing document.

TERMS AND CONDITIONS OF THE FUND CALLABLE BULL/BEAR CONTRACTS (CASH SETTLED)

1. Form, Status, Transfer and Title

- (a) *Form.* The Callable Bull/Bear Contracts (the “**CBBCs**”) (which expression shall, unless the context otherwise requires, include any further CBBCs issued pursuant to Condition 13) relating to the Units of the Fund are issued in registered form subject to and with the benefit of a global certificate by way of deed poll (the “**Global Certificate**”) dated the Issue Date, made by The Hongkong and Shanghai Banking Corporation Limited (the “**Issuer**”) and an instrument by way of deed poll dated 2 April 2012 executed by the Issuer (the “**Instrument**”) Copies of the Global Certificate and the Instrument are available for inspection at the specified office of the Issuer. The CBBC Holders (as defined below) are entitled to the benefit of, are bound by and are deemed to have notice of all the provisions of the Global Certificate and the Instrument.
- (b) *Status.* The CBBCs represent general, unsecured, contractual obligations of the Issuer and of no other person and rank *pari passu* among themselves and (save for certain obligations required to be preferred by law) equally with all other unsecured obligations of the Issuer.
- (c) *Transfer.* Transfers of beneficial interests in the CBBCs may be effected only in Board Lots or integral multiples thereof in CCASS (as defined below) in accordance with the CCASS Rules (as defined below).
- (d) *Title.* Each person who is for the time being shown in the register kept by the Issuer as entitled to a particular number of CBBCs shall be treated by the Issuer as the absolute owner and holder of such number of CBBCs. The expression “**CBBC Holder**” shall be construed accordingly.

2. CBBC Rights and Exercise Expenses

- (a) *CBBC Rights.* Every Board Lot gives each CBBC Holder, (i) upon due exercise and compliance with Condition 4, the right to receive the payment of the Cash Settlement Amount, (if any) less any Exercise Expenses or (ii) upon compliance with Condition 4, the right to receive the payment of the Residual Value, (if any) less any Exercise Expenses following the occurrence of a Mandatory Call Event (all as defined below).
- (b) *Exercise Expenses.* On expiry of the CBBCs or upon the occurrence of a Mandatory Call Event, CBBC Holders are required to pay the Exercise Expenses. To effect such payment, an irrevocable authorisation to deduct the Exercise Expenses from the applicable Cash Settlement Amount or the Residual Value (as the case may be) is deemed to be given by a CBBC Holder to the Issuer upon purchase of the CBBCs. Any Exercise Expenses which have not been determined on the Expiry Date or

following the Mandatory Call Event shall be notified to the CBBC Holder as soon as practicable after determination thereof by the Issuer and shall be paid by the CBBC Holder immediately upon demand.

(c) *Definitions.* For the purposes of these Conditions:

“Board Lot” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Business Day” means a day (excluding Saturdays) on which the Stock Exchange (as defined below) is scheduled to open for dealings in Hong Kong and banks are open for business in Hong Kong. For the avoidance of doubt, such day shall be deemed to be a Business Day if a tropical cyclone warning signal number 8 or above or a “BLACK” rainstorm signal is issued on such day or “extreme conditions” are in force or announced on such day;

“Call Price” means the price of the Units specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Cash Settlement Amount” means:

(1) in the case of a series of bull CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as equal to:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Closing Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(2) in the case of a series of bear CBBCs and in respect of every Board Lot, an amount in the Settlement Currency calculated by the Issuer as equal to:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement} \times (\text{Strike Price} - \text{Closing Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Cash Settlement Amount is a negative amount it shall be deemed to be zero;

“CCASS” means the Central Clearing and Settlement System established and operated by Hong Kong Securities Clearing Company Limited (“**HKSCC**”);

“CCASS Rules” means the General Rules of CCASS and the CCASS Operational Procedures in effect from time to time;

“CCASS Settlement Day” has the meaning ascribed to the term “Settlement Day” in the General Rules of CCASS, subject to such modification and amendment prescribed by HKSCC from time to time;

“Closing Price” means the official closing price of one Unit (as derived from the Daily Quotation Sheet of the Stock Exchange, subject to any adjustment to such closing price as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) on the Valuation Date (as defined below);

“Entitlement” means the number specified as such in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“Exercise Expenses” means any charges or expenses including any taxes or duties which are incurred or withheld in respect of the expiry of the CBBCs or the occurrence of a Mandatory Call Event (as the case may be);

“Expiry Date” means the date specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“Fund” means the unit trust or exchange-traded fund (as the case may be) specified as such in the relevant Launch Announcement and Supplemental Listing Document;

“IEP” means the indicative equilibrium price, as determined in accordance with the Rules and Regulations of the Stock Exchange prescribed by the Stock Exchange from time to time (the **“Trading Rules”**);

“Mandatory Call Event” occurs:

- (1) in the case of a series of bull CBBCs, if the Spot Price is at or below the Call Price at any time during a Trading Day in the Observation Period; and
- (2) in the case of a series of bear CBBCs, if the Spot Price is at or above the Call Price at any time during a Trading Day in the Observation Period;

“Market Disruption Event” means:

- (1) the occurrence or existence on any Trading Day during the one-half hour period that ends at the close of trading of any suspension of or limitation imposed on trading (by reason of movements in price exceeding limits permitted by the Stock Exchange or otherwise) on the Stock Exchange in (i) the Units; and/or (ii) any options or futures contracts relating to the Units if, in any such case, that suspension or limitation is, in the determination of the Issuer, material;
- (2) the occurrence of any event on any day which either (i) results in the Stock Exchange being closed for trading for the entire day; or (ii) results in the Stock Exchange being closed prior to its regular time for close of trading for the relevant day (for the avoidance of doubt, in the case when the Stock Exchange is scheduled to open for the morning trading session only, closed prior to its regular time for close of trading for the morning session), PROVIDED THAT there shall be no Market Disruption Event solely by reason of the Stock Exchange opening for trading later than its regular time for opening of trading on any day as a result of such event; or
- (3) a limitation or closure of the Stock Exchange due to any unforeseen circumstances;

“Maximum Trade Price” means the highest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“MCE Valuation Period” means the period commencing from and including the moment upon which the Mandatory Call Event occurs (the trading session during which the Mandatory Call Event occurs is the **“First Session”**) and up to the end of

the trading session on the Stock Exchange immediately following the First Session (the “**Second Session**”) unless, in the determination of the Issuer in good faith, the Second Session for any reason (including, without limitation, a Market Disruption Event occurring and subsisting in the Second Session) does not contain any continuous period of one hour or more than one hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed, in which case the MCE Valuation Period shall be extended to the end of the subsequent trading session following the Second Session during which trading in the Units is permitted on the Stock Exchange with no limitation imposed for a continuous period of at least one hour notwithstanding the existence or continuance of a Market Disruption Event in such postponed trading session, unless the Issuer determines in good faith that each trading session on each of the four Trading Days immediately following the date on which the Mandatory Call Event occurs does not contain any continuous period of one hour or more than one hour during which trading in the Units is permitted on the Stock Exchange with no limitation imposed. In that case:

- (i) the period commencing from the First Session up to, and including, the last trading session on the Stock Exchange of the fourth Trading Day immediately following the date on which the Mandatory Call Event occurs shall be deemed to be the MCE Valuation Period; and
- (ii) the Issuer shall determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer may determine to be relevant in good faith.

For the avoidance of doubt, all Spot Prices available throughout the extended MCE Valuation Period shall be taken into account to determine the Maximum Trade Price or the Minimum Trade Price (as the case may be) for the calculation of the Residual Value.

For the purposes of this definition,

- (a) the pre-opening session, the morning session and, in the case of half day trading, the closing auction session (if any) of the same day; and
- (b) the afternoon session and the closing auction session (if any) of the same day,

shall each be considered as one trading session only;

“**Minimum Trade Price**” means the lowest Spot Price (subject to any adjustment to such Spot Price as may be necessary to reflect any event as contemplated in Condition 6 such as capitalisation, rights issue, distribution or the like) during the MCE Valuation Period;

“**Observation Commencement Date**” has the meaning specified in the relevant Launch Announcement and Supplemental Listing Document;

“**Observation Period**” means the period from the Observation Commencement Date to the Trading Day immediately preceding the Expiry Date (both dates inclusive);

“**Post MCE Trades**” means, subject to such modification and amendment prescribed by the Stock Exchange from time to time, (i) if the Mandatory Call Event occurs during a pre-opening session or a closing auction session (if applicable), as the case may be, of the Stock Exchange, all auction trades in the CBBCs concluded in such session and all manual trades concluded after the end of the pre-order matching period in

such session; or (ii) if the Mandatory Call Event occurs during a continuous trading session of the Stock Exchange, all trades in the CBBCs concluded via auto-matching or manually after the time of the occurrence of a Mandatory Call Event;

“Price Determination Date” means the date on which the Maximum Trade Price or the Minimum Trade Price (as the case may be) is determined by the Issuer;

“Residual Value” means an amount in the Settlement Currency calculated in accordance with the formula specified below:

(1) in the case of a series of bull CBBCs and in respect of every Board Lot:

$$\frac{\text{Entitlement} \times (\text{Minimum Trade Price} - \text{Strike Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

(2) in the case of a series of bear CBBCs and in respect of every Board Lot:

$$\frac{\text{Entitlement} \times (\text{Strike Price} - \text{Maximum Trade Price}) \times \text{one Board Lot}}{\text{Number of CBBCs per Entitlement}}$$

provided that if the Residual Value is a negative amount it shall be deemed to be zero;

“Settlement Currency” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document;

“Settlement Date” means the third CCASS Settlement Day after (i) the end of the MCE Valuation Period or (ii) the later of (a) the Expiry Date; and (b) the day on which the Closing Price is determined in accordance with these Conditions (as the case may be);

“Settlement Disruption Event” means an event beyond the control of the Issuer as a result of which the Issuer is unable to procure payment electronically through CCASS to the relevant bank account designated by the relevant CBBC Holder (**“Designated Bank Account”**);

“Spot Price” means:

- (i) in respect of a continuous trading session of the Stock Exchange, the price per Unit concluded by means of automatic order matching on the Stock Exchange as reported in the official real-time dissemination mechanism for the Stock Exchange during such continuous trading session in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules); and
- (ii) in respect of a pre-opening session or a closing auction session (if applicable) of the Stock Exchange (as the case may be), the final IEP of the Unit (if any) calculated at the end of the pre-order matching period of such pre-opening session or closing auction session (if applicable) (as the case may be) in accordance with the Trading Rules, excluding direct business (as defined in the Trading Rules),

subject to such modification and amendment prescribed by the Stock Exchange from time to time;

“Stock Exchange” means The Stock Exchange of Hong Kong Limited;

“**Strike Price**” has the meaning given to it in the relevant Launch Announcement and Supplemental Listing Document, subject to any adjustment in accordance with Condition 6;

“**Trading Day**” means a day on which the Stock Exchange is scheduled to open for trading for its regular trading sessions;

“**Units**” means the units or shares (as the case may be) of the Fund specified as such in the relevant Launch Announcement and Supplemental Listing Document; and

“**Valuation Date**” means the Trading Day immediately preceding the Expiry Date.

3. Exercise of CBBCs, Mandatory Call Event, Automatic Exercise and Expiry

- (a) *Exercise of CBBCs.* The CBBCs are exercisable on the Expiry Date, provided that a Mandatory Call Event has not occurred.
- (b) *Mandatory Call Event.*
 - (i) Any CBBC in respect of which a Mandatory Call Event has occurred will automatically expire upon the occurrence of a Mandatory Call Event and every Board Lot will entitle the CBBC Holder to receive the Residual Value (if any) less any Exercise Expenses on the Settlement Date. Trading in the CBBCs will be suspended immediately upon the occurrence of a Mandatory Call Event and all Post MCE Trades will be cancelled and will not be recognised by the Issuer or the Stock Exchange.

Revocation

- (ii) A Mandatory Call Event is irrevocable unless it is triggered due to the occurrence of one of the following events:
 - (1) report of system malfunction or other technical errors of the Stock Exchange (e.g. the setting up of the wrong Call Price or other parameters) by the Stock Exchange to the Issuer; or
 - (2) report of manifest errors caused by the relevant third party price sources where applicable by the Issuer to the Stock Exchange.

and, in each case, the Issuer agrees with the Stock Exchange that such Mandatory Call Event is to be revoked provided that such mutual agreement must be reached no later than 30 minutes before the commencement of trading (including the pre-opening session) (Hong Kong time) on the Trading Day of the Stock Exchange immediately following the day on which the Mandatory Call Event occurs, or such other time as prescribed by the Stock Exchange from time to time.

- (c) *Automatic Exercise.* Any CBBC which has not automatically expired will automatically be exercised if, on the Expiry Date, the value of the Cash Settlement Amount is greater than zero (without prior notice being given to the CBBC Holders). The CBBC Holders will not be required to deliver any exercise notice and the Issuer or its agent will pay to the CBBC Holders the Cash Settlement Amount (if any) less any Exercise Expenses in accordance with Condition 4(d).

- (d) *Issuer's Obligations.* For the avoidance of doubt, where the CBBCs have been exercised on the Expiry Date or have automatically expired upon the occurrence of a Mandatory Call Event (as the case may be), payment of the Cash Settlement Amount or the Residual Value (if any) (as the case may be) less any Exercise Expenses shall constitute full and final settlement of the obligations of the Issuer with respect to the CBBCs. Subject to such payment having been made, the Issuer shall have no obligation towards the relevant CBBC Holder under the CBBCs subsequent to such Expiry Date or the date on which a Mandatory Call Event occurs (as the case may be).
- (e) *Expiry.* Any CBBC which does not automatically expire in accordance with Condition 3(b) or which has not been automatically exercised in accordance with Condition 3(c) (as the case may be) shall expire immediately without value thereafter and all rights of the CBBC Holder and obligations of the Issuer with respect to such CBBC shall cease.

4. Exercise of CBBCs, Cancellation and Payment

- (a) *Board Lots.* CBBCs may only be exercised in a Board Lot or integral multiples thereof.
- (b) *No requirement to deliver an exercise notice.* The CBBC Holders will not be required to deliver an exercise notice for any purpose in relation to the CBBCs.
- (c) *Cancellation.* The Issuer will, with effect from the first Business Day following the date on which a Mandatory Call Event occurs or the Expiry Date (as the case may be), remove from its register the name of the person in respect of the CBBCs which (i) are the subject of an occurrence of a Mandatory Call Event; (ii) are the subject of an exercise pursuant to automatic exercise in accordance with these Conditions; or (iii) have expired worthless, and thereby cancel the relevant CBBCs.
- (d) *Cash Settlement.* Subject to automatic exercise of CBBCs or the occurrence of a Mandatory Call Event in accordance with these Conditions, the Issuer will make a payment, in respect of every Board Lot, to the relevant CBBC Holder equal to the Cash Settlement Amount or the Residual Value (if any) (as the case may be) less any Exercise Expenses. If the Cash Settlement Amount or the Residual Value is equal to, or less than, the determined Exercise Expenses, no Cash Settlement Amount or Residual Value shall be payable by the Issuer.

The Cash Settlement Amount or the Residual Value (as the case may be) less the determined Exercise Expenses shall be despatched no later than the Settlement Date by crediting that amount in accordance with the CCASS Rules, to the Designated Bank Account.

If as a result of a Settlement Disruption Event, it is not possible for the Issuer to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the CBBC Holder on the original Settlement Date, the Issuer shall use its reasonable endeavours to procure payment electronically through CCASS by crediting the relevant Designated Bank Account of the CBBC Holder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the CBBC Holder for any interest in respect of the amount due or any loss or damage that such CBBC Holder may suffer as a result of the existence of the Settlement Disruption Event, nor shall the Issuer be liable under any circumstances for any acts or defaults of CCASS in relation to the performance of its duties in relation to the CBBCs.

If the Issuer determines, in its sole discretion (acting in good faith and in a commercially reasonable manner), that a Market Disruption Event has occurred on the Valuation Date, then that Valuation Date shall be postponed to the first succeeding Trading Day on which the Issuer determines that there is no Market Disruption Event, unless the Issuer determines that there is a Market Disruption Event on each of the four Trading Days immediately following the original date that, but for the Market Disruption Event, would have been the Valuation Date. In that case:

- (i) the fourth Trading Day immediately following the original date shall be deemed to be the Valuation Date, notwithstanding the Market Disruption Event; and
- (ii) the Issuer shall determine the closing price of the Units having regard to the then prevailing market conditions, the last reported Spot Price and such other factors as the Issuer determines to be relevant in good faith.

5. Register

The Issuer will at all times maintain or arrange for the maintenance of a register in Hong Kong.

6. Adjustments

- (a) *Rights Issues.* If and whenever the Fund shall, by way of Rights (as defined below), offer new Units for subscription at a fixed subscription price to the holders of existing Units pro rata to existing holdings (a “**Rights Offer**”), the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{1 + M}{1 + (R/S) \times M}$$

E: Existing Entitlement immediately prior to the Rights Offer

S: Cum-Rights Unit price being the closing price of the Units on the Stock Exchange on the last Business Day on which the Units are traded on a cum-Rights basis

R: Subscription price per new Unit as specified in the Rights Offer plus an amount equal to any distributions or other benefits foregone to exercise the Rights

M: Number of new Unit(s) (whether a whole or a fraction) per existing Unit each holder thereof is entitled to subscribe

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Call Price and/or Strike Price in accordance with the following formulas:

$$\begin{array}{l} \text{Adjusted Call Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Call Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Strike Price} \div \text{Adjustment Factor}$$

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

For the purposes of these Conditions:

“**Rights**” means the right(s) attached to each existing Unit or needed to acquire one new Unit (as the case may be) which are given to the holders of existing Units to subscribe at a fixed subscription price for new Units pursuant to the Rights Offer (whether by the exercise of one Right, a part of a Right or an aggregate number of Rights).

- (b) *Bonus Issues*. If and whenever the Fund shall make an issue of Units credited as fully paid to the holders of Units generally (other than pursuant to a scrip dividend or distribution or similar scheme for the time being operated by the Fund or otherwise in lieu of a cash dividend or distribution and without any payment or other consideration being made or given by such holders) (a “**Bonus Issue**”) the Entitlement will be increased on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = 1 + N$$

E: Existing Entitlement immediately prior to the Bonus Issue

N: Number of additional Units (whether a whole or a fraction) received by a holder of existing Units for each Unit held prior to the Bonus Issue

Provided that if the adjustment to be made would result in the Entitlement being changed by one per cent. or less, then no adjustment will be made. In addition, the Issuer shall adjust the Call Price and/or Strike Price in accordance with the following formulas:

$$\begin{array}{l} \text{Adjusted Call Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Call Price} \div \text{Adjustment Factor}$$

$$\begin{array}{l} \text{Adjusted Strike Price} \\ \text{(rounded to the nearest 0.001)} \end{array} = \text{Strike Price} \div \text{Adjustment Factor}$$

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (c) *Unit Subdivisions or Consolidations*. If and whenever the Fund shall subdivide its Units or any class of its outstanding units or shares into a greater number of units or shares (a “**Subdivision**”) or consolidate the Units or any class of its outstanding units or shares into a smaller number of units or shares (a “**Consolidation**”), the Entitlement in effect immediately prior thereto will be increased (in the case of a Subdivision) or decreased (in the case of a Consolidation) accordingly in each case on the day on which the relevant Subdivision or Consolidation shall have taken effect. In addition, the Call Price and/or Strike Price (each of which shall be rounded to the nearest 0.001) will be decreased (in the case of a Subdivision) or increased (in the case of a Consolidation) accordingly.

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (d) *Merger or Consolidation.* If it is announced that the Fund is to or may merge or consolidate with or into any other fund or corporation (including becoming, by agreement or otherwise, controlled by any person or corporation) (except where the Fund is the surviving entity in a merger) or that it is to or may sell or transfer all or substantially all of its assets, the rights attaching to the CBBCs may in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner) be amended no later than the Business Day preceding the consummation of such merger, consolidation, sale or transfer (each a “**Restructuring Event**”) (as determined by the Issuer in its absolute discretion (acting in good faith and in a commercially reasonable manner)).

The rights attaching to the CBBCs after the adjustment shall, after such Restructuring Event, relate to the number of units or shares of the fund(s) or corporation(s) resulting from or surviving such Restructuring Event or other securities (“**Substituted Securities**”) and/or cash offered in substitution for the affected Units, as the case may be, to which the holder of such number of Units to which the CBBCs related immediately before such Restructuring Event would have been entitled upon such Restructuring Event. Thereafter the provisions hereof shall apply to such Substituted Securities, provided that any Substituted Securities may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be deemed to be replaced by an amount in the relevant currency equal to the market value or, if no market value is available, fair value, of such Substituted Securities in each case as determined by the Issuer as soon as practicable after such Restructuring Event is effected.

For the avoidance of doubt, any remaining Units shall not be affected by this paragraph (d) and, where cash is offered in substitution for Units or is deemed to replace Substituted Securities as described above, references in these Conditions to the Units shall include any such cash.

- (e) *Cash Distributions.* Generally, no adjustment will be made for an ordinary cash distribution (whether or not it is offered with a scrip alternative). For any other forms of cash distribution (each a “**Cash Distribution**”) announced by the Fund, no adjustment will be made unless the value of the Cash Distribution accounts for two per cent. or more of the Unit’s closing price on the day of announcement by the Fund.

If and whenever the Fund shall make a Cash Distribution credited as fully paid to the holders of Units generally, the Entitlement will be adjusted to take effect on the Business Day on which trading in the Units of the Fund becomes ex-entitlement in accordance with the following formula:

$$\text{Adjusted Entitlement} = \text{Adjustment Factor} \times E$$

Where:

$$\text{Adjustment Factor} = \frac{S - OD}{S - OD - CD}$$

OD: Amount of the relevant ordinary cash distribution per Unit, provided that OD shall be deducted from S only if the Business Day on which trading in the Units of the Fund becomes ex-entitlement with respect to the Cash Distribution and the distribution of the ordinary cash distribution by the Fund falls on the same date. For the avoidance of doubt, OD shall be deemed to be zero if the ex-entitlement dates of the relevant ordinary cash distribution and the Cash Distribution are different

CD: Amount of the relevant Cash Distribution per Unit

E: Existing Entitlement immediately prior to the Cash Distribution

S: Cum-Cash Distribution Unit price being the closing price of the Units on the Stock Exchange on the last Business Day on which the Units of the Fund are traded on a cum-Cash Distribution basis

In addition, the Issuer shall adjust the Call Price and/or Strike Price in accordance with the following formulas:

$$\begin{aligned} \text{Adjusted Call Price} &= \text{Call Price} \div \text{Adjustment Factor} \\ \text{(rounded to the nearest 0.001)} & \\ \text{Adjusted Strike Price} &= \text{Strike Price} \div \text{Adjustment Factor} \\ \text{(rounded to the nearest 0.001)} & \end{aligned}$$

Adjustment to the Call Price and/or Strike Price shall take effect on the same day that the Entitlement is adjusted.

- (f) *Other Adjustments.* Without prejudice to and notwithstanding any prior adjustment(s) made pursuant to the applicable Conditions, the Issuer may (but shall not be obliged to) make such other adjustments to the terms and conditions of the CBBCs as appropriate where any event (including the events as contemplated in the applicable Conditions) occurs and irrespective of, in substitution for, or in addition to the provisions contemplated in the applicable Conditions, provided that such adjustment is:
- (i) not materially prejudicial to the interests of the CBBC Holders generally (without considering the circumstances of any individual CBBC Holder or the tax or other consequences of such adjustment in any particular jurisdiction); or
 - (ii) determined by the Issuer in good faith to be appropriate and commercially reasonable.

For the avoidance of doubt, such adjustments may, but need not, be determined by reference to the adjustment(s) made in respect of such event or events by an options exchange to options on the relevant Units traded on such options exchange.

- (g) *Notice of Adjustments.* All determinations made by the Issuer pursuant hereto will be conclusive and binding on the CBBC Holders. The Issuer will give, or procure that there is given, notice as soon as practicable of any adjustment and of the date from which such adjustment is effective by publication in accordance with Condition 11.

7. Illegality or Impracticability

The Issuer is entitled to terminate the CBBCs if it determines in good faith and in a commercially reasonable manner that, for reasons beyond its control, it has become or it will become illegal or impracticable:

- (a) for it to perform its obligations under the CBBCs, in whole or in part, as a result of: (i) the adoption of, any change in, any relevant law or regulation (including any tax law); or (ii) the promulgation of, or any change in the interpretation by any court, tribunal, governmental, administrative, legislative, regulatory or judicial authority or power with competent jurisdiction of any relevant law or regulation (including any tax law), (each of (i) and (ii), a “**Change in Law Event**”); or
- (b) for it or any of its affiliates to maintain the Issuer’s hedging arrangements with respect to the CBBCs due to a Change in Law Event.

Upon the occurrence of a Change in Law Event, the Issuer will, if and to the extent permitted by applicable law or regulation, pay to each CBBC Holder a cash amount that the Issuer determines in good faith and in a commercially reasonable manner to be the fair market value in respect of each CBBC held by such CBBC Holder immediately prior to such termination (ignoring such illegality or impracticability) less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any

taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the CBBC Holders in accordance with Condition 11.

8. Purchases

The Issuer and/or any of its subsidiaries and affiliates may at any time purchase CBBCs at any price in the open market or by tender or by private treaty. Any CBBCs so purchased may be held or resold or surrendered for cancellation.

9. Global Certificate

The CBBCs are represented by the Global Certificate registered in the name of HKSCC Nominees Limited and deposited with CCASS in accordance with the CCASS Rules. CBBC Holders will not be entitled to definitive certificates in respect of any CBBCs issued or transferred to them.

10. Meetings of CBBC Holders; Modification

(a) *Meetings of CBBC Holders.* The Instrument contains provisions for convening meetings of the CBBC Holders to consider any matter affecting their interests, including the sanctioning by Extraordinary Resolution (as defined in the Instrument) of a modification of the provisions of the CBBCs or of the Global Certificate.

Any resolution to be passed in a meeting of the CBBC Holders shall be decided by poll. Such a meeting may be convened by the Issuer or by CBBC Holders holding not less than 10 per cent. of the CBBCs for the time being remaining unexercised. The quorum at any such meeting for passing an Extraordinary Resolution will be two or more persons holding or representing not less than 25 per cent. of the CBBCs for the time being remaining unexercised, or at any adjourned meeting two or more persons being or representing CBBC Holders whatever the number of CBBCs so held or represented.

A resolution will be an Extraordinary Resolution when it has been passed at a duly convened meeting by not less than three-quarters of the votes cast by such CBBC Holders who, being entitled to do so, vote in person or by proxy.

An Extraordinary Resolution passed at any meeting of the CBBC Holders shall be binding on all the CBBC Holders, whether or not they are present at the meeting.

Resolutions can be passed in writing without a meeting of the CBBC Holders being held if passed unanimously.

(b) *Modification.* The Issuer may, without the consent of the CBBC Holders, effect any modification of the terms and conditions of the CBBCs or the Global Certificate which, in the opinion of the Issuer, is:

- (i) not materially prejudicial to the interests of the CBBC Holders generally (without considering the circumstances of any individual CBBC Holder or the tax or other consequences of such modification in any particular jurisdiction);
- (ii) of a formal, minor or technical nature;
- (iii) made to correct a manifest error; or
- (iv) necessary in order to comply with mandatory provisions of the laws or regulations of Hong Kong.

Any such modification shall be binding on the CBBC Holders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to CBBC Holders will be validly given if published in English and in Chinese on the website of Hong Kong Exchanges and Clearing Limited. Such notices shall be deemed to have been given on the date of the first such publication. If publication is not practicable, notice will be given in such other manner as the Issuer may determine.

12. Liquidation

In the event of (i) a liquidation, dissolution, termination or winding up of the Fund or (ii) a liquidation or dissolution or winding up of the trustee of the Fund (including any successor trustee appointed from time to time) (“**Trustee**”) or where applicable, the Trustee ceases to be authorised under the Fund to hold the property of the Fund in its name and perform its obligations under the trust deed constituting the Fund or (iii) the appointment of a liquidator, receiver or administrator or analogous person under applicable law in respect of the whole or substantially the whole of the Fund’s or the Trustee’s (as the case may be) undertaking, property or assets or (iv) the withdrawal of the Securities and Futures Commission’s authorisation of the Fund under the Securities and Futures Ordinance (each a “**Fund Termination Event**”), all unexercised CBBCs will terminate automatically upon the occurrence of the Fund Termination Event and the Issuer shall have no further obligation under such CBBCs, save in the case of a series of bear CBBCs:

- (a) if the Issuer determines in good faith and in a commercially reasonable manner that there is any residual value in the bear CBBCs upon the occurrence of such Fund Termination Event:
 - (i) the Issuer will pay to each CBBC Holder the residual value of the bear CBBCs in cash representing the fair market value in respect of each bear CBBC held by such CBBC Holder on or about the occurrence of such Fund Termination Event less the cost to the Issuer of unwinding any related hedging arrangement and any charges or expenses including any taxes or duties which are incurred or withheld as determined by the Issuer in its sole and absolute discretion (acting in good faith and in a commercially reasonable manner). Payment will be made in such manner as shall be notified to the CBBC Holders in accordance with Condition 11; and
 - (ii) the Issuer may, but shall not be obliged to, determine such cash amount by having regard to the manner in which options contracts or futures contracts relating to the Units traded on the Stock Exchange (if any) are calculated; and
- (b) for the avoidance of doubt, if the Issuer determines in good faith and in a commercially reasonable manner that there is no residual value in the bear CBBCs upon the occurrence of such Fund Termination Event, the bear CBBCs will lapse and cease to be valid for any purpose upon the occurrence of the Fund Termination Event.

For the purposes of this Condition 12, a Fund Termination Event occurs, (i) in the case of a voluntary liquidation or winding up of the Fund or the Trustee (as the case may be), on the effective date of the relevant resolution; (ii) in the case of an involuntary liquidation or dissolution or winding up of the Fund or the Trustee (as the case may be), on the date of the relevant court order; (iii) in the case of a termination of the Fund, on the effective date of the termination; (iv) in the case of the appointment of a liquidator or receiver or administrator or analogous person under any applicable law in respect of the whole or substantially the whole of the Fund’s or the Trustee’s (as the case may be) undertaking, property or assets, on the date on which such appointment is effective; or (v) in the case of withdrawal of authorisation, on the date on which such withdrawal becomes effective, but subject (in any such case) to any contrary mandatory requirement of applicable law.

13. Further Issues

The Issuer shall be at liberty from time to time, without the consent of the CBBC Holders, to create and issue further CBBCs so as to form a single series with the CBBCs.

14. Delisting

- (a) If at any time the Units cease to be listed on the Stock Exchange, the Issuer shall give effect to these Conditions in such manner and make such adjustments to the rights attaching to the CBBCs as it shall, in its absolute discretion (acting in good faith and in a commercially reasonable manner), consider appropriate to ensure, so far as it is reasonably able to do so, that the interests of the CBBC Holders generally are not materially prejudiced as a consequence of such delisting (without considering the individual circumstances of any CBBC Holder or the tax or other consequences that may result in any particular jurisdiction).
- (b) Without prejudice to the generality of Condition 14(a), where the Units are, or, upon the delisting, become, listed on any other stock exchange, these Conditions may, in the absolute discretion of the Issuer (acting in good faith and in a commercially reasonable manner), be amended to the extent necessary to allow for the substitution of that other stock exchange in place of the Stock Exchange and the Issuer may, without the consent of the CBBC Holders, make such adjustments to the entitlements of CBBC Holders on exercise (including, if appropriate, by converting foreign currency amounts at prevailing market rates into the relevant currency) as may be appropriate in the circumstances.
- (c) The Issuer shall determine, in its absolute discretion (acting in good faith and in a commercially reasonable manner), any adjustment or amendment and its determination shall be conclusive and binding on the CBBC Holders save in the case of manifest error. Notice of any adjustments or amendments shall be given to the CBBC Holders in accordance with Condition 11 as soon as practicable after they are determined.

15. Contracts (Rights of Third Parties) Ordinance

A person who is not a party to these Conditions has no right under the Contracts (Rights of Third Parties) Ordinance (Cap. 623 of the Laws of Hong Kong) to enforce or to enjoy the benefit of any term of the CBBCs.

16. Governing Law

The CBBCs, the Global Certificate and the Instrument will be governed by and construed in accordance with the laws of the Hong Kong Special Administrative Region of the People's Republic of China ("**Hong Kong**"). The Issuer and each CBBC Holder (by its purchase of the CBBCs) shall be deemed to have submitted for all purposes in connection with the CBBCs, the Global Certificate and the Instrument to the non-exclusive jurisdiction of the courts of Hong Kong.

17. Language

In the event of any inconsistency between the Chinese translation of these Conditions and the English version of these Conditions, the English version of these Conditions shall prevail.

INFORMATION ABOUT US

Incorporation and Business

On 14 August 1866, “The Hongkong and Shanghai Banking Corporation” was established with limited liability in the Hong Kong Special Administrative Region (the “**Hong Kong SAR**”) by The Hongkong and Shanghai Bank Ordinance 1866, as subsequently amended by The Hongkong and Shanghai Banking Corporation Limited Ordinance (Cap. 70) of Hong Kong (the “**Ordinance**”). On 6 October 1989, it was registered under the name of “The Hongkong and Shanghai Banking Corporation Limited” pursuant to Part IX of the then Companies Ordinance (Cap. 32) of Hong Kong, which is now Part 17 of the Companies Ordinance (Cap. 622) of Hong Kong. On 6 June 1997, Memorandum and Articles of Association (the “**M&A**”) were adopted, replacing the Ordinance in part and superseding The Hongkong and Shanghai Bank Regulations (Cap. 70A) of Hong Kong which formerly were the constitutive documents of the Bank. Subsequently, a new set of Articles of Association was adopted in substitution for and to the exclusion of the M&A on 19 May 2014. Its registered and head office is situated at 1 Queen’s Road Central, Hong Kong. Its business registration number is 00173611.

Established in Hong Kong and Shanghai in 1865, The Hongkong and Shanghai Banking Corporation Limited is the founding member of HSBC Holdings plc and its subsidiaries (the “**HSBC Group**”) – one of the world’s largest banking and financial services organisations. It is the largest bank incorporated in Hong Kong and one of Hong Kong’s three note-issuing banks. It is a wholly-owned subsidiary of HSBC Holdings plc, the holding company of the HSBC Group, which has an international network covering: Europe, Asia, Middle East and North Africa, North America and Latin America.

Directors and Secretary

As of the date of this base listing document, the Directors and Secretary of the Bank are set out below.

Names of Directors

Dr Peter Tung Shun WONG[#], GBS, JP, *Chairman*
David Gordon ELTON*, GBS, CBE, JP, *Deputy Chairman*
David Yi Chien LIAO, JP, *Co-Chief Executive Officer*
Surendranath Ravi ROSHA, *Co-Chief Executive Officer*
Paul Jeremy BROUGH*
Judy Lai Kun CHAU*
Edward Wai Sun CHENG*, GBS, JP
Sonia Chi Man CHENG*
Yiu Kwan CHOI*
Andrea Lisa DELLA MATTEA*
Manveen (Pam) KAUR[#]
Rajnish KUMAR*
Beau Khoon Chen KUOK*
Fred Tin Fuk LAM*, GBS, JP
Annabelle Yu LONG*

* *independent non-executive Director*

[#] *non-executive Director*

Name of Secretary

Eloise Christina GRAY

Main Subsidiaries

The main subsidiaries of the Bank as at 31 December 2025 are:

Name	Place of Incorporation	Principal activity	The Bank Group's interest in issued share capital/ registered or charter capital (per cent.)
Hang Seng Bank Limited ^{1, 2}	Hong Kong	Banking	63.43
HSBC Bank (China) Company Limited	Mainland China	Banking	100
HSBC Bank Malaysia Berhad	Malaysia	Banking	100
HSBC Bank Australia Limited ³	Australia	Banking	100
HSBC Bank (Taiwan) Limited ³	Taiwan	Banking	100
HSBC Bank (Singapore) Limited	Singapore	Banking	100
HSBC Life (International) Limited ³	Bermuda	Retirement benefits and life insurance	100

Note:

- 1 In addition to the strategic holding disclosed above, the Bank and its subsidiaries held 0.07% shareholding as part of its trading books.
- 2 Based on the latest corporate substantial shareholding notice filed with HKEX on 21 June 2024, the Bank Group's shareholding in Hang Seng Bank Limited on 18 June 2024 was 62.83%. Movements in shareholding since 18 June 2024 are reflected in the above table. Hang Seng Bank Limited became a wholly owned subsidiary of the Bank following the completion of privatisation on 26 January 2026. See Note 39 in the Annual Report and Accounts 2025 of the Bank, extracts of which are set out in Exhibit A of this base listing document.
- 3 Held indirectly.

The principal places of business are the same as the places of incorporation except for HSBC Life (International) Limited which operates mainly in Hong Kong.

Share capital

The following shows the share capital of the Bank Group as at 31 December 2025:

The issued and fully paid up ordinary share capital of the Bank was HK\$180,181 million, comprising 49,579,391,798 ordinary shares, which included HK\$123,949 million paid up in HK\$ and HK\$56,232 million paid up in U.S.\$\$. The paid up share capital in U.S.\$\$ represents preference shares which were redeemed or bought back via payment out of distributable profits and for which the amount was transferred from retained earnings to share capital in accordance with the requirements of the Companies Ordinance (Cap. 622) of Hong Kong.

Total shareholders' equity

The total shareholders' equity of the Bank Group as at 31 December 2025 was HK\$884,573 million comprising HK\$180,181 million of share capital, HK\$79,158 million of other equity instruments, HK\$136,194 million of other reserves and HK\$489,040 million of retained earnings.

Subordinated liabilities

The Bank Group had no subordinated liabilities issued to third parties measured at amortised cost as at 31 December 2024 and 2025. Subordinated liabilities issued to group entities are not included.

Debt Securities in Issue

The debt securities in issue of the Bank Group measured at amortised cost as at 31 December 2025 were HK\$47,020 million.

SALES AND TRANSFER RESTRICTIONS

General

We have not or will not take any action that would permit a public offering of structured products or possession or distribution of any offering material in relation to the structured products in any jurisdiction where action for that purpose is required. No offers, sales or deliveries of any structured products, or distribution of any offering material relating to the structured products, may be made in or from any jurisdiction except in circumstances which will result in compliance with any applicable laws or regulations and will not impose any obligations on us. You are required to inform yourself about, and to observe, all such applicable laws and regulations.

United States of America

The structured products have not been and will not be registered under the United States Securities Act of 1933, as amended (the “**Securities Act**”), and will not be offered, sold, delivered or traded, at any time, indirectly or directly, in the United States or to, or for the account or benefit of, (a) a U.S. person (as defined in Regulation S of the Securities Act), (b) a U.S. person as defined in 17 C.F.R. § 23.23(a)(23) (a “**CFTC U.S. Person**”) or to others for offer or sale to or for the account or benefit of any such CFTC U.S. Person or (c) a “United States person” as defined in the Chinese Military-Industrial Complex Sanctions Regulations (31 C.F.R. Part 586) (“**E.O. 13959 U.S. Persons**”), to the extent that the underlyings for the relevant structured products (i) include securities whose purchase or sale by E.O. 13959 U.S. Persons is restricted under 31 C.F.R. Part 586 or (ii) provide any investment exposure to any such securities ((i) and (ii) collectively, “**E.O. 13959 Restricted Underlyings**”).

E.O. 13959 U.S. Persons are restricted from purchasing or selling the structured products with E.O. 13959 Restricted Underlyings after the effective date of the 31 C.F.R. Part 586 restrictions applicable to those underlyings and investors should seek their own independent legal advice regarding compliance with 31 C.F.R. Part 586.

European Economic Area – Prohibition of Sales to EEA Retail Investors

The structured products which are the subject of the offering contemplated by this base listing document have not been offered, sold or otherwise made available and will not be offered, sold or otherwise made available to any retail investor in the European Economic Area. For the purposes of this provision:

- (a) the expression “**retail investor**” means a person who is one (or more) of the following:
 - (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, “**MiFID II**”); or
 - (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the “**Insurance Distribution Directive**”), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or
 - (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the “**Prospectus Regulation**”); and
- (b) the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to purchase or subscribe for the structured products.

United Kingdom – Prohibition of Sales to UK Retail Investors

The structured products which are the subject of the offering contemplated by this base listing document have not been offered, sold or otherwise made available and will not be offered, sold or otherwise made available to any retail investor in the United Kingdom. For the purposes of this provision, the expression “**retail investor**” means a person who is neither:

- (a) a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (“**EUWA**”); nor
- (b) a qualified investor as defined in paragraph 15 of Schedule 1 to the Public Offers and Admissions to Trading Regulations 2024, and

the expression “**offer**” includes the communication in any form and by any means of sufficient information on the terms of the offer and the structured products to be offered so as to enable an investor to decide to buy or subscribe for the structured products.

United Kingdom – Other Regulatory Restrictions

In respect of the United Kingdom, each dealer has further represented and agreed, and each further dealer to be appointed will be required to further represent and agree, that:

- (a) in relation to any structured products which have a maturity of less than one year:
 - (i) it is a person whose ordinary activities involve it in acquiring, holding, managing or disposing of investments (as principal or agent) for the purposes of its business; and
 - (ii) it has not offered or sold and will not offer or sell any structured products other than to persons:
 - (A) whose ordinary activities involve them in acquiring, holding, managing or disposing of investments (as principal or as agent) for the purposes of their businesses; or
 - (B) who it is reasonable to expect will acquire, hold, manage or dispose of investments (as principal or agent) for the purposes of their businesses,where the issue of the structured products would otherwise constitute a contravention of Section 19 of the Financial Services and Markets Act 2000 (the “**FSMA**”) by the Issuer;
- (b) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of Section 21 of the FSMA) received by it in connection with the issue or sale of any structured products in circumstances in which Section 21(1) of the FSMA does not apply to the Issuer; and
- (c) it has complied and will comply with all applicable provisions of the FSMA with respect to anything done by it in relation to any structured products in, from or otherwise involving the United Kingdom.

TAXATION

The comments below are of a general nature and are only a summary of the law and practice currently applicable under the relevant law. The comments relate to the position of persons who are the absolute beneficial owners of the structured products and may not apply equally to all persons. If you are in any doubt as to your tax position on purchase, ownership, transfer or exercise of any structured product, you should consult your own tax advisers.

GENERAL

You may be required to pay stamp duties, taxes and other charges in accordance with the laws and practices of the country or territory of purchase in addition to the issue price of each structured product.

HONG KONG

Profits tax

No tax is payable in Hong Kong by way of withholding or otherwise in respect of dividends of any company or in respect of any capital gains arising on the sale of any shares or structured products, except that Hong Kong profits tax may be chargeable on any such gains in the case of certain persons carrying on a trade, profession or business in Hong Kong.

Stamp duty

Stamp duty is not chargeable on the transfer of purely cash settled structured products in Hong Kong.

UNITED STATES OF AMERICA

The following section on “U.S. Foreign Account Tax Compliance Act” is applicable to all holders. If you are uncertain about the tax consequences of investing in our structured products, you should consult your own tax adviser.

U.S. Foreign Account Tax Compliance Act

The U.S. Foreign Account Tax Compliance Act (“**FATCA**”) generally imposes a 30 per cent. United States withholding tax (“**FATCA Withholding**”) on certain United States source payments (“**Withholdable Payments**”) paid to a foreign financial institution (including amounts paid to a foreign financial institution on behalf of a holder), unless such institution enters into an agreement with the United States Treasury to collect and provide to the United States Treasury substantial information regarding United States account holders with such institution (including certain account holders that are foreign entities with United States owners) or such institution otherwise complies with its obligations under FATCA. FATCA Withholding generally is also imposed on Withholdable Payments made to a “recalcitrant holder” or to a non-financial foreign entity unless, in general, such entity provides the withholding agent with a certification that it does not have any substantial United States owners (or a certification identifying the direct and indirect substantial United States owners of the entity), demonstrates that it or an affiliate is publicly traded or that it has an active business, or otherwise establishes an exemption. A “recalcitrant holder” generally is a holder of an account with a foreign financial institution that fails to comply with certain requests for information that will enable the relevant foreign financial institution to comply with its obligations under FATCA. “Withholdable Payments” generally includes “dividend equivalent” payments as described under “Legislation Affecting Dividend Equivalent Payments” under this section.

In addition, under FATCA, “foreign passthru payments” made by a foreign financial institution to recalcitrant holders or non-compliant foreign financial institutions or non-financial foreign entities generally are subject to FATCA Withholding. The term “foreign passthru payment” has not yet been defined under current U.S. Treasury Regulations.

Under the current U.S. Treasury Regulations and related guidance, FATCA Withholding generally will apply to foreign passthru payments no earlier than the second anniversary of the date on which final U.S. Treasury Regulations defining the term “foreign passthru payments” are published in the U.S. Federal Register. In addition, payments made with respect to our structured products that are not Withholdable Payments generally will not be subject to FATCA Withholding if such structured products are executed on or before the “Grandfather Date” and are not materially modified thereafter. For these purposes: “**Grandfather Date**” is the date that is six months after the date on which final U.S. Treasury Regulations defining the term “foreign passthru payment” are filed with the United States Federal Register.

Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products. We are not required to pay any additional amounts with respect to FATCA Withholding.

The following section on “Legislation Affecting Dividend Equivalent Payments” is applicable to structured products that are linked to U.S. equities and to all holders of such structured products.

Legislation Affecting Dividend Equivalent Payments

Section 871(m) of the U.S. Internal Revenue Code of 1986, as amended (“**Section 871(m)**”) and the U.S. Treasury Regulations thereunder generally require withholding of up to 30 per cent. (depending on whether an income tax treaty or other exemption applies) on payments or deemed payments made to non-U.S. persons on certain financial instruments (including, for example, the structured products) to the extent that such payments are contingent upon or determined by reference to U.S.-source dividends. With respect to financial instruments issued before 1 January 2027 (and not “significantly modified” on or after 1 January 2027), this withholding should generally apply to financial instruments that have a delta of 1. Certain exceptions may apply to an issue of financial instruments that reference an underlying that is treated as a “qualified index”.

With respect to a financial instrument issued on or after 1 January 2027, (a) a “simple” financial instrument that has a delta of 0.8 or greater with respect to an underlying and (b) a “complex” financial instrument that meets the “substantial equivalence test” with respect to an underlying will be subject to withholding under Section 871(m). The delta of a simple instrument is determined, and the substantial equivalence test for a complex instrument is performed, on the earlier of the date that the financial instrument is priced and the date when the financial instrument is issued; however, the issue date must be used if the financial instrument is priced more than 14 calendar days before it is issued.

Certain events may cause previously issued structured products to be deemed to be new issuances for purposes of the effective dates provided in the U.S. Treasury Regulations. For example, it is possible that the U.S. Internal Revenue Service (“**IRS**”) could assert that a reconstitution or rebalancing of an underlying index is a significant modification of a structured product due to an exercise of discretion with respect to such reconstitution or rebalancing and a deemed reissuance upon the occurrence of such event.

It is also possible that U.S. withholding tax could apply to structured products under these rules if a holder enters, or has entered, into certain other transactions in respect of an underlying or a structured product. A holder that enters, or has entered, into other transactions in respect of an underlying or a structured product should consult its own tax advisor regarding the application of Section 871(m) to its structured product in the context of its other transactions.

Withholding on payments will be based on actual dividends or, if otherwise notified by the Issuer in accordance with applicable U.S. Treasury Regulations, on estimated dividends used in pricing a structured product. If a structured product provides for any payments in addition to estimated dividends to reflect dividends on an underlying, withholding will be based on total payments. If a structured product is subject to withholding under Section 871(m), information regarding the amount of each dividend equivalent and any other information necessary to apply the U.S. Treasury Regulations in respect of such structured product will be provided, communicated, or made available to holders of the structured product in a manner permitted by the applicable U.S. Treasury Regulations. Withholding tax may apply even where holders do not receive a concurrent payment on the structured product in respect of dividends on an underlying. U.S. tax will be withheld on any portion of a payment or deemed payment on the structured product treated as a dividend equivalent.

The relevant terms of a particular structured product may indicate if the Issuer has determined that such structured product is subject to withholding under Section 871(m). Although the Issuer's determination generally is binding on holders, it is not binding on the IRS. The IRS may successfully argue that a structured product is subject to withholding under Section 871(m), notwithstanding the Issuer's determination to the contrary. The U.S. Treasury Regulations under Section 871(m) are extremely complex. Holders should consult their tax advisors regarding the U.S. federal income tax consequences to them of Section 871(m) and the U.S. Treasury Regulations thereunder, and whether payments or deemed payments on any structured product constitutes dividend equivalent payments.

GENERAL INFORMATION

Who is responsible for this base listing document?

We accept full responsibility for the accuracy of the information contained in this base listing document.

We have included references to websites to guide you to sources of freely available information. The information on these websites does not form part of our listing document. We do not accept any responsibility for the information on those websites. Such information has not been prepared for the purposes of our structured products. You should conduct your own web searches and consult publicly available information to ensure that you are viewing the most up-to-date information.

This base listing document is accurate at the date stated on the cover. You must not assume, however, that information in this base listing document is accurate at any time after the date of this base listing document.

This document has not been reviewed by the Securities and Futures Commission. You are advised to exercise caution in relation to the offer of the structured products.

The liquidity provider is not responsible in any way for ensuring the accuracy of our listing documents.

Is there any guarantee or collateral for the structured products?

No. Our obligations under the structured products are neither guaranteed by any third party, nor collateralised with any of our assets or other collaterals. When you purchase our structured products, you are relying on our creditworthiness only, and of no other person. If we become insolvent or default on our obligations under the structured products, you can only claim as an unsecured creditor of the Issuer. In such event, you may not be able to recover all or even part of the amount due under the structured products (if any).

Are we regulated by the Hong Kong Monetary Authority referred to in rule 15A.13(2) or the Securities and Futures Commission referred to in rule 15A.13(3)?

We are a licensed bank regulated by the Hong Kong Monetary Authority, and a registered institution under the Securities and Futures Ordinance (Cap. 571) of Hong Kong to carry on type 1 (Dealing in Securities), type 2 (Dealing in Futures Contracts), type 4 (Advising on Securities), type 5 (Advising on Futures Contracts), type 6 (Advising on Corporate Finance) and type 9 (Asset Management) regulated activities.

What are our credit ratings?

Our long-term credit ratings are:

Rating agency	Rating as of the day immediately preceding the date of this base listing document
Moody's Investors Service, Inc. ("Moody's")	Aa3 (stable outlook)
S&P Global Ratings ("S&P")	AA- (stable outlook)

The long-term credit ratings are only an assessment by the credit rating agencies of the Issuer's overall financial capacity to pay its debts.

Aa3 is among the top three major credit rating categories and is the fourth highest investment-grade of the ten investment-grade credit ratings (including 1, 2 and 3 sub-grades) assigned by Moody's.

AA- is among the top three major credit rating categories and is the fourth highest investment-grade of the ten investment-grade credit ratings (including + or - sub-grades) assigned by S&P.

Please refer to Exhibit C to this base listing document for further information on credit ratings.

Rating agencies usually receive a fee from the companies that they rate. When evaluating our creditworthiness, you should not solely rely on our credit ratings because:

- (a) a credit rating is not a recommendation to buy, sell or hold our structured products;
- (b) ratings of companies may involve difficult-to-quantify factors such as market competition, the success or failure of new products and markets and managerial competence;
- (c) a high credit rating is not necessarily indicative of low risk. Our credit ratings as of the day immediately preceding the date of this document are for reference only. Any downgrading of our ratings could result in a reduction in the value of the structured products;
- (d) a credit rating is not an indication of the liquidity or volatility of the structured products; and
- (e) a credit rating may be downgraded if the credit quality of the Issuer declines.

Our structured products are not rated.

Our credit ratings are subject to change or withdrawal at any time within each rating agency's sole discretion. You should conduct your own research using publicly available sources to obtain the latest information with respect to our ratings from time to time.

Are we subject to any litigation?

We are a party to legal proceedings and regulatory matters in a number of jurisdictions arising out of our normal business operations. Except as set out in Exhibit A of this base listing document, we are not aware of any legal proceedings or claims of material importance pending or threatened against us which may have a significant effect on us.

Has our financial position changed since last financial year?

Except as set out in Exhibit A and Exhibit B of this base listing document, there has been no material adverse change in our financial or trading position or prospects or indebtedness since 31 December 2025.

If, after the date of this document, you receive this document or purchase any structured products issued pursuant to this document you should not assume that there have been no changes in our affairs or financial condition since the date of this document. You should ask us if we have published any addenda to this document or any subsequent base listing document relating to our programme. Any such addenda will be available for inspection in the manner described under the section headed "*Where can you find out information about us?*" below.

Who is authorised to give information or make representations?

No person has been authorised to give any information or make any representations other than those contained in this document and the applicable launch announcement and supplemental listing document. If any person gives any such information or makes any such representations you should not rely on them as having been authorised by us.

Who are our authorised representatives?

Our authorised representatives are Edward Li, c/o The Hongkong and Shanghai Banking Corporation Limited, Level 18, HSBC Main Building, 1 Queen's Road Central, Hong Kong, and Jolene Ho, c/o The Hongkong and Shanghai Banking Corporation Limited, Level 33, HSBC Main Building, 1 Queen's Road Central, Hong Kong.

Who makes determinations and calculations?

We will make any necessary determinations or calculations in respect of the structured products.

Where can you find out information about us?

You can find out more about us on the website of the group of companies to which we belong, which is *www.hsbc.com*.

The following documents are also available on the website of the HKEX at *www.hkexnews.hk* and our website which is presently at *https://www.warrants.hsbc.com.hk/en/warrant/latest-document-and-notice* during the period in which the structured products are listed on the stock exchange:

- (a) a copy of this document and any addendum to this document (both the English version and the Chinese translation);
- (b) a copy of our latest audited consolidated financial statements and any interim or quarterly financial statements; and
- (c) a copy of the consent letter from our auditor referred to in this document.

Please refer to the base listing document dated 1 April 2025 for the extract of the Annual Report and Accounts 2024 of the Issuer, including the auditor's report and the audited consolidated financial statements of the Issuer as at and for the year ended 31 December 2024.

Are there any experts/auditors involved?

Our auditor ("**Auditor**"), PricewaterhouseCoopers, has given and has not withdrawn its written consent to the inclusion of auditor's report dated 25 February 2026 on the consolidated financial statements of the Issuer as at and for the year ended 31 December 2025, and/or references to its name in this base listing document, in the form and context in which they are included. Its report was not prepared exclusively for incorporation into this base listing document. The Auditor does not own any of our shares or shares in any member of our group, nor does it have the right (whether legally enforceable or not) to subscribe for or to nominate persons to subscribe for our securities or securities in any member of our group.

Do the stock exchange and the Securities and Futures Commission charge any fees?

For each transaction effected on the stock exchange, the following trading fees and levies calculated on the value of the consideration for the relevant structured products will be payable by each of the seller and the buyer:

- (a) a trading fee of 0.00565 per cent. charged by the stock exchange;
- (b) a transaction levy of 0.0027 per cent. charged by the Securities and Futures Commission; and
- (c) a transaction levy of 0.00015 per cent. charged by the Accounting and Financial Reporting Council.

The levy for the investor compensation fund is currently suspended.

Under the terms and conditions of the structured products, you are required to pay all charges or expenses which are incurred or withheld in respect of the exercise of the structured products.

Your broker may charge commission or other fees. You should check with your broker what fees will be chargeable.

You should be aware that you may be required to pay taxes including stamp taxes or other documentary charges in accordance with the laws and practices of the country or territory where the structured products are transferred, or where the issuer of the underlying asset is organised or resident. Please refer to the section headed "Taxation" for further information. If you are in any doubt as to your tax position, you should consult your own independent tax advisers. You should also be aware that tax regulations and their application by the relevant taxation authorities may change from time to time.

How are the structured products transferred and settled?

Settlement of transactions between members of the stock exchange on any business day must take place on or before the second business day thereafter. Securities executed

on the stock exchange would normally be settled under the continuous net settlement system in CCASS.

Dealings in the structured products will take place in relevant board lots in the relevant settlement currency. For further details on transfers of structured products and their exercise, termination pursuant to mandatory call event or settlement, you should refer to the terms and conditions of the relevant issue of structured products.

Waiver from compliance with the rules

We have applied for, and the stock exchange has granted, a waiver from compliance with rule 15A.24A of the rules in respect of securities promotional campaigns (the “**Incentive**”) offered by our Retail Banking and Wealth Division for the period from 1 January 2026 to 31 December 2026 (the “**Waiver**”).

The Incentive is applicable equally under the same terms to all listed securities regardless of product type or issuer. Any incentives given by our Retail Banking and Wealth Division will not be recovered (directly or indirectly) from our Global Banking and Markets Division which operates the structured products business.

The Waiver is granted subject to the following conditions:

- (a) the inclusion of a risk factor in supplemental listing documents and a reminder to investors in all marketing materials of the Incentive. The risk factor and the reminder to investors should contain the following:
 - (i) a statement to the effect that the Incentive is offered as part of the ordinary course of business of our securities business; and
 - (ii) a reminder to investors to the effect that they should focus their assessment on product features of the structured products and assess the risks against their investment objectives before making investment decisions, without regard to the benefit of the Incentive.

- (b) the disclosure of details of the Waiver granted in this document and/or the supplemental listing documents.

Please refer to the risk factor headed “We and/or members of our group (acting as a dealer) may offer commission rebates or other incentives” on page 24 of this document and the relevant supplemental listing documents for further details.

EXHIBIT A

THE EXTRACT OF THE ANNUAL REPORT AND ACCOUNTS INCLUDING THE AUDITED CONSOLIDATED FINANCIAL STATEMENTS OF THE ISSUER AS AT AND FOR THE YEAR ENDED 31 DECEMBER 2025

The information in this Exhibit A has been extracted from the Annual Report and Accounts 2025 of the Issuer. References to page numbers (i.e. the numeric page numbers as referred to within this Exhibit A and the numeric page numbers which appear on the bottom of the pages of this base listing document) in this Exhibit A are to the page numbers of the Annual Report and Accounts 2025. The extracts set out in this Exhibit A are not complete and reference should be made to the Annual Report and Accounts 2025 which is available on our website which is presently at <https://www.hsbc.com/investors/results-and-announcements>.

References in this Exhibit A to “**HSBC**”, “**HSBC Group**” or “**the Group**” are to HSBC Holdings plc and its subsidiaries and references in this Exhibit A to “**the Bank**” are to The Hongkong and Shanghai Banking Corporation Limited and “**the group**” are to The Hongkong and Shanghai Banking Corporation Limited and its subsidiaries.

Independent Auditor's Report

To the Shareholder of The Hongkong and Shanghai Banking Corporation Limited (incorporated in Hong Kong with limited liability)

Opinion

What we have audited

The consolidated financial statements of The Hongkong and Shanghai Banking Corporation Limited (the 'Bank') and its subsidiaries (the 'group'), which are set out on pages 64 to 126, 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 notes¹ to the consolidated financial statements, comprising material accounting policies and other explanatory information.

1 Certain required disclosures as described in Note 1.1(d) on the consolidated financial statements have been presented elsewhere in the Annual Report and Accounts 2025, rather than in the notes to the consolidated financial statements. These are cross-referenced from the consolidated financial statements and 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 Certain defined terms, Cautionary statement regarding forward-looking statements, Financial Highlights, Report of the Directors (excluding the list of the directors of the Bank's subsidiary undertakings during the period from 1 January 2025 to 25 February 2026), Task Force on Climate-related Financial Disclosures, Financial Review, Risk Review (excluding the Banking Disclosure Statement at 31 December 2025) and Additional Information sections of the Annual Report and Accounts 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 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.

Independent Auditor's Report

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 HKSA's 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.

As part of an audit in accordance with HKSA's, 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 Yip Siu Foon Linda (practising certificate number: P04851).

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 25 February 2026

Consolidated Financial Statements

Consolidated income statement

for the year ended 31 December

	Notes	2025 HK\$m	2024 HK\$m
Net interest income	2a	128,403	117,637
– interest income		285,202	315,868
– interest expense		(156,799)	(198,231)
Net fee income	2b	50,551	42,517
– fee income		65,641	56,219
– fee expense		(15,090)	(13,702)
Net income from financial instruments held for trading or managed on a fair value basis	2c	85,054	91,930
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	2c	76,017	36,024
Insurance finance expense		(75,650)	(35,663)
Insurance service result	3	11,998	8,131
– Insurance revenue		20,886	16,533
– Insurance service expense		(8,888)	(8,402)
Other operating income/(expense) ¹	2d	(1,622)	5,119
Net operating income before change in expected credit losses and other credit impairment charges		274,751	265,695
Change in expected credit losses and other credit impairment charges	2e	(12,752)	(11,946)
Net operating income		261,999	253,749
Employee compensation and benefits	4	(41,562)	(40,028)
General and administrative expenses	2f	(62,208)	(57,967)
Depreciation and impairment of property, plant and equipment	2g	(7,181)	(10,925)
Amortisation and impairment of intangible assets		(9,929)	(8,672)
Total operating expenses		(120,880)	(117,592)
Operating profit		141,119	136,157
Share of profit in associates and joint ventures	14	16,761	17,775
Impairment of interest in associate ¹	14	(8,270)	—
Profit before tax		149,610	153,932
Tax expense	5	(25,493)	(24,681)
Profit for the year		124,117	129,251
Attributable to:			
– ordinary shareholders of the parent company		112,982	118,787
– other equity holders		5,304	3,576
– non-controlling interests		5,831	6,888
Profit for the year		124,117	129,251

1 The amount in 'Other operating income/(expense)' includes a loss of HK\$8,955m inclusive of reserves recycling, recorded in 2025 as a result of the dilution of our shareholding in BoCom. We have also recognised a HK\$8,270m impairment loss following an impairment test on the carrying amount of the group's investment in BoCom in 'Impairment of interest in associate'. Further details are set out in Note 14 'Interests in associates and joint ventures'.

Consolidated Financial Statements

Consolidated statement of comprehensive income for the year ended 31 December

	2025 HK\$m	2024 HK\$m
Profit for the year	124,117	129,251
Other comprehensive income/(expense)		
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income	8,443	(183)
– fair value gains	10,571	173
– fair value gains transferred to the income statement	(458)	(52)
– expected credit (recoveries)/losses recognised in the income statement	(31)	49
– income taxes	(1,639)	(353)
Cash flow hedges	4,445	(1,156)
– fair value (losses)/gains	(1,334)	15,398
– fair value losses/(gains) reclassified to the income statement	6,668	(16,764)
– income taxes	(889)	210
Share of other comprehensive income of associates and joint ventures	(225)	2,978
– other comprehensive income reclassified to the income statement on disposal or dilution of foreign operations	(439)	—
– share for the year	214	2,978
Exchange differences	18,540	(18,086)
– foreign exchange losses reclassified to income statement on disposal or dilution of foreign operations	1,539	—
– other exchange differences	17,001	(18,086)
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	(1,845)	(203)
– fair value losses	(2,252)	(271)
– income taxes	407	68
Equity instruments designated at fair value through other comprehensive income	604	790
– fair value gains	811	974
– income taxes	(207)	(184)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	(1,235)	(2,365)
– before income taxes	(1,485)	(2,831)
– income taxes	250	466
Remeasurement of defined benefit asset/liability	170	685
– before income taxes	194	812
– income taxes	(24)	(127)
Other comprehensive income/(expense) for the year, net of tax	28,897	(17,540)
Total comprehensive income for the year	153,014	111,711
Attributable to:		
– ordinary shareholders of the parent company	140,921	101,367
– other equity holders	5,304	3,576
– non-controlling interests	6,789	6,768
Total comprehensive income for the year	153,014	111,711

Consolidated Financial Statements

Consolidated balance sheet at 31 December

Notes	31 Dec 2025 HK\$m	31 Dec 2024 HK\$m
Assets		
Cash and balances at central banks	204,345	211,047
Hong Kong Government certificates of indebtedness	342,994	328,454
Trading assets	7 1,223,430	1,085,321
Derivatives	8 398,946	505,260
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	9 924,722	781,210
Reverse repurchase agreements – non-trading	885,669	816,102
Loans and advances to banks	516,658	480,740
Loans and advances to customers	10 3,641,752	3,494,298
Financial investments	11 2,537,975	2,337,844
Amounts due from Group companies	31 192,443	175,004
Interests in associates and joint ventures	14 178,839	178,330
Goodwill and intangible assets	15 42,638	41,308
Property, plant and equipment	16 116,262	120,774
Deferred tax assets	5 17,803	10,307
Prepayments, accrued income and other assets	17 458,755	382,941
Total assets	11,683,231	10,948,940
Liabilities		
Hong Kong currency notes in circulation	342,994	328,454
Repurchase agreements – non-trading	622,751	624,784
Deposits by banks	232,930	183,612
Customer accounts	18 7,097,003	6,564,606
Trading liabilities	19 88,404	86,557
Derivatives	8 418,974	473,488
Financial liabilities designated at fair value	20 195,199	178,739
Debt securities in issue	21 47,020	64,362
Retirement benefit liabilities	4 811	805
Amounts due to Group companies	31 387,744	396,356
Accruals and deferred income, other liabilities and provisions	22 320,213	339,713
Insurance contract liabilities	3 943,838	799,443
Current tax liabilities	16,670	7,096
Deferred tax liabilities	5 24,509	22,917
Total liabilities	10,739,060	10,070,932
Equity		
Share capital	23 180,181	180,181
Other equity instruments	24 79,158	64,677
Other reserves	136,194	102,993
Retained earnings	489,040	471,198
Total shareholders' equity	884,573	819,049
Non-controlling interests	59,598	58,959
Total equity	944,171	878,008
Total liabilities and equity	11,683,231	10,948,940

Consolidated Financial Statements

Consolidated statement of changes in equity

for the year ended 31 December

	Other reserves								Total share- holders' equity HK\$m	Non- controlling interests HK\$m	Total equity HK\$m
	Share capital ¹ HK\$m	Other equity instruments HK\$m	Retained earnings HK\$m	Property revaluation reserve HK\$m	Financial assets at FVOCI reserve HK\$m	Cash flow hedge reserve HK\$m	Foreign exchange reserve HK\$m	Other ⁴ HK\$m			
At 1 Jan 2025	180,181	64,677	471,198	61,204	424	710	(65,392)	106,047	819,049	58,959	878,008
Profit for the year	—	—	118,286	—	—	—	—	—	118,286	5,831	124,117
Other comprehensive income/(expense) (net of tax)	—	—	(1,077)	(1,642)	9,098	3,887	17,648	25	27,939	958	28,897
– debt instruments at fair value through other comprehensive income	—	—	—	—	8,266	—	—	—	8,266	177	8,443
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	497	—	—	—	497	107	604
– cash flow hedges	—	—	—	—	—	3,875	—	—	3,875	570	4,445
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(1,232)	—	—	—	—	—	(1,232)	(3)	(1,235)
– property revaluation	—	—	—	(1,642)	—	—	—	—	(1,642)	(203)	(1,845)
– remeasurement of defined benefit asset/liability	—	—	127	—	—	—	—	—	127	43	170
– share of other comprehensive income of associates and joint ventures	—	—	28	—	161	—	—	25	214	—	214
– other comprehensive income reclassified to the income statement on disposal or dilution of foreign operations	—	—	—	—	(439)	—	—	—	(439)	—	(439)
– foreign exchange losses reclassified to income statement on disposal or dilution of foreign operations	—	—	—	—	—	—	1,539	—	1,539	—	1,539
– exchange differences	—	—	—	—	613	12	16,109	—	16,734	267	17,001
Total comprehensive income/(expense) for the year	—	—	117,209	(1,642)	9,098	3,887	17,648	25	146,225	6,789	153,014
Other equity instruments issued ²	—	31,686	—	—	—	—	—	—	31,686	—	31,686
Other equity instruments redeemed ³	—	(17,205)	—	—	—	—	—	—	(17,205)	—	(17,205)
Dividends to shareholders ⁵	—	—	(94,104)	—	—	—	—	—	(94,104)	(4,906)	(99,010)
Movement in respect of share-based payment arrangements	—	—	(408)	—	—	—	—	(529)	(937)	13	(924)
Transfers and other movements ⁶	—	—	(4,855)	(1,776)	131	(19)	—	6,378	(141)	(1,257)	(1,398)
At 31 Dec 2025	180,181	79,158	489,040	57,786	9,653	4,578	(47,744)	111,921	884,573	59,598	944,171

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Consolidated statement of changes in equity (continued)

for the year ended 31 December

	Other reserves								Total share-holders' equity	Non-controlling interests	Total equity
	Share capital ¹	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ⁴			
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m			
At 1 Jan 2024	180,181	52,465	462,866	65,279	(2,546)	1,851	(47,899)	100,529	812,726	59,860	872,586
Profit for the year	—	—	122,363	—	—	—	—	—	122,363	6,888	129,251
Other comprehensive income/(expense) (net of tax)	—	—	(1,796)	23	2,962	(1,140)	(17,493)	24	(17,420)	(120)	(17,540)
– debt instruments at fair value through other comprehensive income	—	—	—	—	(289)	—	—	—	(289)	106	(183)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	605	—	—	—	605	185	790
– cash flow hedges	—	—	—	—	—	(1,136)	—	—	(1,136)	(20)	(1,156)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(2,364)	—	—	—	—	—	(2,364)	(1)	(2,365)
– property revaluation	—	—	—	23	—	—	—	—	23	(226)	(203)
– remeasurement of defined benefit asset/liability	—	—	561	—	—	—	—	—	561	124	685
– share of other comprehensive income of associates and joint ventures	—	—	7	—	2,947	—	—	24	2,978	—	2,978
– other comprehensive income reclassified to the income statement on disposal or dilution of foreign operations	—	—	—	—	—	—	—	—	—	—	—
– foreign exchange losses reclassified to income statement on disposal or dilution of foreign operations	—	—	—	—	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	(301)	(4)	(17,493)	—	(17,798)	(288)	(18,086)
Total comprehensive income/(expense) for the year	—	—	120,567	23	2,962	(1,140)	(17,493)	24	104,943	6,768	111,711
Other equity instruments issued ²	—	27,873	—	—	—	—	—	—	27,873	—	27,873
Other equity instruments redeemed ³	—	(15,661)	—	—	—	—	—	—	(15,661)	—	(15,661)
Dividends to shareholders ⁵	—	—	(109,776)	—	—	—	—	—	(109,776)	(4,844)	(114,620)
Movement in respect of share-based payment arrangements	—	—	(212)	—	—	—	—	(252)	(464)	10	(454)
Transfers and other movements ⁶	—	—	(2,247)	(4,098)	8	(1)	—	5,746	(592)	(2,835)	(3,427)
At 31 Dec 2024	180,181	64,677	471,198	61,204	424	710	(65,392)	106,047	819,049	58,959	878,008

1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years.

2 During 2025, additional tier 1 capital instruments amounting to US\$3,500m were issued with an issuance cost of US\$35m and an additional tier 1 capital instrument amounting to SG\$800m was issued with an issuance cost of SG\$8m.

During 2024, additional tier 1 capital instruments amounting to SG\$1,500m were issued with an issuance cost of SG\$15m and an additional tier 1 capital instrument amounting to US\$2,500m was issued with an issuance cost of US\$25m.

3 During 2025, an additional tier 1 capital instrument was redeemed at par (US\$2,200m).

During 2024, an additional tier 1 capital instrument was redeemed at par (US\$2,000m).

4 The other reserves mainly comprise share of associates' other reserves, purchase premium arising from transfer of business from fellow subsidiaries, property revaluation reserve relating to transfer of properties to a fellow subsidiary and the share-based payment reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.

5 Including distributions paid on perpetual subordinated loans classified as equity under HKFRS.

6 The movements between retained earnings and other reserves include the relevant transfers to other reserves according to local regulatory requirements and transfers on dilution of interest in foreign operations. The transfer from the property revaluation reserve to retained earnings represents depreciation of revalued properties.

Consolidated Financial Statements

Consolidated statement of cash flows

for the year ended 31 December

	2025	2024
	HK\$m	HK\$m
Profit before tax	149,610	153,932
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	17,110	19,597
Net loss from investing activities ¹	9,699	1,022
Share of profit in associates and joint ventures	(16,761)	(17,775)
Impairment of interest in associate ²	8,270	—
Change in expected credit losses gross of recoveries and other credit impairment charges	13,862	12,803
Provisions	832	584
Share-based payment expense	1,187	968
Other non-cash items included in profit before tax	(26,182)	(32,152)
Elimination of exchange differences	(40,690)	44,740
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	(84,462)	(233,299)
Change in loans and advances to banks and customers	(173,393)	74,347
Change in reverse repurchase agreements – non-trading	(50,313)	(32,957)
Change in financial assets designated and otherwise mandatorily measured at fair value through profit or loss	(144,072)	(77,256)
Change in other assets	(62,849)	(32,822)
Change in deposits by banks and customer accounts	581,715	302,457
Change in repurchase agreements – non-trading	(2,033)	102,800
Change in debt securities in issue	(17,342)	(23,383)
Change in financial liabilities designated at fair value	16,460	8,011
Change in other liabilities	117,158	62,226
Dividends received from associates	5,930	5,930
Contributions paid to defined benefit plans	(247)	(332)
Tax paid	(22,898)	(34,908)
Net cash from operating activities	280,591	304,533
Purchase of financial investments	(2,644,600)	(2,883,041)
Proceeds from the sale and maturity of financial investments	2,606,989	2,569,243
Purchase of property, plant and equipment	(2,332)	(2,077)
Proceeds from sale of property, plant and equipment and assets held for sale	68	37
Net investment in intangible assets	(11,325)	(10,765)
Net cash (outflow)/inflow from increases in interest in associate and joint venture and purchase of business	(155)	4,821
Net cash inflow/(outflow) from disposal of businesses, associate and joint venture	192	(1,750)
Net cash outflow on purchase of subsidiaries	—	(345)
Net cash from investing activities	(51,163)	(323,877)
Issue of other equity instruments	31,686	27,873
Redemption of other equity instruments	(17,205)	(15,661)
Net cash outflow from change in stake of subsidiary	(1,196)	(3,006)
Subordinated loan capital issued ³	47,471	4,398
Subordinated loan capital repaid ³	(41,581)	(9,733)
Dividends paid to shareholders of the parent company and non-controlling interests	(99,010)	(114,620)
Net cash from financing activities	(79,835)	(110,749)
Net increase/(decrease) in cash and cash equivalents	149,593	(130,093)
Cash and cash equivalents at 1 Jan	823,249	996,638
Exchange differences in respect of cash and cash equivalents	27,200	(43,296)
Cash and cash equivalents at 31 Dec⁴	1,000,042	823,249
Cash and cash equivalents comprise		
– cash and balances at central banks	204,345	211,047
– loans and advances to banks of one month or less	324,056	295,345
– net settlement accounts, cash collateral and items in course of collection from/transmission to other banks	56,571	(3,901)
– reverse repurchase agreements with banks of one month or less	190,642	166,961
– treasury bills, other bills and certificates of deposit less than three months	224,326	153,797
– cash and cash equivalents held for sale	102	—
Cash and cash equivalents at 31 Dec⁴	1,000,042	823,249

Interest received was HK\$295,414m (2024: HK\$323,758m), interest paid was HK\$169,533m (2024: HK\$211,163m) and dividends received were HK\$11,419m (2024: HK\$11,232m).

- Amount in 2025 includes a loss of HK\$8,955 inclusive of reserves recycling as a result of the dilution of our shareholding in BoCom.
- Amount in 2025 includes a HK\$8,270m impairment loss following an impairment test on the carrying amount of the group's investment in BoCom.
- Changes in subordinated loan capital (including those issued to Group companies) during the year included amounts from issuance and repayments as presented above, and non-cash changes from foreign exchange loss of HK\$3,455m in 2025 (2024: exchange gain of HK\$2,466m) and fair value loss after hedging of HK\$6,093m in 2025 (2024: HK\$1,105m gain). These balances are presented under 'Amounts due to Group companies' in the consolidated balance sheet.
- At 31 December 2025, HK\$263,929m (2024: HK\$137,500m) was not available for use by the group due to a range of restrictions, including currency exchange and other restrictions. This includes HK\$74,771m (2024: Nil) segregated for Hang Seng Bank Limited privatisation funding purpose. Refer Note 39 for more details.

Notes on the Consolidated Financial Statements

1 Basis of preparation and material accounting policies

1.1 Basis of preparation

(a) Compliance with HKFRS Accounting Standards

The consolidated financial statements of The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group') have been prepared in accordance with HKFRS Accounting Standards ('HKFRSs') as issued by the Hong Kong Institute of Certified Public Accountants ('HKICPA') and accounting principles generally accepted in Hong Kong. These consolidated financial statements also comply with the requirements of the Hong Kong Companies Ordinance (Cap. 622) which are applicable to the preparation of the financial statements.

Standards adopted during the year ended 31 December 2025

There were no new standards, amendments to standards or interpretations that had an effect on these financial statements.

(b) Future accounting developments

Minor amendments to HKFRS

The HKICPA has published minor amendments to HKFRSs that are effective from 1 January 2026. The group expects they will have an insignificant effect, when adopted, on the consolidated financial statements.

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 clarification regarding the classification of financial assets that contain contractual terms that change the timing or 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 an entity's financial performance. It will replace HKAS 1 'Presentation of Financial Statements' but carries over many requirements from that 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 and to a lesser extent the cash flow statement. The group is currently evaluating the impacts and ensuring data readiness is adequate in anticipation of implementation.

(c) Foreign currencies

Items included in each of the group's entities are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The group's consolidated financial statements are presented in Hong Kong dollars.

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost which are translated using the rate of exchange at the initial transaction date. Exchange differences are recognised in the income statement except where otherwise required such as exchange components of gains and losses on non-monetary items which are recognised in the income statement or other comprehensive income ('OCI') depending on where the gain or loss on the underlying item is presented.

In the consolidated financial statements, the assets and liabilities of foreign operations whose functional currency is not Hong Kong dollars are translated into the group's presentation currency at the rate of exchange at the balance sheet date, while their results are translated into Hong Kong dollars at the average rates of exchange for the reporting period. Exchange differences arising are recognised in OCI. On disposal of a foreign operation, exchange differences previously recognised in OCI are reclassified to the income statement.

(d) Presentation of information

Certain disclosures have been presented elsewhere in this Annual Report and Accounts, rather than in the notes to the financial statements. These are market as ('Audited') as follows:

- Consolidated income statement and balance sheet data by reportable segments are included in the 'Financial Review' on page 15 as specified as 'Audited'.
- Disclosures concerning the nature and extent of risks relating to banking and insurance activities are included in the 'Risk Review' section on pages 24 to 52 and pages 57 to 61 as specified as 'Audited'.
- Capital disclosures are included in the 'Treasury Risk' section on pages 46 to 50 as specified as 'Audited'.

In accordance with the group's policy to provide disclosures that help stakeholders understand the group's performance, financial position and changes to them, the information provided in the Risk section goes beyond the minimum levels required by accounting standards, statutory and regulatory requirements. In addition, the group assesses good practice recommendations issued from time to time by relevant regulators and standard setters and will assess the applicability and relevance of such guidance, enhancing disclosures where appropriate.

Notes on the Consolidated Financial Statements

(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 1.2 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 purposes of the consolidated financial statements. Management's selection of the group's accounting policies that 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. In particular, management has considered the known and observable potential impacts of climate-related risks of associated judgements and estimates in our value in use ('VIU') calculations.

(f) Going concern

The consolidated financial statements are prepared on a going concern basis, as the Directors are satisfied that the group has the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows, capital requirements and capital resources.

These considerations include stressed scenarios that reflect the uncertainty in the macroeconomic environment following disrupted supply chains, slower economic activity and ongoing geopolitical tensions. They also considered other top and emerging risks, including climate change, as well as the related impacts on profitability, capital and liquidity.

1.2 Summary of material accounting policies

(a) Consolidation and related policies

Consolidation

The group consolidates entities that it controls as demonstrated by power over the investee, exposure to variable returns, and the ability to use its power to affect the amount of its returns. Where an entity is governed by voting rights, the group has power leading to control 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 contractual arrangements.

Business combinations are accounted for using the acquisition method. The amount of non-controlling interest is measured either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets. This election is made for each business combination.

Investments in subsidiaries

The Bank's investments in subsidiaries are stated at cost less impairment losses.

Interests in associates

The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint arrangements, as associates.

Investments in associates are recognised using the equity method. The attributable share of net assets, the results and reserves of associates is included in the consolidated financial statements of the group based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date the financial statements are available and 31 December.

Investments in associates are 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. Goodwill on acquisitions of interests in associates is not tested separately for impairment, but is assessed as part of the carrying amount of the investment. Previously recognised impairments are assessed for reversal when there are indicators that they may no longer exist or have decreased. Any reversal, which may arise only from changes in estimates used to determine the prior impairment loss, is recognised to the extent that it does not increase the carrying amount above that had no impairment loss been previously recognised.

Critical estimates and judgements

The most significant critical estimates relate to the assessment of impairment or its reversal of our investment in Bank of Communications Co., Limited ('BoCom'), which involves estimations of value in use.

Judgements	Estimates
	<ul style="list-style-type: none">The value in use calculation uses discounted cash flow projections based on management's best estimate of future earnings available to ordinary shareholders prepared in accordance with HKAS 36 'Impairment of Assets'. Those cash flows use estimates based on BoCom's current condition and so do not include estimated cash flows arising from uncommitted future actions that may affect the performance of the investment which will be considered at the relevant time should they arise.Key assumptions are used in estimating BoCom's value in use and the sensitivity of the value in use calculations to different assumptions are described in Note 14.

(b) Impairment of goodwill and other non-financial assets

Goodwill

Goodwill is allocated to cash-generating units ('CGU') 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 once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with its carrying amount.

Notes on the Consolidated Financial Statements

Other non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets such as property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities and branches divided by business segments, except for Hong Kong business which is further subdivided by Commercial Banking and Retail Banking and Wealth.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying amount of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU, which is determined by independent and qualified valuers where relevant, and the value in use, which is calculated based on appropriate inputs.

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment losses recognised in prior periods for non-financial assets are reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

(c) Net operating income

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.

Interest on credit-impaired financial assets is recognised by applying the effective interest rate to the amortised cost (i.e. gross carrying amount of the asset less allowance for expected credit losses ('ECL')).

Non-interest income and expense

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. Where fees are variable, such as certain fund management and performance fees, such variable fees are recognised when the associated uncertainties are resolved and to the extent that it is highly probable that a significant reversal will not occur. 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 brokerage trades where the group acts as an agent in the transaction it 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.

Dividend income is recognised when the right to receive payment is established.

Gains and losses from financial instruments measured as at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This comprises net trading activities, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, interest expense and dividend income, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. It also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss': This includes all gains and losses from changes in the fair value, together with related interest income, interest expense and dividend income in respect of financial assets and liabilities measured at fair value through profit or loss, and those derivatives managed in conjunction with the above that can be separately identifiable from other trading derivatives.
- Other gains and losses from financial instruments measured as at fair value through profit or loss include changes in the fair value of designated debt instruments under the fair value option and related derivatives where such designation reduces an accounting mismatch. Interest on such debt instruments and interest cash flows on related derivatives is presented in interest expense. Also included are the changes in fair value of other financial instruments mandatorily measured as at fair value through profit or loss which includes interest on instruments that fail the solely payments of principal and interest ('SPPI') test. See (e) below.

Insurance income and expense

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.

Notes on the Consolidated Financial Statements

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 contracts using the variable fee approach measurement model ('VFA'), changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

(d) Valuation of financial instruments

All financial instruments are initially recognised 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 and 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, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the group recognises the difference as a trading gain or loss at inception ('a day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the income statement over the life of the transaction until the transaction matures, is closed out, the valuation inputs become observable or 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 fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the consolidated financial statements, unless they satisfy the HKFRSs offsetting criteria. Financial instruments are classified into one of three fair value hierarchy levels, described in Note 32 'Fair values of financial instruments carried at fair value'.

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.

Judgements	Estimates
<ul style="list-style-type: none">- An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, 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).	<ul style="list-style-type: none">- Details on the group's level 3 financial instruments and the sensitivity of their valuation to the effect of applying reasonably possible alternative assumptions in determining their fair value are set out in Note 32.

(e) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The group accounts for regular way amortised cost financial instruments using trade date accounting. The carrying amount of these financial assets at initial recognition includes any directly attributable transactions costs.

The group may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be sold shortly after origination, the commitment to lend is recorded as a derivative. When the group intends to hold the loan, the loan commitment is not recognised but is subject to expected credit loss considerations.

Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price ('repos'), they remain on the balance sheet and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell ('reverse repos') are not recognised on the balance sheet and an asset is recorded in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price, or between the purchase and resale price, is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repo or repo agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repo or repo agreements.

(f) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets managed within a business model that is achieved by both collecting contractual cash flows and selling and which 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 generally 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 OCI until the assets are sold. Upon disposal, the cumulative gains or losses in OCI are recognised in the income statement. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in the income statement.

(g) Equity securities measured at fair value with fair value movements presented in OCI

The equity securities for which fair value movements are shown in OCI are 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 the income statement. Gains or losses on the derecognition of these equity securities are not transferred to the income statement. Otherwise, equity securities are measured at fair value through profit or loss.

Notes on the Consolidated Financial Statements

(h) Financial instruments designated at fair value through profit or loss

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.
- 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.
- A financial liability that contains 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, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement except for the effect of changes in the liabilities' credit risk which is presented in OCI, unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criteria, the main classes of financial instruments designated 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 subsidiaries are determined based on the fair value of the assets held in the linked funds or by a valuation method. The related financial assets and liabilities are managed and reported to management on a fair value basis. Designation at fair value of the financial assets and related liabilities 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 a fair value basis.

(i) Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items 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. This includes embedded derivatives in financial liabilities which are bifurcated from the host contract when they meet the definition of a derivative on a stand-alone basis.

Where the derivatives are managed with debt securities issued by the group that are designated at fair value where doing so reduces an accounting mismatch, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The group uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges, cash flow hedges or hedges of net investments in foreign operations as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item for which the effective interest rate method is used is amortised to the income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in OCI and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the income statement. The accumulated gains and losses recognised in OCI are reclassified to the income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in OCI remains in equity until the forecast transaction is recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in OCI is immediately reclassified to the income statement.

Net investment hedge

Hedges of net investments in foreign operations are accounted for in a similar way to cash flow hedges. The effective portion of gains and losses on the hedging instrument is recognised in OCI and other gains and losses are recognised immediately in the income statement. Gains and losses previously recognised in OCI are reclassified to the income statement on the disposal, or part-disposal, of the foreign operation.

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(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 FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is recognised for ECL resulting from possible 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, an allowance (or provision) is recognised 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, and so 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.

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') is recognised for financial instruments that remain in stage 1.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition 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 compares the risk of default occurring at the reporting date compared with that at initial recognition, 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 and 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 CRRs 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 the 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

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 PDs and through-the-cycle migration probabilities, consistent with the instrument's underlying modelling approach and the CRR at origination.

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 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 25.

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 include 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.

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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 past due for more than 90 days, 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 unlikelihood 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 (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 security. 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 forbore and classified as either performing or non-performing when the group modifies the contractual terms due to financial difficulty of the borrower. Non-performing forbore loans are stage 3 and classified as non-performing until they meet the curing 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.

The group applies the EBA Guidelines on the application of definition of default for our retail portfolios, which affect credit risk policies and our reporting in respect of the status of loans as credit impaired principally due to forbearance (or curing thereof). Further details are provided under 'Forborne loans and advances' on page 25.

Performing forbore loans are initially stage 2 and remain classified as forbore until they meet applicable curing 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).

A forbore 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 forbore 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 forbore.

Loan modifications other than forbore loans

Loan modifications that are not identified as forbore are considered to be commercial restructurings. 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 restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument. Mandatory and general offer loan modifications that are not borrower specific, for example market-wide customer relief programmes, generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

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 new financial instruments recognised in most cases following the derecognition of forbore loans. The amount of change in lifetime ECL for a POCI loan is recognised in profit or loss until the POCI loan is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

Movement between stages

Financial assets can be transferred between the different categories (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 forbore 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 takes 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, a 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.

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The group makes use of the regulatory internal ratings-based ('IRB') framework where possible, with recalibration to meet the differing HKFRS 9 requirements as set out in the following table:

Model	Regulatory capital	HKFRS 9
PD	<ul style="list-style-type: none"> Represents long-run average PD throughout a full economic cycle (for mortgage portfolios a hybrid approach, which sits between the extremes of point in time and through the cycle, is used for calculating long-run averages as required by the PRA). Default backstop of 90+ days past due for all portfolios (includes unlikely to pay (UTP) criteria in line with internal policy). May be subject to a sovereign cap. 	<ul style="list-style-type: none"> Represents current portfolio quality and performance, adjusted for the impact of multiple forward-looking macro-economic scenarios. Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy).
EAD	<ul style="list-style-type: none"> Cannot be lower than current balance. 	<ul style="list-style-type: none"> Amortisation captured for term products. Future drawdown captured for revolving products.
LGD	<ul style="list-style-type: none"> Downturn LGD (consistent with losses we would expect to suffer during a severe but plausible economic downturn). Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. Discounted using appropriate index (minimum 9%). All collection costs included. 	<ul style="list-style-type: none"> LGD based on recent portfolio performance data and includes the expected impact of future economic conditions such as change in the value of collateral. No floors applied, discounted using the original effective interest rate. Only costs associated with selling collateral and certain third party costs are included.
Other		<ul style="list-style-type: none"> 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 primarily on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on estimates as of 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 the original effective interest rate. For significant cases, cash flows under up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by the group and judgement in relation to the likelihood of the work-out strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most 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.

Period over which ECL is measured

ECL 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. 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 overdrafts and credit cards, where the period is the average time taken to realise the material losses for an account, determined on a portfolio basis. 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 is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Forward-looking economic inputs

The group applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit losses in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate. The detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' on pages 29 to 33.

Critical estimates and judgements

The calculation of the group's ECL under HKFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
<ul style="list-style-type: none"> Defining what is considered to be a significant increase in credit risk. Determining the lifetime and point of initial recognition of overdrafts and credit cards. 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 credit 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. 	<ul style="list-style-type: none"> The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' marked as audited from pages 29 to 33, 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.

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(k) Insurance contracts

A contract is classified as an insurance contract where the group accepts significant insurance risk from another party by agreeing to compensate that party if it is adversely affected by a specified uncertain future event. 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. Each portfolio is further separated by the contract's expected profitability. 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 contracts the group issues after the transition date being grouped into calendar quarter cohorts. For multi-currency groups of contracts, the group considers its groups of contracts as being denominated in a single currency.

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 contractual service margin ('CSM') representing the 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 following:

Best estimates of future cash flows

The 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 a range of scenarios and assumptions in an unbiased way 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.

Adjustment for the time value of money and financial risks associated with the future cash flows

The estimates of future cash flows are adjusted to reflect the time value of money (i.e. discounting) 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.

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 that arises from non-financial risk.

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 the insurance service result.

Measurement models

The variable fee approach ('VFA') measurement model is used for most of the contracts issued by the group, which is mandatory upon meeting the following eligibility criteria at inception:

- the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
- 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
- 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-weighted 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 when the group of contracts is profitable. The CSM is adjusted at each subsequent reporting period for changes in fulfilment cash flows relating to future service (e.g. changes in non-economic 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. 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 mitigating instruments are primarily reinsurance contracts held.

For groups of contracts using the GMM, changes in economic experience and economic assumption do not adjust the CSM, but are recognised in profit or loss as they arise.

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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.

The group identifies the quantity of the benefits provided as follows:

- Insurance coverage: This is 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 value or surrender value.
- Investment services (including both investment-return service and investment-related service): This is 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.

Critical estimates and judgements

The measurement of insurance contract liabilities under HKFRS 17 involves significant judgements that are set out below:

Judgements

Estimates

- The VFA measurement model is used for most of the contracts issued by the group. In applying the VFA eligibility criteria as described above under the accounting policies for insurance contracts, the group determined that for criterion (b) a substantial share is a majority of the returns, and for criterion (c) a substantial proportion is a majority proportion of the change on a present value probability-weighted 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.

(l) Property

Land and buildings

Land and buildings held for own use are carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluations are performed by professional qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. 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 the 'Property revaluation reserve'. Deficits arising on revaluation are first set off against any previous revaluation surpluses included in the 'Property revaluation reserve' in respect of the same land and buildings, and are thereafter recognised in the income statement.

Leasehold land and buildings are depreciated on a straight-line basis over the shorter of the unexpired terms of the leases or the remaining useful lives.

The Government of Hong Kong owns all the land in Hong Kong and 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 use rights in accordance with HKFRS 16 but discloses these as owned assets when the right of use are considered sufficient to constitute control.

Investment properties

The group holds certain properties as investments to earn rentals or for capital appreciation, or both, and those investment properties are included on balance sheet at fair value with changes in fair value being recognised in the income statement.

(m) Employee compensation and benefits

Post-employment benefit plans

The group operates a number of pension schemes including defined benefit, defined contribution, and other post-employment benefit schemes.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses.

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.

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(n) Tax

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in OCI or directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

In assessing the probability and sufficiency of future taxable profit, management considers the availability of evidence to support the recognition of deferred tax assets, taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. Management also considers the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations. The group has applied the exception available under HKAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(o) Provisions, contingent liabilities and guarantees

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 that has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities and guarantees

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, and contingent liabilities related to legal proceedings or regulatory matters, are not recognised in the consolidated financial statements but are disclosed unless the probability of settlement is remote.

Financial guarantee contracts

Liabilities under financial guarantee contracts that are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or present value of the fee receivable. Subsequently, they are measured at the higher of the amount determined in accordance with HKFRS 9 for ECL and the amount initially recognised less, where appropriate, any cumulative income recognised in accordance with HKFRS 15.

2 Operating profit

(a) Net interest income

Net interest income includes:

	2025 HK\$m	2024 HK\$m
Interest income recognised on impaired financial assets	3,391	2,893
Interest income recognised on financial assets measured at amortised cost	222,034	253,022
Interest income recognised on financial assets measured at FVOCI	63,119	62,947
Interest expense on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value ¹	(142,751)	(182,450)

1 Includes interest expenses on lease liabilities of HK\$251m (2024: HK\$256m).

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(b) Net fee income

Net fee income by reportable segments¹

	Hong Kong HK\$m	Corporate and Institutional Banking ('CIB') HK\$m	International Wealth and Premier Banking ('IWPB') HK\$m	Corporate Centre ² HK\$m	Total HK\$m
Account services	1,402	831	245	—	2,478
Funds under management	954	1,976	6,238	—	9,168
Cards	7,276	282	2,926	—	10,484
Credit facilities	414	2,449	58	—	2,921
Broking income	4,575	878	1,198	—	6,651
Imports/exports	1,233	1,469	—	—	2,702
Unit trusts	3,309	12	5,998	—	9,319
Underwriting	1	1,151	—	—	1,152
Remittances	1,670	1,621	100	—	3,391
Global custody	812	3,406	230	—	4,448
Insurance agency commission	499	—	2,066	—	2,565
Other	6,827	8,190	1,845	(6,500)	10,362
Fee income	28,972	22,265	20,904	(6,500)	65,641
Fee expense	(7,200)	(9,597)	(5,221)	6,928	(15,090)
Year ended 31 Dec 2025	21,772	12,668	15,683	428	50,551
Account services	1,378	789	234	—	2,401
Funds under management	848	1,739	5,141	—	7,728
Cards	7,076	201	2,615	—	9,892
Credit facilities	486	2,044	39	—	2,569
Broking income	2,514	772	924	—	4,210
Imports/exports	1,237	2,006	1	—	3,244
Unit trusts	2,979	8	4,335	—	7,322
Underwriting	—	692	—	—	692
Remittances	1,528	1,516	118	—	3,162
Global custody	702	3,052	204	—	3,958
Insurance agency commission	512	1	1,439	—	1,952
Other	5,552	7,698	1,086	(5,247)	9,089
Fee income	24,812	20,518	16,136	(5,247)	56,219
Fee expense	(6,735)	(9,182)	(3,350)	5,565	(13,702)
Year ended 31 Dec 2024	18,077	11,336	12,786	318	42,517

1 Following the Group's organisational announcement in October 2024, effective from 1 January 2025, the group's reportable segments comprise three new businesses – Hong Kong, CIB, and IWPB – along with Corporate Centre. These replace our previously reported operating segments up to 31 December 2024. Comparatives have been re-presented to conform to the current year's presentation. Further details on the change are set out in Note 30 'Segmental analysis' on the Consolidated financial statements.

2 Includes inter-segment elimination.

Net fee income includes:

	2025 HK\$m	2024 HK\$m
Fees earned on financial assets that are not at fair value through profit and loss (other than amounts included in determining the effective interest rate)	9,448	8,968
– fee income	16,754	16,353
– fee expense	(7,306)	(7,385)
Fee earned on trust and other fiduciary activities	10,679	9,207
– fee income	13,020	11,182
– fee expense	(2,341)	(1,975)

(c) Net income from financial instruments measured at fair value through profit or loss

	2025 HK\$m	2024 HK\$m
Net income/(expense) arising on:		
Net trading activities	91,334	98,138
Other instruments managed on a fair value basis	(6,280)	(6,208)
Net income from financial instruments held for trading or managed on a fair value basis	85,054	91,930
Financial assets held to meet liabilities under insurance and investment contracts	78,265	37,476
Liabilities to customers under investment contracts	(2,248)	(1,452)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	76,017	36,024
Year ended 31 Dec	161,071	127,954

Notes on the Consolidated Financial Statements

(d) Other operating income/(expense)

	2025 HK\$m	2024 HK\$m
Losses on disposal of associates and subsidiaries ¹	(8,914)	—
Losses on investment properties	(1,249)	(1,046)
Changes in fair value of designated debt issued and related derivatives ²	(714)	(117)
Losses on disposal of property, plant and equipment and assets held for sale	(30)	(32)
Dividend income	226	220
Gains less losses from financial investments	492	56
Rental income from investment properties	539	524
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	2,496	631
Other ^{3,4}	5,532	4,883
Year ended 31 Dec	(1,622)	5,119

- 1 Includes a loss of HK\$8,955m inclusive of reserves recycling, recorded in 2025 as a result of the dilution of our shareholding in BoCom.
2 Includes debt instruments which are issued for funding purposes and are designated under the fair value option to reduce an accounting mismatch.
3 Includes the gain on disposal of loans and receivables of HK\$55m (2024: HK\$101m).
4 Includes the recovery of operating expenses from other Group companies.

(e) Change in expected credit losses and other credit impairment charges

Change in expected credit losses and other credit impairment charges arising from the following asset categories:

	2025 HK\$m	2024 HK\$m
Loans and advances to banks and customers	12,793	12,019
– new allowances net of allowance releases	13,881	12,636
– recoveries of amounts previously written off	(1,111)	(857)
– modification losses and other movements	23	240
Loan commitments and guarantees	(58)	(138)
Other financial assets	17	65
Year ended 31 Dec	12,752	11,946

Change in expected credit losses as a percentage of average gross customer advances was 0.36% for 2025 (2024: 0.34%).

(f) General and administrative expenses

	2025 HK\$m	2024 HK\$m
Premises and equipment	2,345	2,416
Marketing and advertising expenses	2,438	2,367
Other administrative expenses ¹	57,425	53,184
Year ended 31 Dec	62,208	57,967

- 1 Includes recharges from fellow group entities. Further details are set out in Note 31.

Included in operating expenses were direct operating expenses of HK\$63m (2024: HK\$67m) arising from investment properties that generated rental income in the year. Direct operating expenses arising from investment properties that did not generate rental income amounted to HK\$12m (2024: HK\$7m).

(g) Depreciation and impairment of property, plant and equipment

	2025 HK\$m	2024 HK\$m
Owned property, plant and equipment	4,959	8,174
Other right-of-use assets	2,222	2,751
Year ended 31 Dec	7,181	10,925

(h) Auditors' remuneration

Auditors' remuneration amounted to HK\$202m (2024: HK\$195m).

Notes on the Consolidated Financial Statements

3 Insurance business

Insurance service result

	Year ended 31 Dec 2025			Year ended 31 Dec 2024		
	Life direct participating and Investment DPF contracts ¹	Life other contracts ²	Total	Life direct participating and Investment DPF contracts ¹	Life other contracts ²	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Insurance revenue						
Amounts relating to changes in liabilities for remaining coverage	15,050	3,107	18,157	12,053	2,433	14,486
– contractual service margin recognised for services provided	10,431	562	10,993	8,102	612	8,714
– change in risk adjustment for non-financial risk for risk expired	274	92	366	271	79	350
– expected incurred claims and other insurance service expenses	4,309	2,453	6,762	3,674	1,742	5,416
– other	36	—	36	6	—	6
Recovery of insurance acquisition cash flows	2,172	557	2,729	1,493	554	2,047
Total insurance revenue	17,222	3,664	20,886	13,546	2,987	16,533
Insurance service expenses						
Incurred claims and other insurance service expenses	(3,085)	(2,348)	(5,433)	(3,353)	(2,222)	(5,575)
Losses and reversal of losses on onerous contracts	(289)	(295)	(584)	(395)	(498)	(893)
Amortisation of insurance acquisition cash flows	(2,172)	(557)	(2,729)	(1,493)	(554)	(2,047)
Adjustments to liabilities for incurred claims	(56)	(86)	(142)	(50)	163	113
Total insurance service expenses	(5,602)	(3,286)	(8,888)	(5,291)	(3,111)	(8,402)
Total insurance service result	11,620	378	11,998	8,255	(124)	8,131

1 'Life direct participating and investment DPF contracts' are substantially measured under the variable fee approach measurement model.

2 'Life other contracts' are measured under the general measurement model.

Net investment return¹

	Year ended 31 Dec 2025			Year ended 31 Dec 2024		
	Life direct participating and Investment DPF contracts	Life other contracts	Total	Life direct participating and Investment DPF contracts	Life other contracts	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Total investment return²	74,524	324	74,848	32,851	1,991	34,842
Net finance expense						
Changes in fair value of underlying items of direct participating contracts	(74,282)	—	(74,282)	(32,922)	—	(32,922)
Effect of risk mitigation option	(1,425)	—	(1,425)	451	—	451
Interest accreted	—	(817)	(817)	—	(812)	(812)
Effect of changes in interest rates and other financial assumptions	—	941	941	—	(2,363)	(2,363)
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	—	(67)	(67)	—	(17)	(17)
Total net finance expense from insurance contracts	(75,707)	57	(75,650)	(32,471)	(3,192)	(35,663)
Total net investment return	(1,183)	381	(802)	380	(1,201)	(821)

1 All items are recognised in the income statement.

2 Total group 'Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' of HK\$76,017m (2024: HK\$36,024m) includes returns on assets supporting insurance policies of HK\$74,848m (2024: HK\$34,842m) and on shareholder assets of HK\$1,169m (2024: HK\$1,182m).

Notes on the Consolidated Financial Statements

Movements in carrying amounts of insurance contracts – Analysis by remaining coverage and incurred claims

	2025									
	Life direct participating and Investment DPF contracts					Life other contracts				
	Liabilities for remaining coverage:				Total	Liabilities for remaining coverage:				Total
	Excluding loss component	Loss component	Incurred claims	Total		Excluding loss component	Loss component	Incurred claims	Total	
HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
Opening assets	(122)	5	10	(107)	(229)	(186)	199	(216)	(323)	
Opening liabilities	768,038	1,093	1,581	770,712	26,090	1,636	1,005	28,731	799,443	
Net opening balance at 1 Jan	767,916	1,098	1,591	770,605	25,861	1,450	1,204	28,515	799,120	
Changes in the consolidated income statement and statement of comprehensive income¹										
Insurance revenue										
Contracts under the fair value approach ²	(5,116)	—	—	(5,116)	(463)	—	—	(463)	(5,579)	
Other contracts ³	(12,106)	—	—	(12,106)	(2,704)	—	—	(2,704)	(14,810)	
Total insurance revenue	(17,222)	—	—	(17,222)	(3,167)	—	—	(3,167)	(20,389)	
Insurance service expenses										
Incurred claims and other insurance service expenses	—	(60)	3,145	3,085	—	(261)	2,125	1,864	4,949	
Amortisation of insurance acquisition cash flows	2,172	—	—	2,172	553	—	—	553	2,725	
Losses and reversal of losses on onerous contracts	—	289	—	289	—	295	—	295	584	
Adjustments to liabilities for incurred claims	—	—	56	56	—	—	86	86	142	
Total insurance service expenses	2,172	229	3,201	5,602	553	34	2,211	2,798	8,400	
Investment components	(59,946)	—	59,946	—	(6,104)	—	6,104	—	—	
Insurance service result	(74,996)	229	63,147	(11,620)	(8,718)	34	8,315	(369)	(11,989)	
Net finance expense from insurance contracts	75,705	—	—	75,705	(72)	18	—	(54)	75,651	
Other movements recognised in the statement of profit or loss	—	—	—	—	—	—	—	—	—	
Effect of movements in exchange rates	6,242	68	40	6,350	674	70	64	808	7,158	
Total changes in the consolidated income statement and statement of comprehensive income¹	6,951	297	63,187	70,435	(8,116)	122	8,379	385	70,820	
Cash flows										
Premiums received	141,855	—	—	141,855	12,729	—	—	12,729	154,584	
Claims, other insurance service expenses paid and other cash flows	398	—	(64,437)	(64,039)	28	—	(8,254)	(8,226)	(72,265)	
Insurance acquisition cash flows	(8,588)	—	—	(8,588)	(413)	—	—	(413)	(9,001)	
Total cash flows	133,665	—	(64,437)	69,228	12,344	—	(8,254)	4,090	73,318	
Other movements	55	(36)	37	56	(146)	187	13	54	110	
Net closing balance at 31 Dec	908,587	1,359	378	910,324	29,943	1,759	1,342	33,044	943,368	
Closing assets	(93)	—	2	(91)	(739)	363	(3)	(379)	(470)	
Closing liabilities	908,680	1,359	376	910,415	30,682	1,396	1,345	33,423	943,838	
Net closing balance at 31 Dec	908,587	1,359	378	910,324	29,943	1,759	1,342	33,044	943,368	

Notes on the Consolidated Financial Statements

Movements in carrying amounts of insurance contracts – Analysis by remaining coverage and incurred claims (continued)

	2024									
	Life direct participating and Investment DPF contracts				Life other contracts					
	Liabilities for remaining coverage:				Liabilities for remaining coverage:					
	Excluding loss component HK\$m	Loss component HK\$m	Incurred claims HK\$m	Total HK\$m	Excluding loss component HK\$m	Loss component HK\$m	Incurred claims HK\$m	Total HK\$m	Total HK\$m	
Opening assets	(109)	5	6	(98)	(874)	(159)	40	(993)	(1,091)	
Opening liabilities	701,783	848	3,113	705,744	23,229	1,365	491	25,085	730,829	
Net opening balance at 1 Jan	701,674	853	3,119	705,646	22,355	1,206	531	24,092	729,738	
Changes in the consolidated income statement and statement of comprehensive income ¹										
Insurance revenue										
Contracts under the fair value approach ²	(4,801)	—	—	(4,801)	(472)	—	—	(472)	(5,273)	
Other contracts ³	(8,745)	—	—	(8,745)	(2,055)	—	—	(2,055)	(10,800)	
Total insurance revenue	(13,546)	—	—	(13,546)	(2,527)	—	—	(2,527)	(16,073)	
Insurance service expenses										
Incurred claims and other insurance service expenses	—	(52)	3,405	3,353	—	(368)	2,132	1,764	5,117	
Amortisation of insurance acquisition cash flows	1,493	—	—	1,493	544	—	—	544	2,037	
Losses and reversal of losses on onerous contracts	—	395	—	395	—	498	—	498	893	
Adjustments to liabilities for incurred claims	—	—	50	50	—	—	(162)	(162)	(112)	
Total insurance service expenses	1,493	343	3,455	5,291	544	130	1,970	2,644	7,935	
Investment components	(45,995)	—	45,995	—	(7,559)	—	7,559	—	—	
Insurance service result	(58,048)	343	49,450	(8,255)	(9,542)	130	9,529	117	(8,138)	
Net finance expense from insurance contracts	32,492	—	—	32,492	3,179	22	—	3,201	35,693	
Other movements recognised in the profit or loss										
Effect of movements in exchange rates	(5,692)	(35)	(32)	(5,759)	(459)	(2)	(15)	(476)	(6,235)	
Total changes in the consolidated income statement and statement of comprehensive income ¹	(31,248)	308	49,418	18,478	(6,822)	150	9,514	2,842	21,320	
Cash flows										
Premiums received	103,285	—	—	103,285	11,516	—	—	11,516	114,801	
Claims, other insurance service expenses paid and other cash flows	253	—	(50,946)	(50,693)	12	—	(9,621)	(9,609)	(60,302)	
Insurance acquisition cash flows	(6,298)	—	—	(6,298)	(1,576)	—	—	(1,576)	(7,874)	
Total cash flows	97,240	—	(50,946)	46,294	9,952	—	(9,621)	331	46,625	
Other movements	250	(63)	—	187	376	94	780	1,250	1,437	
Net closing balance at 31 Dec	767,916	1,098	1,591	770,605	25,861	1,450	1,204	28,515	799,120	
Closing assets	(122)	5	10	(107)	(229)	(186)	199	(216)	(323)	
Closing liabilities	768,038	1,093	1,581	770,712	26,090	1,636	1,005	28,731	799,443	
Net closing balance at 31 Dec	767,916	1,098	1,591	770,605	25,861	1,450	1,204	28,515	799,120	

1 'Total changes in the consolidated income statement and statement of comprehensive income' do not include income and expenses with HSBC Group entities.

2 On transition to HKFRS 17 the group applied the full retrospective approach to new business written from 2018 at the earliest. Where applying the full retrospective approach was impracticable, the group applied the fair value approach.

3 'Other contracts' are those contracts measured by applying HKFRS 17 from inception of the contracts. These include contracts measured under the full retrospective approach at transition and contracts inception after transition.

Notes on the Consolidated Financial Statements

Movements in carrying amounts of insurance contracts – Analysis by measurement component

	2025									
	Life direct participating and investment discretionary participating contracts					Life other contracts				
	Estimates of present value of future cash flows and risk adjustment		Contractual service margin			Estimates of present value of future cash flows and risk adjustment		Contractual service margin		
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Opening assets	(210)	24	79	(107)	(1,308)	379	713	(216)	(323)	
Opening liabilities	678,885	34,856	56,971	770,712	26,187	1,320	1,224	28,731	799,443	
Net opening balance at 1 Jan	678,675	34,880	57,050	770,605	24,879	1,699	1,937	28,515	799,120	
Changes in the consolidated income statement and statement of comprehensive income¹										
Changes that relate to current services										
Contractual service margin recognised for services provided	–	(3,891)	(6,540)	(10,431)	–	(198)	(344)	(542)	(10,973)	
Change in risk adjustment for non-financial risk expired	(274)	–	–	(274)	(79)	–	–	(79)	(353)	
Experience adjustments	(1,224)	–	–	(1,224)	(129)	–	–	(129)	(1,353)	
Other movements recognised in insurance service result	–	136	(172)	(36)	–	–	–	–	(36)	
Changes that relate to future services										
Contracts initially recognised in the year	(27,470)	–	27,529	59	(654)	–	695	41	100	
Changes in estimates that adjust contractual service margin	(4,378)	2,172	2,206	–	(307)	(178)	485	–	–	
Changes in estimates that result in losses and reversal of losses on onerous contracts	230	–	–	230	254	–	–	254	484	
Changes that relate to past services										
Adjustments to liabilities for incurred claims	56	–	–	56	86	–	–	86	142	
Insurance service result	(33,060)	(1,583)	23,023	(11,620)	(829)	(376)	836	(369)	(11,989)	
Net finance expense from insurance contract	75,705	–	–	75,705	(167)	42	71	(54)	75,651	
Other movements recognised in the statement of profit or loss	–	–	–	–	–	–	–	–	–	
Effect of movements in exchange rates	5,617	384	349	6,350	765	29	14	808	7,158	
Total changes in the consolidated income statement and statement of comprehensive income	48,262	(1,199)	23,372	70,435	(231)	(305)	921	385	70,820	
Cash flows										
Premiums received	141,855	–	–	141,855	12,729	–	–	12,729	154,584	
Claims, other insurance service expenses paid and other cash flows	(64,039)	–	–	(64,039)	(8,226)	–	–	(8,226)	(72,265)	
Insurance acquisition cash flows	(8,588)	–	–	(8,588)	(413)	–	–	(413)	(9,001)	
Total cash flows	69,228	–	–	69,228	4,090	–	–	4,090	73,318	
Other movements	37	63	(44)	56	84	(15)	(15)	54	110	
Net closing balance at 31 Dec	796,202	33,744	80,378	910,324	28,822	1,379	2,843	33,044	943,368	
Closing assets	(162)	19	52	(91)	(873)	50	444	(379)	(470)	
Closing liabilities	796,364	33,725	80,326	910,415	29,695	1,329	2,399	33,423	943,838	
Net closing balance at 31 Dec	796,202	33,744	80,378	910,324	28,822	1,379	2,843	33,044	943,368	

Notes on the Consolidated Financial Statements

Movements in carrying amounts of insurance contracts – Analysis by measurement component (continued)

	2024									
	Life direct participating and investment discretionary participating contracts					Life Other contracts				
	Estimates of present value of	Contractual service margin			Estimates of present value of	Contractual service margin			Total	Total
	future cash flows and risk adjustment	Contracts under the fair value approach	Other contracts	Total	future cash flows and risk adjustment	Contracts under the fair value approach	Other contracts	Total	Total	
HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
Opening assets	(233)	25	110	(98)	(924)	62	(131)	(993)	(1,091)	
Opening liabilities	631,309	35,955	38,480	705,744	21,908	1,730	1,447	25,085	730,829	
Net opening balance at 1 Jan	631,076	35,980	38,590	705,646	20,984	1,792	1,316	24,092	729,738	
Changes in the consolidated income statement and statement of comprehensive income ¹										
Changes that relate to current services										
Contractual service margin recognised for services provided	—	(3,640)	(4,462)	(8,102)	—	(219)	(373)	(592)	(8,694)	
Change in risk adjustment for non-financial risk expired	(271)	—	—	(271)	(64)	—	—	(64)	(335)	
Experience adjustments	(321)	—	—	(321)	437	—	—	437	116	
Other movements recognised in insurance service result	—	403	(409)	(6)	—	—	—	—	(6)	
Changes that relate to future services										
Contracts initially recognised in the year	(18,094)	—	18,212	118	(924)	—	1,071	147	265	
Changes in estimates that adjust contractual service margin	(7,560)	1,923	5,637	—	(8)	92	(84)	—	—	
Changes in estimates that result in losses and reversal of losses on onerous contracts	277	—	—	277	351	—	—	351	628	
Changes that relate to past services										
Adjustments to liabilities for incurred claims	50	—	—	50	(162)	—	—	(162)	(112)	
Insurance service result	(25,919)	(1,314)	18,978	(8,255)	(370)	(127)	614	117	(8,138)	
Net finance expense from insurance contracts	32,492	—	—	32,492	3,111	43	47	3,201	35,693	
Other movements recognised in the statement of profit or loss	—	—	—	—	—	—	—	—	—	
Effect of movements in exchange rates	(5,454)	213	(518)	(5,759)	(412)	(10)	(54)	(476)	(6,235)	
Total changes in the consolidated income statement and statement of comprehensive income	1,119	(1,101)	18,460	18,478	2,329	(94)	607	2,842	21,320	
Cash flows										
Premiums received	103,285	—	—	103,285	11,516	—	—	11,516	114,801	
Claims, other insurance service expenses paid and other cash flows	(50,693)	—	—	(50,693)	(9,609)	—	—	(9,609)	(60,302)	
Insurance acquisition cash flows	(6,298)	—	—	(6,298)	(1,576)	—	—	(1,576)	(7,874)	
Total cash flows	46,294	—	—	46,294	331	—	—	331	46,625	
Other movements	186	1	—	187	1,235	1	14	1,250	1,437	
Net closing balance at 31 Dec	678,675	34,880	57,050	770,605	24,879	1,699	1,937	28,515	799,120	
Closing assets	(210)	24	79	(107)	(1,308)	379	713	(216)	(323)	
Closing liabilities	678,885	34,856	56,971	770,712	26,187	1,320	1,224	28,731	799,443	
Net closing balance at 31 Dec	678,675	34,880	57,050	770,605	24,879	1,699	1,937	28,515	799,120	

¹ 'Changes in the consolidated income statement and statement of comprehensive income' do not include income and expenses with HSBC Group entities.

Notes on the Consolidated Financial Statements

Effect of contracts initially recognised in the year

	Year ended 31 Dec 2025			Year ended 31 Dec 2024		
	Profitable contracts issued	Onerous contracts issued	Total	Profitable contracts issued	Onerous contracts issued	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Life direct participating and investment DPF contracts						
Estimates of present value of cash outflows	146,388	2,171	148,559	111,395	3,588	114,983
– insurance acquisition cash flows	7,654	221	7,875	6,146	297	6,443
– claims and other insurance service expenses payable	138,734	1,950	140,684	105,249	3,291	108,540
Estimates of present value of cash inflows	(174,289)	(2,118)	(176,407)	(129,901)	(3,484)	(133,385)
Risk adjustment for non-financial risk	372	6	378	294	14	308
Contractual service margin	27,529	—	27,529	18,212	—	18,212
Losses recognised on initial recognition	—	(59)	(59)	—	(118)	(118)
Life other contracts						
Estimates of present value of cash outflows	8,643	1,335	9,978	9,459	3,678	13,137
– insurance acquisition cash flows	245	113	358	737	509	1,246
– claims and other insurance service expenses payable	8,398	1,222	9,620	8,722	3,169	11,891
Estimates of present value of cash inflows	(9,408)	(1,315)	(10,723)	(10,659)	(3,552)	(14,211)
Risk adjustment for non-financial risk	70	21	91	129	21	150
Contractual service margin	695	—	695	1,071	—	1,071
Losses recognised on initial recognition	—	(41)	(41)	—	(147)	(147)

Present value of expected future cash flows of insurance contract liabilities and contractual service margin

	less than 1 year	1-2 years	2-3 years	3-4 years	4-5 years	5-10 years	10-20 years	Over 20 years	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	(29,511)	(1,415)	29,011	23,965	27,533	93,123	133,022	517,028	792,756
Life other contracts	815	1,334	1,494	357	5,217	755	305	18,918	29,195
Insurance liability future cash flows at 31 Dec 2025	(28,696)	(81)	30,505	24,322	32,750	93,878	133,327	535,946	821,951
Remaining contractual service margin									
Life direct participating and investment DPF contracts	10,166	9,335	8,615	7,930	7,287	28,141	27,928	14,720	114,122
Life other contracts	516	425	361	313	264	896	875	572	4,222
Remaining contractual service margin at 31 Dec 2025	10,682	9,760	8,976	8,243	7,551	29,037	28,803	15,292	118,344
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	(27,934)	(3,940)	18,316	22,151	23,964	82,963	164,159	396,429	676,108
Life other contracts	3,561	(1,127)	1,677	483	685	721	854	19,063	25,917
Insurance liability future cash flows at 31 Dec 2024	(24,373)	(5,067)	19,993	22,634	24,649	83,684	165,013	415,492	702,025
Remaining contractual service margin									
Life direct participating and investment DPF contracts	8,061	7,401	6,777	6,241	5,744	22,298	22,787	12,621	91,930
Life other contracts	495	362	319	277	238	796	721	428	3,636
Remaining contractual service margin at 31 Dec 2024	8,556	7,763	7,096	6,518	5,982	23,094	23,508	13,049	95,566

Discount rates

The discount rates applied to expected future cash flows are determined through a bottom-up approach as set out in Note 1.2(k) 'Summary of material accounting policies – Insurance contracts' on page 78. The blended average of discount rates used within our most material manufacturing entities are as follows:

	HSBC Life (International) Ltd		Hang Seng Insurance Co Ltd	
	HK\$	\$	HK\$	\$
At 31 Dec 2025				
10 year discount rate (%)	3.74	4.78	3.85	4.82
20 year discount rate (%)	4.09	5.54	4.20	5.59
At 31 Dec 2024				
10 year discount rate (%)	4.32	5.16	4.43	5.25
20 year discount rate (%)	4.42	5.51	4.53	5.60

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 that arises from non-financial risk. It is calculated as a 75th percentile level of stress over a one-year period. The level of the stress is determined with reference to external regulatory stresses and internal economic capital stresses.

For the main insurance manufacturing entity in the group, the one-year 75th percentile level of stress corresponds to 59th percentile (2024: 60th percentile) based on an ultimate view of risk over all future years.

4 Employee compensation and benefits

	2025 HK\$m	2024 HK\$m
Wages and salaries ¹	37,836	36,442
Social security costs	1,434	1,359
Post-employment benefits	2,292	2,227
– defined contribution pension plans	1,874	1,875
– defined benefit pension plans	418	352
Year ended 31 Dec	41,562	40,028

1 'Wages and salaries' includes the effect of share-based payments arrangements of HK\$1,433m (2024: HK\$1,110m).

Post-employment benefit plans

The group operates a number of post-employment benefit plans for its employees. Some of these plans are defined benefit plans, of which the largest plan is The HSBC Group Hong Kong Local Staff Retirement Benefit Scheme (the 'Principal Plan').

The group's balance sheet includes the net surplus or deficit, being the difference between the fair value of plan assets and the discounted value of scheme liabilities at the balance sheet date for each plan. Surpluses are only recognised to the extent that they are recoverable through reduced contributions in the future or through potential future refunds from the schemes. In assessing whether a surplus is recoverable, the group has considered its current right to obtain a future refund or a reduction in future contributions.

Defined benefit pension plans

Net asset/(liability) under defined benefit pension plans

	Fair value of plan assets HK\$m	Present value of defined benefit obligations HK\$m	Net defined benefit liability HK\$m
At 1 Jan 2025	8,412	(8,863)	(451)
Service cost	—	(404)	(404)
– current service cost	—	(314)	(314)
– past service cost and gains from settlements	—	(90)	(90)
Net interest income/(expense) on the net defined benefit asset/(liability)	304	(311)	(7)
Re-measurement effects recognised in other comprehensive income	376	(182)	194
– return on plan assets (excluding interest income)	376	—	376
– actuarial losses	—	(182)	(182)
Contributions by the group	247	—	247
Benefits paid	(1,027)	1,155	128
Exchange differences and other movements	1	(29)	(28)
At 31 Dec 2025	8,313	(8,634)	(321)
Retirement benefit liabilities recognised on the balance sheet			(811)
Retirement benefit assets recognised on the balance sheet (within 'Prepayments, accrued income and other assets')			490
At 1 Jan 2024	8,333	(9,642)	(1,309)
Service cost	—	(302)	(302)
– current service cost	—	(336)	(336)
– past service cost and gains from settlements	—	34	34
Net interest income/(expense) on the net defined benefit asset/(liability)	261	(304)	(43)
Re-measurement effects recognised in other comprehensive income	498	314	812
– return on plan assets (excluding interest income)	498	—	498
– actuarial gains	—	314	314
Contributions by the group	331	—	331
Benefits paid	(935)	986	51
Exchange differences and other movements	(76)	85	9
At 31 Dec 2024	8,412	(8,863)	(451)
Retirement benefit liabilities recognised on the balance sheet			(805)
Retirement benefit assets recognised on the balance sheet (within 'Prepayments, accrued income and other assets')			354

Fair value of plan assets by asset classes

	At 31 Dec 2025			At 31 Dec 2024		
	Value HK\$m	Quoted market price in active market HK\$m	Thereof HSBC HK\$m	Value HK\$m	Quoted market price in active market HK\$m	Thereof HSBC HK\$m
Fair value of plan assets	8,313	8,313	51	8,412	8,412	101
– equities	1,227	1,227	—	1,302	1,302	—
– bonds	5,356	5,356	—	4,986	4,986	—
– alternative investments	1,397	1,397	—	1,762	1,762	—
– other ¹	333	333	51	362	362	101

1 Other mainly consists of cash and cash deposits.

Notes on the Consolidated Financial Statements

The Principal Plan

In Hong Kong, the HSBC Group Hong Kong Local Staff Retirement Benefit Scheme, the Principal Plan, covers employees of the group and HSBC Global Services (Hong Kong) Limited (the 'ServCo'), which is a fellow subsidiary of the group set up in Hong Kong as part of the recovery and resolution planning to provide functional support services to the group, as well as certain other local employees of the Group. The Principal Plan comprises a funded defined benefit scheme (which provides a lump sum benefit on retirement and is now closed to new members) and a defined contribution scheme. The latter was established on 1 January 1999 for new employees, and the group has been providing defined contribution plans to all new employees. Since the defined benefit scheme of the Principal Plan is a final salary lump sum scheme, its exposure to longevity risk and interest rate risk is limited compared to a scheme that provides annuity payments.

The Principal Plan is a funded plan with assets which are held in trust funds separate from the group. The investment strategy of the defined benefit scheme of the Principal Plan is to hold the majority of assets in fixed income investments, with a smaller portion in equities. The target asset allocation for the portfolio is as follows: Fixed income investments 80% and Equity 20%. Each investment manager has been assigned a benchmark applicable to their respective asset class. The actuarial funding valuation of the Principal Plan is conducted at least on a triennial basis in accordance with the local practice and regulations. The actuarial assumptions used to conduct the actuarial funding valuation of the Principal Plan vary according to the economic conditions.

The trustee, which is a subsidiary of the Bank, assumes the overall responsibility for the Principal Plan and the group has established a management committee and a number of sub-committees to broaden the governance and manage the concomitant issues.

Both the group and ServCo participate in the Principal Plan that shares risks between the entities which are under common control of the Group. As agreed between the group and ServCo, the net defined benefit cost of the defined benefit scheme of the Principal Plan shall be charged separately. Details on the defined benefit scheme of the Principal Plan are disclosed below.

Net asset/(liability) under the defined benefit scheme of the Principal Plan

	Included within the group			Included within ServCo		
	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit liability	Fair value of plan assets	Present value of defined benefit obligations	Net defined benefit liability
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 Jan 2025	3,619	(3,605)	14	3,086	(2,914)	172
Service cost	—	(138)	(138)	—	(99)	(99)
– current service cost	—	(116)	(116)	—	(99)	(99)
– past service cost and gains from settlements	—	(22)	(22)	—	—	—
Net interest income/(expense) on the net defined benefit asset/(liability)	121	(124)	(3)	107	(99)	8
Re-measurement effects recognised in other comprehensive income	184	(166)	18	152	(62)	90
– return on plan assets (excluding interest income)	184	—	184	152	—	152
– actuarial losses	—	(166)	(166)	—	(62)	(62)
Contributions	104	—	104	58	—	58
Benefits paid	(417)	424	7	(426)	426	—
Exchange differences and other movements	18	(20)	(2)	(21)	21	—
At 31 Dec 2025	3,629	(3,629)	—	2,956	(2,727)	229
Retirement benefit liabilities recognised on the balance sheet			—			—
At 1 Jan 2024	3,491	(3,894)	(403)	3,039	(3,218)	(179)
Service cost	—	(125)	(125)	—	(104)	(104)
– current service cost	—	(125)	(125)	—	(104)	(104)
– past service cost and gains from settlements	—	—	—	—	—	—
Net interest income/(expense) on the net defined benefit asset/(liability)	96	(111)	(15)	88	(91)	(3)
Re-measurement effects recognised in other comprehensive income	276	117	393	238	120	358
– return on plan assets (excluding interest income)	276	—	276	238	—	238
– actuarial gains	—	117	117	—	120	120
Contributions	164	—	164	105	—	105
Benefits paid	(396)	396	—	(392)	392	—
Exchange differences and other movements	(12)	12	—	8	(13)	(5)
At 31 Dec 2024	3,619	(3,605)	14	3,086	(2,914)	172
Retirement benefit liabilities recognised on the balance sheet			—			—

The group expects to make HK\$91m of contributions to the defined benefit scheme of the Principal Plan during 2026 (during 2025: HK\$158m) and ServCo expects to make HK\$42m contributions to the defined benefit scheme of the Principal Plan during 2026 (during 2025: HK\$96m). These expected contributions are determined separately by the group and ServCo by reference to the actuarial funding valuation carried out by the Principal Plan's local actuary.

Notes on the Consolidated Financial Statements

Benefits expected to be paid from the defined benefit scheme of the Principal Plan over each of the next five years, and in aggregate for the five years thereafter, are as follows:

Benefits expected to be paid from the defined benefit scheme of the Principal Plan¹

	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
As at 31 December 2025 as reported by:						
– The group	275	365	342	360	342	2,382
– ServCo	188	274	298	287	236	1,863
As at 31 December 2024 as reported by:						
– The group	265	371	393	355	358	2,174
– ServCo	249	263	315	313	309	1,820

1 The duration of the defined benefit obligation is five years for the Principal Plan under the disclosed assumptions (2024: six years).

Fair value of plan assets of the defined benefit scheme of the Principal Plan by asset classes

	At 31 Dec 2025			At 31 Dec 2024		
	Quoted market price in active market		Thereof HSBC	Quoted market price in active market		Thereof HSBC
	Value	Value		Value	Value	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Fair value of plan assets	6,585	6,585	2	6,705	6,705	(87)
– equities	1,486	1,486	–	1,723	1,723	–
– bonds	4,322	4,322	–	3,668	3,668	–
– alternative investments	775	775	–	1,401	1,401	–
– other	2	2	2	(87)	(87)	(87)

The Principal Plan's key actuarial financial assumptions

The group and ServCo determine the discount rate to be applied to the defined benefit scheme's obligations in consultation with the Principal Plan's local actuary, on the basis of the current average yields of Hong Kong Government Bonds and Hong Kong Exchange Fund Notes, with maturities consistent with that of the defined benefit obligations.

The key actuarial assumptions used to calculate the group's obligations for the defined benefit scheme of the Principal Plan for the year, and used as the basis for measuring the expenses were as follows:

Key actuarial assumptions for the defined benefit scheme of the Principal Plan

	Discount rate	Rate of pay increase
	% p.a.	% p.a.
At 31 Dec 2025	2.75	3.00
At 31 Dec 2024	3.55	3.00

Actuarial assumption sensitivities

The discount rate and rate of pay increase are sensitive to changes in market conditions arising during the reporting period. The following table shows the financial impact of assumption changes on the defined benefit scheme of the Principal Plan at year end:

The effect of changes in key assumptions on the defined benefit scheme of the Principal Plan

	Impact on HSBC Group Hong Kong Local Staff Retirement Benefit Scheme obligation			
	Impact to obligation of increase		Impact to obligation of decrease	
	2025	2024	2025	2024
	HK\$m	HK\$m	HK\$m	HK\$m
Discount rate – increase/decrease of 0.25%	(84)	(89)	86	91
Rate of pay increase – increase/decrease of 0.25%	86	92	(85)	(90)

Directors' emoluments

The aggregate emoluments of the Directors of the Bank disclosed pursuant to section 4 of the Companies (Disclosure of Information about Benefits of Directors) Regulation were HK\$123m (2024: HK\$117m). This comprises fees (which represent the aggregate emoluments paid to or receivable by directors in respect of their services as a director) of HK\$37m (2024: HK\$38m) and other emoluments of HK\$86m (2024: HK\$79m) which includes contributions to pension schemes of HK\$3m (2024: HK\$3m). Non-cash benefits which are included in other emoluments mainly relate to share-based payment awards, and the provision of housing and furnishings.

Details on loans to directors are set out in Note 31.

Notes on the Consolidated Financial Statements

5 Tax

The Bank and its subsidiaries in Hong Kong have provided for Hong Kong profits tax at the rate of 16.5% (2024: 16.5%) on the profits for the year assessable in Hong Kong. Overseas branches and subsidiaries have similarly provided for tax in the countries in which they operate at the appropriate rates of tax in force in 2025. Deferred taxation is provided for in accordance with the group's accounting policy in Note 1.2(n) 'Summary of material accounting policies – Tax' on page 80.

Tax expense

	2025 HK\$m	2024 HK\$m
Current tax	33,379	26,686
– Hong Kong taxation – on current year profit	16,394	12,444
– Hong Kong taxation – adjustments in respect of prior years	1,700	(75)
– overseas taxation – on current year profit	15,749	14,458
– overseas taxation – adjustments in respect of prior years	(482)	(141)
– Pillar 2 and qualifying domestic minimum top-up taxes	18	—
Deferred tax	(7,886)	(2,005)
– origination and reversal of temporary differences	(5,637)	(1,555)
– adjustments in respect of prior years	(2,249)	(450)
Year ended 31 Dec	25,493	24,681

Tax reconciliation

The tax charged to the income statement differs from the tax charge that would apply if all profits had been taxed at the applicable tax rates in the countries concerned as follows:

Reconciliation between taxation charge and accounting profit at applicable tax rates

	2025 HK\$m	2024 HK\$m
Profit before tax	149,610	153,932
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	28,451	29,835
Effects of profits in associates and joint ventures	(2,765)	(2,923)
Effects of dilution and impairment of interest in associate	2,842	—
Non-taxable income and gains	(6,708)	(5,602)
Local taxes and overseas withholding taxes	2,798	2,935
Permanent disallowables	1,381	1,380
Pillar 2 and qualifying domestic minimum top-up taxes	18	—
Others	(524)	(944)
Year ended 31 Dec	25,493	24,681

In July 2023, legislation was enacted in the UK, the jurisdiction of the Bank's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' Global Minimum Tax model rules (the 'model rules') of the Organisation for Economic Cooperation and Development ('OECD')'s Inclusive Framework on Base Erosion and Profit Shifting ('BEPS'). The rules took effect from 1 January 2024. During 2025, Qualified Domestic Minimum top-up tax ('QDMTT') was enacted in a number of jurisdictions in which the group operates under the same framework but with reference to local tax authorities.

Under these rules, a top-up tax liability arises where the effective tax rate of the Group's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules is below 15%. Any top-up tax arising in relation to jurisdictions in which a QDMTT applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, the top-up tax is payable by HSBC Holdings plc, being the group's ultimate parent, to the UK tax authority.

The group has recorded a Pillar Two global minimum tax charge of HK\$18m, primarily attributable to certain categories of income being subject to lower corporate income tax rates resulting in a lower effective tax rate.

Movements of deferred tax assets and liabilities

	Accelerated capital allowances HK\$m	Insurance business HK\$m	Expense provisions HK\$m	Impairment allowance on financial instruments HK\$m	Revaluation of properties HK\$m	Other ² HK\$m	Total HK\$m
Assets	47	8,262	1,179	2,567	—	3,310	15,365
Liabilities	(501)	—	—	—	(13,555)	(13,919)	(27,975)
At 1 Jan 2025	(454)	8,262	1,179	2,567	(13,555)	(10,609)	(12,610)
Exchange and other adjustments	4	—	102	18	(25)	(34)	65
Charge/(credit) to income statement	(28)	7,139	94	(186)	496	371	7,886
Charge/(credit) to other comprehensive income	—	—	—	10	399	(2,456)	(2,047)
At 31 Dec 2025	(478)	15,401	1,375	2,409	(12,685)	(12,728)	(6,706)
Assets ¹	51	15,401	1,375	2,409	10	2,760	22,006
Liabilities ¹	(529)	—	—	—	(12,695)	(15,488)	(28,712)

Notes on the Consolidated Financial Statements

Movements of deferred tax assets and liabilities (continued)

	Accelerated capital allowances	Insurance business	Expense provisions	Impairment allowance on financial instruments	Revaluation of properties	Other ²	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Assets	115	5,783	1,329	2,877	—	2,880	12,984
Liabilities	(491)	—	(31)	—	(14,785)	(12,285)	(27,592)
At 1 Jan 2024	(376)	5,783	1,298	2,877	(14,785)	(9,405)	(14,608)
Exchange and other adjustments	(16)	17	(60)	(76)	89	(31)	(77)
Charge/(credit) to income statement	(62)	2,462	(59)	(233)	1,077	(1,180)	2,005
Charge/(credit) to other comprehensive income	—	—	—	(1)	64	7	70
At 31 Dec 2024	(454)	8,262	1,179	2,567	(13,555)	(10,609)	(12,610)
Assets ¹	47	8,262	1,179	2,567	—	3,310	15,365
Liabilities ¹	(501)	—	—	—	(13,555)	(13,919)	(27,975)

1 After netting off balances within countries, the balances as disclosed in the consolidated financial statements are as follows: deferred tax assets HK\$17,803m (2024: HK\$10,307m); and deferred tax liabilities HK\$24,509m (2024: HK\$22,917m).

2 Other includes deferred tax liability of HK\$6,448m (2024: HK\$6,874m) provided in respect of distributable reserves or post-acquisition reserves of associates that, on distribution, would attract withholding tax.

The total amount of gross temporary differences and unused tax losses for which no deferred tax asset is recognised in the balance sheet is HK\$12,587m (2024: HK\$6,275m), of which HK\$7,504m (2024: HK\$3,068m) has no expiry date, and the remaining will expire within 10 years. Of the total amount, HK\$10,874m (2024: HK\$6,042m) relates to unused tax losses which have not been recognised as deferred tax asset due to the absence of convincing evidence regarding the availability of sufficient future taxable profits against which to recover them.

Deferred tax is not recognised in respect of the group's investments in subsidiaries and branches where remittance or other realisation is not probable, and for those associates and interests in joint ventures where it has been determined that no additional tax will arise.

6 Dividends

Dividends to shareholders of the parent company

	2025		2024	
	Per share HK\$	Total HK\$m	Per share HK\$	Total HK\$m
Dividends paid on ordinary shares				
In respect of previous year:				
– fourth interim dividend	0.41	20,400	0.41	20,300
– special dividend paid	0.16	7,800	—	—
In respect of current year:				
– first interim dividend paid	0.48	24,000	0.43	21,200
– first special dividend paid	0.16	7,800	0.16	7,800
– second interim dividend paid	0.42	21,000	0.41	20,500
– second special dividend paid	0.16	7,800	0.31	15,600
– third interim dividend paid	—	—	0.42	20,800
Total	1.79	88,800	2.14	106,200
Distributions on other equity instruments		5,304		3,576
Dividends to shareholders		94,104		109,776

The Bank did not declare a third or fourth interim dividend in respect of the current year to fund the privatisation of Hang Seng Bank Limited. See Note 39 for details.

Total coupons on other equity instruments

	2025 HK\$m	2024 HK\$m
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.030%) ¹	—	423
US\$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%) ²	—	515
US\$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.510%)	455	455
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%) ³	474	475
US\$1,200m Fixed rate perpetual subordinated loan (interest rate fixed at 6.172%) ³	576	578
US\$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%)	277	277
US\$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 8.000%)	623	625
SG\$1,500m Fixed rate perpetual subordinated loan (interest rate fixed at 5.250%)	479	228
US\$1,350m Fixed rate perpetual subordinated loan (interest rate fixed at 6.875%) ⁴	722	—
US\$1,150m Fixed rate perpetual subordinated loan (interest rate fixed at 6.950%) ⁴	622	—
US\$1,500m Fixed rate perpetual subordinated loan (interest rate fixed at 6.950%) ⁵	405	—
SG\$800m Fixed rate perpetual subordinated loan (interest rate fixed at 5.000%) ⁵	122	—
US\$2,000m Fixed rate perpetual subordinated loan (interest rate fixed at 7.050%) ⁵	549	—
Total	5,304	3,576

1 This subordinated loan was repaid in the second half of 2024 and distributions were made on repayment.

2 This subordinated loan was repaid in the first half of 2024 and distributions were made on repayment.

3 This subordinated loan was repaid in the first half of 2025 and distributions were made on repayment.

4 This subordinated loan was issued in the second half of 2024.

5 This subordinated loan was issued in the first half of 2025.

Notes on the Consolidated Financial Statements

7 Trading assets

	2025 HK\$m	2024 HK\$m
Treasury and other eligible bills	166,414	183,248
Debt securities	416,899	372,617
Equity securities	551,905	458,599
Reverse repurchase agreements and other similar secured lending	73,211	53,408
Other ¹	15,001	17,449
At 31 Dec	1,223,430	1,085,321

1 'Other' includes term lending and other accounts with banks and customers.

8 Derivatives

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

	Notional contract amount		Fair value – Assets			Fair value – Liabilities		
	Trading HK\$m	Hedging HK\$m	Trading HK\$m	Hedging HK\$m	Total HK\$m	Trading HK\$m	Hedging HK\$m	Total HK\$m
Foreign Exchange	26,609,273	460,853	201,201	5,414	206,615	191,924	1,959	193,883
Interest rate	40,848,633	468,803	325,935	14,016	339,951	339,032	7,340	346,372
Equity	1,118,520	—	15,887	—	15,887	28,112	—	28,112
Credit	311,854	—	1,614	—	1,614	2,779	—	2,779
Commodity and other	391,640	—	19,864	—	19,864	32,813	—	32,813
Gross total	69,279,920	929,656	564,501	19,430	583,931	594,660	9,299	603,959
Offset					(184,985)			(184,985)
At 31 Dec 2025					398,946			418,974
Foreign Exchange	23,555,745	297,726	295,424	13,610	309,034	253,752	101	253,853
Interest rate	40,728,068	494,373	366,893	12,706	379,599	391,379	6,494	397,873
Equity	1,051,731	—	11,286	—	11,286	16,217	—	16,217
Credit	362,342	—	2,185	—	2,185	2,066	—	2,066
Commodity and other	262,274	—	6,500	—	6,500	6,823	—	6,823
Gross total	65,960,160	792,099	682,288	26,316	708,604	670,237	6,595	676,832
Offset					(203,344)			(203,344)
At 31 Dec 2024					505,260			473,488

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

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 which 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. These activities are described more fully below.

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.

Trading derivatives

Most of the group's 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 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, sold or the fair value becomes observable. All derivatives that are part of qualifying hedging relationships have valuations based on observable market parameters.

The aggregate unobservable inception profit yet to be recognised in the income statement is immaterial.

Hedge accounting derivatives

The group applies hedge accounting to manage interest rate and foreign exchange risk. 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 its overall costs 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.

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Hedged risk components

The group designates a portion of cash flows of a financial instrument or a group of financial instruments for a specific interest rate or foreign currency risk component in a fair value or cash flow hedge. The designated risks and portions are either contractually specified or otherwise separately identifiable components of the financial instrument that are reliably measurable. Risk-free or benchmark interest rates generally are regarded as being both separately identifiable and reliably measurable provided the group reasonably expects it will meet the requirement within 24 months from the first designation date. The designated risk component accounts for a significant portion of the overall changes in fair value or cash flows of the hedged item(s).

HSBC uses net investment hedges to hedge the structural foreign exchange risk related to net investments in HBAP branches', subsidiaries' and associates' foreign operations whose functional currencies are different from that of the parent. When hedging with foreign exchange forward contracts, the spot rate component of the foreign exchange risk is designated for an amount of net assets as the hedged risk.

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.

Fair value hedges

The group enters into to 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.

HSBC hedging instrument by hedged risk

Hedged risk	Hedging instrument					Change in fair value ² HK\$m
	Carrying amount					
	Notional amount ^{1,3} HK\$m	Assets HK\$m	Liabilities HK\$m	Balance sheet presentation		
Interest rate	255,199	7,639	7,283	Derivatives		(1,955)
At 31 Dec 2025	255,199	7,639	7,283			(1,955)
Interest rate	257,251	9,490	5,983	Derivatives		(593)
At 31 Dec 2024	257,251	9,490	5,983			(593)

- 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.
- 3 The notional amount of non-dynamic fair value hedges is equal to US\$2,000m (2024: US\$4,500m), of which the weighted-average maturity date is September 2036 and the weighted-average swap rate is 2.71% (2024: 2.67%).

HSBC hedged item by hedged risk

Hedged risk	Hedged item					Ineffectiveness		
	Accumulated fair value hedge adjustments included in carrying amount ²					Change in fair value ¹ HK\$m	Recognised in profit and loss HK\$m	Profit and loss presentation
	Carrying amount							
Assets HK\$m	Liabilities HK\$m	Assets HK\$m	Liabilities HK\$m	Balance sheet presentation				
	227,922		(1,785)		Financial investments	2,530		
Interest rate	131		—		Loans and advances to customers	—	36	Net income from financial instruments held for trading or managed on a fair value basis
		13,544		(1,568)	Subordinated liabilities ³	(539)		
At 31 Dec 2025	228,053	13,544	(1,785)	(1,568)		1,991	36	
	210,022		(4,274)		Financial investments	(223)		Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	—		—		Loans and advances to customers	220	(98)	
		31,954		(2,381)	Subordinated liabilities ³	498		
At 31 Dec 2024	210,022	31,954	(4,274)	(2,381)		495	(98)	

- 1 Used in effectiveness testing, which comprise an amount attributable to the designated hedged risk that can be a risk component.
- 2 The accumulated amount of fair value adjustments remaining in the statement of financial position for hedged items that have ceased to be adjusted for hedging gains and losses were liabilities of HK\$281m (2024: liabilities of HK\$502m) for FVOCI assets, and assets of HK\$661m (2024: HK\$882m) for subordinated liabilities.
- 3 Represents Loss Absorbing Capacity ('LAC') instruments issued by the Bank to HSBC Asia Holdings Limited, the balance of which is included in 'amounts due to Group companies'.

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.

The interest rate risk of the group's fixed rate debt securities issued is managed in a non-dynamic risk management strategy.

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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 dynamic hedges.

Hedging instrument by hedged risk

Hedged risk	Hedging instrument			Hedged item		Ineffectiveness	
	Carrying amount			Change in fair value ²	Change in fair value ³	Recognised in profit and loss	Profit and loss presentation
	Notional amount ¹	Derivative assets	Derivative liabilities				
Foreign currency	400,415	5,338	1,337	(4,421)	(4,421)	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	213,604	6,377	57	4,186	4,192	(6)	
At 31 Dec 2025	614,019	11,715	1,394	(235)	(229)	(6)	
Foreign currency	294,017	13,570	99	16,057	16,057	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	237,122	3,216	511	(2,455)	(2,463)	8	
At 31 Dec 2024	531,139	16,786	610	13,602	13,594	8	

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.

Sources of hedge ineffectiveness may arise from basis risk, including but not limited to timing differences between the hedged items and hedging instruments, and hedges using instruments with a non-zero fair value.

Reconciliation of equity and analysis of other comprehensive income by risk type

	Interest rate HK\$m	Foreign currency HK\$m
Cash flow hedging reserve at 1 Jan 2025	817	(107)
Fair value gains/(losses)	4,192	(4,421)
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
Hedged items that have affected profit or loss ¹	(1,013)	5,893
Income taxes	(533)	(243)
Others	12	(19)
Cash flow hedging reserve at 31 Dec 2025	3,475	1,103
Cash flow hedging reserve at 1 Jan 2024	1,898	(46)
Fair value gains/(losses)	(2,463)	16,057
Fair value (gains)/losses reclassified from the cash flow hedge reserve to the income statement in respect of:		
Hedged items that have affected profit or loss ¹	1,193	(16,129)
Income taxes	194	12
Others	(5)	(1)
Cash flow hedging reserve at 31 Dec 2024	817	(107)

1 Hedged items that have affected profit or loss are primarily recorded within interest income.

Net Investment Hedges

The group applies hedge accounting in respect of certain net investments in non-HKD functional currency foreign operations for changes in spot foreign currency exchange rates. Hedging is undertaken for group structural exposure to changes in foreign currency exchange rates to HKD using foreign currency to USD forward exchange contracts. As a result of the Linked Exchange Rates System between HKD and USD, an economic relationship exists between the hedged net investment and hedging instrument due to the shared foreign currency risk exposure with some ineffectiveness arising from the exchange rate movements between USD and HKD.

Notes on the Consolidated Financial Statements

The aggregate positions at the reporting date and the performance indicators of live hedges are summarized below.

Hedges of net investment in foreign operations

Description of hedged risk	Hedging Instrument				Amounts recognised in other comprehensive income HK\$m	Hedged Item Change in fair value ³ HK\$m	Ineffectiveness		Profit and loss presentation
	Carrying amount			Change in fair value ¹ HK\$m			Recognised in profit and loss HK\$m	Profit and loss presentation	
	Notional amount HK\$m	Derivative assets HK\$m	Derivative liabilities HK\$m						
At 31 Dec 2025									
Thai baht-denominated structural foreign exchange	5,893	1	108	(377)	(308)	337	(36)	Net income from financial instruments held for trading or managed on a fair value basis	
Indian rupee-denominated structural foreign exchange	25,411	—	98	817	817	(926)	—		
Malaysian ringgits-denominated structural foreign exchange	13,446	—	321	(1,025)	(947)	933	(78)		
New taiwan dollar-denominated structural foreign exchange	6,271	75	—	(34)	(34)	19	—		
South korean won-denominated structural foreign exchange	6,667	—	90	2	2	3	—		
Chinese yuan renminbi-denominated structural foreign exchange	—	—	—	(161)	(5)	(85)	(156)		
Other structural foreign exchange ²	2,750	—	6	161	162	(170)	—		
Total	60,438	76	623	(617)	(313)	111	(270)		
At 31 Dec 2024									
Thai baht-denominated structural foreign exchange	3,570	40	2	33	33	33	—	Net income from financial instruments held for trading or managed on a fair value basis	
Indian rupee-denominated structural foreign exchange	—	—	—	—	—	—	—		
Malaysian ringgits-denominated structural foreign exchange	—	—	—	—	—	—	—		
New taiwan dollar-denominated structural foreign exchange	—	—	—	—	—	—	—		
South korean won-denominated structural foreign exchange	—	—	—	—	—	—	—		
Chinese yuan renminbi-denominated structural foreign exchange	77	—	—	—	—	—	—		
Other structural foreign exchange ²	62	—	—	1	1	1	—		
Total	3,709	40	2	34	34	34	—		

1 Used in effectiveness assessment, comprising amount attributable to the designated hedged risk that can be a risk component.

2 Other currencies include Indonesian Rupiah and Philippine peso.

3 An economic relationship exists between the hedged net investment and hedging instrument due to the shared foreign currency risk exposure with some ineffectiveness arising from the exchange rate movements between USD and HKD.

9 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2025			2024		
	Designated at fair value	Mandatorily measured at fair value	Total	Designated at fair value	Mandatorily measured at fair value	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Treasury and other eligible bills	4	1,648	1,652	—	2,884	2,884
Debt securities	13,251	517,040	530,291	12,110	458,420	470,530
Equity securities	—	352,427	352,427	—	274,699	274,699
Reverse repurchase agreements and other similar secured lending	—	31	31	—	193	193
Other ¹	8,735	31,586	40,321	7,022	25,882	32,904
At 31 Dec	21,990	902,732	924,722	19,132	762,078	781,210

1 'Other' includes term lending to customers and banks, and default fund contribution.

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10 Loans and advances to customers

	2025 HK\$m	2024 HK\$m
Gross loans and advances to customers	3,682,120	3,529,958
Expected credit loss allowances	(40,368)	(35,660)
At 31 Dec	3,641,752	3,494,298

The following table provides an analysis of gross loans and advances to customers by industry sector based on the Statistical Classification of economic activities in the European Community ('NACE').

Analysis of gross loans and advances to customers

	2025 HK\$m	2024 HK\$m
Residential mortgages	1,242,124	1,196,883
Credit card advances	108,968	105,808
Other personal	278,086	237,360
Total personal	1,629,178	1,540,051
Real estate & construction	432,823	470,730
Wholesale and retail trade	375,938	349,187
Manufacturing	378,960	354,947
Other	502,803	512,531
Total corporate and commercial	1,690,524	1,687,395
Non-bank financial institutions	362,418	302,512
At 31 Dec	3,682,120	3,529,958
By geography¹		
Hong Kong	2,160,202	2,140,455
Mainland China	357,437	348,169
Australia	350,479	295,298
Singapore	260,095	245,040
India	185,342	169,409
Taiwan	99,752	85,894
Malaysia	84,667	81,545
Indonesia	30,217	29,949
Other	153,929	134,199

1 The geographical information shown above is classified by the location of the principal operations of the subsidiary or the branch responsible for advancing the funds.

Finance lease receivables 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.

Net investment in finance leases and hire purchase contracts

	2025			2024		
	Total future minimum payments HK\$m	Unearned finance income HK\$m	Present value HK\$m	Total future minimum payments HK\$m	Unearned finance income HK\$m	Present value HK\$m
	Amounts receivable					
– within one year	2,222	(790)	1,432	2,300	(849)	1,451
– one to two years	2,217	(724)	1,493	2,346	(778)	1,568
– two to three years	2,108	(647)	1,461	2,266	(714)	1,552
– three to four years	2,006	(579)	1,427	2,061	(648)	1,413
– four to five years	1,917	(528)	1,389	1,971	(599)	1,372
– after five years	22,119	(3,864)	18,255	23,738	(4,623)	19,115
	32,589	(7,132)	25,457	34,682	(8,211)	26,471
Expected credit loss allowances			(589)			(610)
At 31 Dec			24,868			25,861

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11 Financial investments

	2025 HK\$m	2024 HK\$m
Financial investments measured at fair value through other comprehensive income	1,902,299	1,705,104
– treasury and other eligible bills	710,976	763,269
– debt securities	1,183,501	935,105
– equity securities	7,822	6,730
Debt instruments measured at amortised cost	635,676	632,740
– treasury and other eligible bills	23,101	68,964
– debt securities	612,575	563,776
At 31 Dec	2,537,975	2,337,844

Equity instruments measured at fair value through other comprehensive income

Type of equity instruments	2025		2024	
	Fair value HK\$m	Dividends recognised HK\$m	Fair value HK\$m	Dividends recognised HK\$m
Business facilitation	7,192	220	6,184	217
Investments required by central institutions	494	7	434	3
Others	136	—	112	—
At 31 Dec	7,822	227	6,730	220

12 Assets pledged, assets transferred and collateral received

Assets pledged

Financial assets pledged to secure liabilities

	2025 HK\$m	2024 HK\$m
Treasury bills and other eligible securities	128,164	101,305
Loans and advances to banks	17,430	3,360
Loans and advances to customers	14,244	16,218
Debt securities	515,459	443,823
Equity securities	20,467	48,227
Cash collateral included in other assets	132,118	124,112
Assets pledged at 31 Dec	827,882	737,045
Amount of liabilities secured	672,859	561,033

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 repurchase agreements, securities lending, derivative margining, and include assets pledged to cover short positions and to facilitate settlement processes with clearing houses as well as swaps of equity and debt securities. The group places both cash and non-cash collateral in relation to derivative transactions.

Hong Kong currency notes in circulation are secured by the deposit of funds in respect of which the Hong Kong Government certificates of indebtedness are held.

Financial assets pledged as collateral which the counterparty has the right to sell or repledge was HK\$456,873m (2024: HK\$434,537m).

Assets transferred

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2025		2024	
	Transferred assets HK\$m	Associated liabilities HK\$m	Transferred assets HK\$m	Associated liabilities HK\$m
Repurchase agreements	465,999	438,511	433,533	394,880
Securities lending agreements	68,875	291	67,823	273
	534,874	438,802	501,356	395,153

The assets pledged include transfers to third parties that do not qualify for derecognition, notably secured borrowings such as debt securities held by counterparties as collateral under repurchase agreements and equity securities lent under securities lending agreements, as well as swaps of equity and debt securities. For secured borrowings, the transferred asset collateral continues to be recognised in full while a related liability, reflecting the group's obligation to repurchase the assets for a fixed price at a future date, is also recognised on the balance sheet. Where securities are swapped, the transferred asset continues to be recognised in full. There is no associated liability as the non-cash collateral received is not recognised on the balance sheet. The group is unable to use, sell or pledge the transferred assets for the duration of the transaction, and remains exposed to interest rate risk and credit risk on these pledged assets.

Collateral received

Assets accepted as collateral relate primarily to standard securities borrowing, reverse repurchase agreements, swaps of securities and derivative margining. The group is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to standard securities borrowing, reverse repurchase agreements and derivative margining.

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Fair value of collateral accepted as security for assets

	2025 HK\$m	2024 HK\$m
Fair value of collateral permitted to sell or repledge in the absence of default	1,310,931	1,242,421
Fair value of collateral actually sold or repledged	489,790	510,336

13 Investments in subsidiaries

Main subsidiaries of the Bank

	Place of incorporation	Principal activity	The group's interest in issued share capital/ registered or charter capital at 31 Dec 2025
Hang Seng Bank Limited ^{1,2}	Hong Kong	Banking	63.43%
HSBC Bank (China) Company Limited	Mainland China	Banking	100%
HSBC Bank Malaysia Berhad	Malaysia	Banking	100%
HSBC Bank Australia Limited ³	Australia	Banking	100%
HSBC Bank (Taiwan) Limited ³	Taiwan	Banking	100%
HSBC Bank (Singapore) Limited	Singapore	Banking	100%
HSBC Life (International) Limited ³	Bermuda	Retirement benefits and life insurance	100%

- In addition to the strategic holding disclosed above, the group held 0.07% (2024: 0.06%) shareholding as part of its trading books.
- Based on the latest corporate substantial shareholding notice filed with Hong Kong Exchange and Clearing Limited on 21 June 2024, the group's shareholding in Hang Seng Bank Limited on 18 June 2024 was 62.83%. Movements in shareholding since 18 June 2024 are reflected in the above table. Hang Seng Bank became a wholly owned subsidiary of the Bank following the completion of privatisation on 26 January 2026. See Note 39 for further details.
- Held indirectly.

All of the above subsidiaries are included in the group's consolidated financial statements. These subsidiaries make their financial statements up to 31 December.

The principal places of business are the same as the places of incorporation except for HSBC Life (International) Limited which operates mainly in Hong Kong.

The proportion of voting rights held is the same as the proportion of ownership interest held.

The main subsidiaries are regulated banking and insurance entities in the Asia-Pacific region and, as such, are required to maintain certain minimum levels of capital 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 shareholder loans or cash dividends.

Subsidiary with significant non-controlling interest

	2025 HK\$m	2024 HK\$m
Hang Seng Bank Limited		
Proportion of ownership interests and voting rights held by non-controlling interests (%) ¹	36.57	36.88
Profit attributable to non-controlling interests	5,781	6,831
Accumulated non-controlling interests of the subsidiary	58,824	58,203
Dividends paid to non-controlling interests	4,891	4,836
Summarised financial information (before intra-group eliminations):		
– total assets	1,819,113	1,795,196
– total liabilities	1,646,421	1,625,632
– net operating income before change in expected credit losses and other credit impairment charges	41,603	40,955
– profit for the year	15,757	18,369
– other comprehensive income/(expense) for the year, net of tax	2,671	(225)
– total comprehensive income for the year	18,428	18,144

- This includes the group's shareholding held under trading books 0.07% (2024: 0.06%).

14 Interests in associates and joint ventures

Associates and joint ventures

	2025 HK\$m	2024 HK\$m
Interests in associates	178,839	178,304
Interests in joint ventures	—	26
Interests in associates and joint ventures	178,839	178,330

Principal associate

	Place of incorporation	The group's interest in issued share capital
Bank of Communications Co., Ltd ¹	Mainland China	16.00%

- The group's interest in Bank of Communications Co., Limited ('BoCom') reduced from 19.03% to 16.00% following the completion of a capital issuance by BoCom on 17 June 2025.

Bank of Communications Co., Ltd. is listed on recognised stock exchanges. The fair value represents valuation based on the quoted market price of the shares held (Level 1 in the fair value hierarchy) and amounted to HK\$91,175m at 31 December 2025 (2024: HK\$90,327m).

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Bank of Communications Co., Ltd. ('BoCom')

The results for the period ended 31 December 2025 included a HK\$9.0bn loss from the dilution of our shareholding, and a HK\$8.3bn impairment to the carrying amount, of the group's interest in BoCom.

The group's interest in BoCom reduced from 19.03% to 16.00% following the completion of a capital issuance by BoCom on 17 June 2025. The dilution of the group's interest resulted in a pre-tax loss of HK\$9.0bn, recognised in 'Other operating income/(expense)' in the group's consolidated income statement. The loss is not deductible for tax purposes as a consequence of our shareholding in BoCom being held for long-term investment purposes.

In addition, the group's impairment test on the carrying amount at 30 June 2025 resulted in an impairment of HK\$8.3bn, as the recoverable amount as determined by a value-in-use calculation was lower than the carrying amount. The impairment was recognised within 'Impairment of interest in associate'. Consistent with prior periods, our value-in-use calculation uses both historical experience and market participant views to estimate future cash flows, relevant discount rates and associated capital assumptions. No further impairment (or reversal) was required for the period from 1 July 2025 to 31 December 2025 based on results of the quarterly impairment tests performed.

The impacts of the capital issuance have been incorporated in both the carrying amount and the VIU. The VIU assumptions incorporate updated expectations, taking into account both the impact of the capital issuance on BoCom's financial position, and the latest macroeconomic, policy and industry factors in mainland China.

We remain strategically committed to mainland China and continue our valued, strategic partnership with BoCom.

HSBC's Interest

The group's investment in BoCom continues to be classified as an associate. Significant influence in BoCom was established with consideration of all relevant factors, including the group's latest shareholding, representation on BoCom's Board of Directors, and participation in a resource and experience sharing agreement ('RES'). Under the RES, HSBC staff have been seconded to assist in the maintenance of BoCom's financial and operating policies. Investments in associates are recognised using the equity method of accounting in accordance with HKAS 28, whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the group's share of associate's net assets. An impairment test is required if there is any indication of impairment or reversal.

The fair value of the group's investment in BoCom had been below its carrying amount. No impairment (or reversal) was required for the year ended 31 December 2024.

If the group did not have significant influence in BoCom, the investment would be carried at fair value rather than the current carrying amount.

Impairment testing

The group's impairment test at 30 June 2025 concluded that there were indications of impairment. As part of this assessment, an impairment test on the carrying amount with an updated VIU calculation was performed which resulted in an impairment of HK\$8.3bn, as the recoverable amount as determined by the VIU calculation was lower than the carrying amount. The impairment was recognised within 'Impairment of interest in associate'. The impairment loss is not deductible for tax purposes.

At 31 December 2025, no further impairment (or reversal) was required and the investment had a carrying amount of HK\$174.8bn (2024: HK\$174.2bn) and a fair value of HK\$91.2bn (2024: HK\$90.3bn).

Basis of recoverable amount

The VIU calculation uses discounted cash flow projections based on management's best estimates of future earnings available to ordinary shareholders prepared in accordance with HKAS 36. Those cash flows used estimates based on BoCom's current condition and so do not include estimated cash flows arising from uncommitted future actions that may affect the performance of the investment which will be considered at the relevant time should they arise. Significant management judgement is required in arriving at the best estimate.

The VIU may increase or decrease depending on the effect of changes to model inputs. The main model inputs are described below and are based on factors observed at period-end. The factors that could result in increases or reductions in the VIU include changes in BoCom's short-term performance, a change in regulatory capital requirements or revisions to the forecast of BoCom's future profitability.

There are two main components to the VIU calculation. The first component is management's best estimate of BoCom's earnings. Forecast earnings growth over the short to medium term continues to be lower than recent (within the last five years) actual growth and reflects the impact of recent macroeconomic, policy and industry factors in mainland China. As a result of management's intent to continue to retain its investment for the long term, earnings beyond the short to medium term are extrapolated into perpetuity using a long-term growth rate to derive a terminal value, which comprises the majority of the VIU. The second component is the capital maintenance charge ('CMC'), which is management's forecast of the earnings that need to be withheld in order for BoCom to meet capital requirements over the forecast period, meaning that CMC is deducted when arriving at management's estimate of future earnings available to ordinary shareholders. The CMC reflects the revised capital requirements arising from revisions of the ratio of risk-weighted assets to total assets assumption. The principal inputs to the CMC calculation include estimates of asset growth, the ratio of risk-weighted assets to total assets and the expected capital requirements. An increase in the CMC as a result of a change to these principal inputs would reduce VIU. Additionally, management considers other qualitative factors, to ensure that the inputs to the VIU calculation remain appropriate.

Key assumptions in value in use calculation

We used a number of assumptions in our VIU calculation, in accordance with the requirements of HKAS 36:

- Long-term profit growth rate: 3.00% (2024: 3.00%) for periods after 2029, which does not exceed forecast GDP growth in mainland China and is similar to forecasts by external analysts.
- Long-term asset growth rate: 3.25% (2024: 3.25%) for periods after 2029, which is the rate that assets are expected to grow to achieve long-term profit growth of 3.00%.
- Discount rate: 8.08% (2024: 8.53%), which is based on a capital asset pricing model ('CAPM'), using market data. The discount rate used is within the range of 7.1% to 8.7% (2024: 7.1% to 8.8%) indicated by the CAPM, and decreased primarily as a consequence of a market-driven reduction in the risk-free rate.

Notes on the Consolidated Financial Statements

- Expected credit losses ('ECL') as a percentage of loans and advances to customers: ranges from 0.67% to 0.87% (2024: 0.74% to 0.93%) in the short to medium term, reflecting reported credit experience in mainland China. For periods after 2029, the ratio is 0.87% (2024: 0.97%), reflecting the anticipated continuation of BoCom's lower average ECL as a percentage of loans and advances to customers experienced in recent years.
- Risk-weighted assets as a percentage of total assets: ranges from 62.0% to 64.2% (2024: 62.0% to 62.5%) in the short to medium term, reflecting higher risk-weights in the short term followed by an expected reversion to recent historical levels. For periods after 2029, the ratio is 62.0% (2024: 62.0%), which continues to be similar to BoCom's actual results in recent years.
- Loans and advances to customers growth rate: ranges from 7.5% to 8.0% (2024: 7.5% to 9.5%) in the short to medium term, which is similar to BoCom's actual results in recent years. Decreases in the forecast growth rate of loans and advances to customers result in lower forecast ECL.
- Operating income growth rate: ranges from 0.5% to 7.4% (2024: 0.1% to 9.9%) in the short to medium term, which is similar to BoCom's actual results in recent years. The projected net interest income over the short to medium term reduced to reflect expected pressure on net interest margin compared with the prior period, which led to a net reduction in the VIU.
- Cost-income ratio: ranges from 34.8% to 40.0% (2024: 34.6% to 39.8%) in the short to medium term. These ratios are similar to BoCom's actual results in recent years.
- Long-term effective tax rate: 15.0% (2024: 15.0%) for periods after 2029, which is higher than the recent historical average, and aligned to the minimum tax rate as proposed by the OECD/Group of 20 ('G20') Inclusive Framework on Base Erosion and Profit Shifting.
- Capital requirements: capital adequacy ratio of 12.5% (2024: 12.5%) and tier 1 capital adequacy ratio of 9.5% (2024: 9.5%), based on BoCom's capital risk appetite and capital requirements respectively.

The following table illustrates the impact on the carrying amount of reasonably possible changes to key assumptions used in the VIU calculation. This reflects the sensitivity of each key assumption on its own and it is possible that more than one favourable and/or unfavourable change may occur at the same time. The selected rates of reasonably possible changes to key assumptions are based on external analysts' forecasts, statutory requirements and other relevant external data sources, which can change period to period. Unless specified, favourable and unfavourable changes are consistently applied throughout short-to-medium and long-term forecast years, based on a straight-line average of the base case assumption.

Sensitivity of the carrying amount to the key VIU assumptions

	Favourable change		Unfavourable change	
	bps	Reversal of impairment/ VIU headroom HK\$bn	bps	Impairment HK\$bn
At 31 Dec 2025				
Long-term profit growth rate	30	16.9	(104)	(46.0)
Long-term asset growth rate	(129)	71.3	5	(3.4)
Discount rate	(98)	36.3	232	(42.7)
Expected credit losses as a percentage of loans and advances to customers ¹	2025 to 2029: 64 2030 onwards: 84	14.3	2025 to 2029: 90 2030 onwards: 98	(36.2)
Risk-weighted assets as a percentage of total assets	(184)	6.3	182	(13.2)
Loans and advances to customers growth rate	(138)	14.6	455	(54.7)
Operating income growth rate	101	28.9	(100)	(29.2)
Cost-income ratio	(281)	3.5	292	(49.2)
Long-term effective tax rate	(426)	13.2	1000	(31.0)
Capital requirements – capital adequacy ratio	—	—	363	(100.5)
Capital requirements – tier 1 capital adequacy ratio	—	—	333	(53.4)
At 31 Dec 2024				
Long-term profit growth rate	55	31.3	(96)	(41.6)
Long-term asset growth rate	(121)	67.4	30	(21.9)
Discount rate	(143)	41.5	287	(50.2)
Expected credit losses as a percentage of loans and advances to customers ¹	2024 to 2028: 66 2029 onwards: 91	31.2	2024 to 2028: 108 2029 onwards: 104	(33.3)
Risk-weighted assets as a percentage of total assets	(132)	6.3	234	(13.1)
Loans and advances to customers growth rate	(217)	26.9	340	(47.4)
Operating income growth rate	76	21.6	(81)	(25.7)
Cost-income ratio	(190)	1.7	380	(55.1)
Long-term effective tax rate	(426)	13.1	1000	(30.6)
Capital requirements – capital adequacy ratio	—	—	372	(110.9)
Capital requirements – tier 1 capital adequacy ratio	—	—	270	(51.5)

¹ The expected credit losses as a percentage of loans and advances to customers reflect selected favourable and unfavourable rates.

Considering the interrelationship of the changes set out in the table above, management estimates that the reasonably possible range of VIU is HK\$103.9bn to HK\$241.3bn (2024: HK\$105.2bn to HK\$239.4bn), acknowledging that the fair value of the group's investment has ranged from HK\$58.5bn to HK\$103.2bn over the last five years as at the date of the impairment tests. The possible range of VIU is based on impacts set out in the table above arising from the favourable/unfavourable change in the operating income in the short to medium term, the expected credit losses as a percentage of loans and advances to customers, and a 50bps increase/decrease in the discount rate. All other long-term assumptions, and the basis of the CMC, have been kept unchanged when determining the reasonably possible range of the VIU.

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Selected financial information of BoCom

The statutory accounting reference date of BoCom is 31 December. For the year ended 31 December 2025, the group included the associate's results on the basis of the financial statements for the 12 months ended 30 September 2025, taking into account any known changes in the subsequent period from 1 October 2025 to 31 December 2025 that would have materially affected the results.

Selected balance sheet information of BoCom

	At 30 Sep 2025	At 30 Sep 2024
	HK\$m	HK\$m
Cash and balances with central banks	811,261	773,999
Due from and placements with banks and other financial institutions	957,712	952,187
Loans and advances to customers	9,853,177	8,764,901
Other financial assets	5,115,714	4,564,329
Other assets	521,873	477,215
Total assets	17,259,737	15,532,631
Due to and placements from banks and other financial institutions	2,699,603	2,537,529
Deposits from customers	10,311,930	9,285,130
Other financial liabilities	2,492,126	2,197,000
Other liabilities	313,578	295,752
Total liabilities	15,817,237	14,315,411
Total equity	1,442,500	1,217,220
Equity attributable to Shareholders	1,430,144	1,204,616

Reconciliation of BoCom's total shareholders' equity to the carrying amount in the group's consolidated financial statements

	At 30 Sep	
	2025	2024
	HK\$m	HK\$m
Equity attributable to Shareholders	1,430,144	1,204,616
Other equity Instruments	(161,193)	(185,975)
Equity attributable to Shareholders less other equity instruments	1,268,951	1,018,641
The Group's Share of equity ¹	207,488	197,402
Impairment ²	(32,686)	(23,165)
Carrying amount	174,802	174,237

- 1 This balance includes goodwill originally arising on acquisition and reflects the impacts from the dilution of our shareholding in BoCom as well as BoCom's interim dividend for the six months ended 30 June 2025.
- 2 This balance includes the impact of foreign exchange movements.

Selected income statement information of BoCom

	For the 12 months ended 30 Sep	
	2025	2024
	HK\$m	HK\$m
Net interest income	186,225	180,865
Net fee and commission income	40,089	41,468
Credit and impairment losses	(55,009)	(57,816)
Depreciation and amortisation	(21,609)	(20,204)
Tax expense	(10,929)	(6,516)
– profit for the year	103,838	100,828
– other comprehensive income	2,279	10,621
Total comprehensive income	106,117	111,449
Dividends received from BoCom	5,796	5,812

Using the latest period for which BoCom has disclosed this information (at 30 June 2025), the group's share of associate's contingent liabilities was HK\$426,270m (2024: HK\$469,744m).

15 Goodwill and intangible assets

Goodwill and intangible assets include goodwill arising on business combinations and other intangible assets.

	2025	2024
	HK\$m	HK\$m
Goodwill	7,047	7,026
Other intangible assets ¹	35,591	34,282
At 31 Dec	42,638	41,308

- 1 Included within other intangible assets is internally generated software with a net carrying value of HK\$32,782m (2024: HK\$31,388m). During the year, capitalisation of internally generated software was HK\$11,378m (2024: HK\$10,693m), the amortisation charge was HK\$9,361m (2024: HK\$8,270m) and the impairment charge was HK\$289m (2024: HK\$255m).

Notes on the Consolidated Financial Statements

16 Property, plant and equipment

	2025 HK\$m	2024 HK\$m
Owned property, plant and equipment ¹	109,589	115,143
Other right-of-use assets	6,673	5,631
At 31 Dec	116,262	120,774

1 Included leasehold land and buildings of HK\$97,886m (2024: HK\$104,140m) for which the right of use are considered sufficient to constitute control. They are therefore presented as owned assets.

Movement in owned property, plant and equipment

	2025				2024			
	Land and buildings HK\$m	Investment properties HK\$m	Equipment HK\$m	Total HK\$m	Land and buildings HK\$m	Investment properties HK\$m	Equipment HK\$m	Total HK\$m
Cost or valuation								
At 1 Jan	94,564	15,243	18,254	128,061	101,271	16,211	17,215	134,697
Exchange and other adjustments	631	18	205	854	(483)	(13)	(290)	(786)
Additions	66	14	2,252	2,332	86	15	1,976	2,077
Disposals	(9)	—	(802)	(811)	(1)	—	(646)	(647)
Elimination of accumulated depreciation on revalued land and buildings	(2,867)	—	—	(2,867)	(5,897)	—	—	(5,897)
Deficit on revaluation	(2,252)	(1,249)	—	(3,501)	(271)	(1,046)	—	(1,317)
Reclassifications	(148)	143	(18)	(23)	(141)	76	(1)	(66)
At 31 Dec	89,985	14,169	19,891	124,045	94,564	15,243	18,254	128,061
Accumulated depreciation								
At 1 Jan	962	—	11,956	12,918	233	—	11,163	11,396
Exchange and other adjustments	59	—	100	159	(29)	—	(151)	(180)
Charge for the year	3,352	—	1,607	4,959	6,656	—	1,518	8,174
Disposals	(1)	—	(712)	(713)	(1)	—	(574)	(575)
Elimination of accumulated depreciation on revalued land and buildings	(2,867)	—	—	(2,867)	(5,897)	—	—	(5,897)
At 31 Dec	1,505	—	12,951	14,456	962	—	11,956	12,918
Net book value at 31 Dec	88,480	14,169	6,940	109,589	93,602	15,243	6,298	115,143

The carrying amount of land and buildings, had they been stated at cost less accumulated depreciation, would have been as follows:

	2025 HK\$m	2024 HK\$m
Cost less accumulated depreciation	16,193	16,808

Valuation of land and buildings and investment properties

The group's land and buildings and investment properties were revalued as at 31 December 2025. The basis of valuation for land and buildings and investment properties was open market value. The resultant values are Level 3 in the fair value hierarchy. The fair values for land and buildings are determined by using a direct comparison approach which values the properties in their respective existing states and uses, assuming sale with immediate vacant possession and by making reference to comparable sales evidence. The valuations take into account the characteristics of the properties (unobservable inputs) which include the location, size, shape, view, floor level, year of completion and other factors collectively. The premium or discount applied to the characteristics of the properties is within minus 40% and plus 50%. In determining the open market value of investment properties, expected future cash flows have been discounted to their present values. The net book value of 'Land and buildings' includes HK\$5,927m (2024: HK\$6,919m) in respect of properties which were valued using the depreciated replacement cost method.

Valuation of land and buildings and investment properties in Hong Kong and Macau were carried out by Jones Lang LaSalle Incorporated and Hang Seng Bank by Cushman & Wakefield Limited, who have recent experience in the location and type of properties and who are members of the Hong Kong Institute of Surveyors. This represents 85% by value of the group's properties subject to valuation. Other properties were valued by different independent professionally qualified valuers.

Notes on the Consolidated Financial Statements

17 Prepayments, accrued income and other assets

	2025 HK\$m	2024 HK\$m
Prepayments and accrued income	51,756	44,779
Bullion	113,821	71,712
Acceptances and endorsements	60,096	54,048
Insurance contract assets	469	323
Reinsurance contract assets	46,381	36,626
Current tax assets	1,414	2,414
Settlement accounts and items in course of collection from other banks	79,590	53,874
Cash collateral and margin receivables	69,734	82,698
Other assets	35,494	36,467
At 31 Dec	458,755	382,941

Prepayments, accrued income and other assets included HK\$293,051m (2024: HK\$268,556m) of financial assets, the majority of which were measured at amortised cost.

18 Customer accounts

Customer accounts by country/territory

	2025 HK\$m	2024 HK\$m
Hong Kong	4,818,611	4,466,634
Singapore	636,280	595,951
Mainland China	540,785	490,579
Australia	265,993	248,137
India	223,601	211,234
Malaysia	157,592	131,999
Taiwan	146,113	132,544
Indonesia	44,967	43,162
Other	263,061	244,366
At 31 Dec	7,097,003	6,564,606

19 Trading liabilities

	2025 HK\$m	2024 HK\$m
Net short positions in securities	65,778	63,586
Repurchase agreements and other similar secured lending	22,411	22,875
Customer accounts	215	96
At 31 Dec	88,404	86,557

20 Financial liabilities designated at fair value

	2025 HK\$m	2024 HK\$m
Deposits by banks and customer accounts	113,915	98,609
Debt securities in issue	50,779	50,787
Liabilities to customers under investment contracts	30,505	29,343
At 31 Dec	195,199	178,739

The carrying amount of financial liabilities designated at fair value was HK\$275m lower than the contractual amount at maturity (2024: HK\$393m higher). The cumulative loss in fair value attributable to changes in credit risk was HK\$133m (2024: HK\$20m gain).

21 Debt securities in issue

	2025 HK\$m	2024 HK\$m
Bonds and medium-term notes	78,057	89,049
Other debt securities in issue	19,742	26,100
Total debt securities in issue	97,799	115,149
Included within:		
– financial liabilities designated at fair value (Note 20)	(50,779)	(50,787)
At 31 Dec	47,020	64,362

Notes on the Consolidated Financial Statements

22 Accruals and deferred income, other liabilities and provisions

	2025 HK\$m	2024 HK\$m
Accruals and deferred income	41,981	46,512
Acceptances and endorsements	60,160	54,106
Settlement accounts and items in course of transmission to other banks	77,248	95,662
Cash collateral and margin payables	63,744	74,830
Reinsurance contract liabilities	5,283	5,098
Share-based payment liability to HSBC Holdings plc	3,079	2,220
Lease liabilities	6,861	5,938
Other liabilities ¹	58,988	52,502
Provisions for liabilities and charges	2,869	2,845
At 31 Dec	320,213	339,713

1 Principally includes marginal deposit on letter of credit and credit card settlement account.

Accruals and deferred income, other liabilities and provisions included HK\$300,792m (2024: HK\$321,344m) of financial liabilities which were measured at amortised cost.

Movement in provisions

	Restructuring costs HK\$m	Other HK\$m	Total HK\$m
Provisions (excluding contractual commitments)			
At 31 Dec 2024	388	1,378	1,766
Additions	887	489	1,376
Amounts utilised	(698)	(227)	(925)
Unused amounts reversed	(328)	(98)	(426)
Exchange and other movements	2	62	64
At 31 Dec 2025	251	1,604	1,855
Contractual commitments¹			
At 31 Dec 2024			1,079
Net change in expected credit loss provision and other movements			(65)
At 31 Dec 2025			1,014
Total Provisions at 31 Dec 2025			2,869
At 31 Dec 2023	186	598	784
Additions	423	1,026	1,449
Amounts utilised	(94)	(201)	(295)
Unused amounts reversed	(90)	(123)	(213)
Exchange and other movements	(37)	78	41
At 31 Dec 2024	388	1,378	1,766
Contractual commitments ¹			
At 31 Dec 2023			1,249
Net change in expected credit loss provision and other movements			(170)
At 31 Dec 2024			1,079
Total Provisions at 31 Dec 2024			2,845

1 Contractual commitments include provisions for contingent liabilities measured under HKFRS 9 'Financial Instruments' in respect of financial guarantees and expected credit loss provisions in relation to off-balance sheet guarantees and commitments.

23 Share capital

	2025 HK\$m	2024 HK\$m
Paid up share capital in HK\$	123,949	123,949
Paid up share capital in US\$ ¹	56,232	56,232
At 31 Dec	180,181	180,181

Ordinary shares issued and fully paid

	2025		2024	
	HK\$m	Number	HK\$m	Number
At 31 Dec	180,181	49,579,391,798	180,181	49,579,391,798

1 Paid up share capital in US\$ represents preference shares which were redeemed or bought back via payment out of distributable profits and for which the amount was transferred from retained earnings to share capital in accordance with the requirements of the Companies Ordinance.

There were no new ordinary shares issued during 2025 (2024: nil). The holder of the ordinary shares is entitled to receive dividends as declared from time to time, rank equally with regard to the Bank's residual assets and are entitled to one vote per share at shareholder meetings of the Bank.

Notes on the Consolidated Financial Statements

24 Other equity instruments

Other equity instruments comprise additional tier 1 capital instruments in issue which are accounted for as equity.

	2025	2024
	HK\$m	HK\$m
US\$1,000m Fixed rate perpetual subordinated loan, callable from Mar 2025 ¹	—	7,834
US\$700m Fixed rate perpetual subordinated loan, callable from Mar 2025 ¹	—	5,467
US\$500m Fixed rate perpetual subordinated loan, callable from Mar 2025 ¹	—	3,905
US\$900m Fixed rate perpetual subordinated loan, callable from Sep 2026 ²	7,063	7,063
US\$600m Fixed rate perpetual subordinated loan, callable from May 2027 ³	4,685	4,685
US\$1,000m Fixed rate perpetual subordinated loan, callable from Mar 2028 ⁴	7,850	7,850
SG\$1,500m Fixed rate perpetual subordinated loan, callable from Jun 2029 ⁵	8,574	8,574
US\$1,350m Fixed rate perpetual subordinated loan, callable from Sep 2029 ⁶	10,421	10,421
US\$1,150m Fixed rate perpetual subordinated loan, callable from Mar 2034 ⁷	8,878	8,878
US\$1,500m Fixed rate perpetual subordinated loan, callable from Aug 2031 ⁷	11,547	—
SG\$800m Fixed rate perpetual subordinated loan, callable from Mar 2030 ⁸	4,604	—
US\$2,000m Fixed rate perpetual subordinated loan, callable from Jun 2030 ⁹	15,536	—
At 31 Dec	79,158	64,677

- 1 This subordinate loan was repaid in first half of 2025.
- 2 Interest rate fixed at 6.510%.
- 3 Interest rate fixed at 5.910%.
- 4 Interest rate fixed at 8.000%.
- 5 Interest rate fixed at 5.250%.
- 6 Interest rate fixed at 6.875%.
- 7 Interest rate fixed at 6.950%.
- 8 Interest rate fixed at 5.000%.
- 9 Interest rate fixed at 7.050%.

The additional tier 1 capital instruments above are held by HSBC Asia Holdings Limited. These are perpetual subordinated loans on which coupon payments may be cancelled at the sole discretion of the Bank. The subordinated loans 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 wind-up.

25 Maturity analysis of assets and liabilities

The following tables 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 included in the 'Due 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 'Due 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 'Due over 5 years' time bucket.
- Financial instruments included within assets and liabilities of disposal groups held for sale are classified on the basis of the contractual maturity of the underlying instruments and not on the basis of the disposal transaction.
- Non-financial assets and liabilities with no contractual maturity are included in the 'Due over 5 years' time bucket.
- Liabilities under insurance contracts included in 'non-financial liabilities' are irrespective of contractual maturity included in the 'Due over 5 years' time bucket in the maturity table provided below. An analysis of the present value of expected future cash flows of insurance contract liabilities and contractual service margin is provided on page 88.

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Maturity analysis of assets and liabilities

	Due not more than 1 month HK\$m	Due over 1 month but not more than 3 months HK\$m	Due over 3 months but not more than 6 months HK\$m	Due over 6 months but not more than 9 months HK\$m	Due over 9 months but not more than 1 year HK\$m	Due over 1 year but not more than 2 years HK\$m	Due over 2 years but not more than 5 years HK\$m	Due over 5 years HK\$m	Total HK\$m
Financial assets									
Cash and balances at central banks	204,345	—	—	—	—	—	—	—	204,345
Hong Kong Government certificates of indebtedness	342,994	—	—	—	—	—	—	—	342,994
Trading assets	1,203,846	13,802	4,659	1,123	—	—	—	—	1,223,430
Derivatives	390,200	961	641	463	194	1,446	4,581	460	398,946
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	21,545	7,557	8,134	9,677	6,288	46,250	81,303	743,968	924,722
Reverse repurchase agreements – non-trading	541,048	146,946	55,268	13,870	12,261	52,686	63,590	—	885,669
Loans and advances to banks	294,911	96,507	35,270	33,681	22,395	18,274	15,620	—	516,658
Loans and advances to customers	586,343	372,428	281,315	156,730	166,411	385,941	576,433	1,116,151	3,641,752
Financial investments	160,056	472,259	270,371	108,097	90,184	293,693	902,413	240,902	2,537,975
Amounts due from Group companies	100,081	4,151	8,646	2,415	9,357	47,668	7,112	4	179,434
Accrued income and other financial assets	213,170	42,251	28,426	3,900	3,019	712	656	917	293,051
Financial assets at 31 Dec 2025	4,058,539	1,156,862	692,730	329,956	310,109	846,670	1,651,708	2,102,402	11,148,976
Non-financial assets	—	—	—	—	—	—	—	534,255	534,255
Total assets at 31 Dec 2025	4,058,539	1,156,862	692,730	329,956	310,109	846,670	1,651,708	2,636,657	11,683,231
Financial liabilities									
Hong Kong currency notes in circulation	342,994	—	—	—	—	—	—	—	342,994
Repurchase agreements – non-trading	569,093	50,921	—	—	1,336	1,401	—	—	622,751
Deposits by banks	226,216	2,143	4,234	331	6	—	—	—	232,930
Customer accounts	5,677,030	950,952	303,396	81,545	52,116	17,645	14,312	7	7,097,003
Trading liabilities	88,404	—	—	—	—	—	—	—	88,404
Derivatives	416,354	701	541	60	132	140	712	334	418,974
Financial liabilities designated at fair value	70,382	30,610	12,936	8,542	9,746	23,194	5,505	34,284	195,199
Debt securities in issue	817	8,124	3,889	455	432	11,761	15,822	5,720	47,020
Amounts due to Group companies	108,074	12,544	870	6	211	27,550	90,742	147,550	387,547
Accruals and other financial liabilities	206,522	48,736	27,728	4,508	4,254	2,995	5,160	889	300,792
Financial liabilities at 31 Dec 2025	7,705,886	1,104,731	353,594	95,447	68,233	84,686	132,253	188,784	9,733,614
Non-financial liabilities	—	—	—	—	—	—	—	1,005,446	1,005,446
Total liabilities at 31 Dec 2025	7,705,886	1,104,731	353,594	95,447	68,233	84,686	132,253	1,194,230	10,739,060

Notes on the Consolidated Financial Statements

Maturity analysis of assets and liabilities (continued)

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Financial assets									
Cash and balances at central banks	211,047	—	—	—	—	—	—	—	211,047
Hong Kong Government certificates of indebtedness	328,454	—	—	—	—	—	—	—	328,454
Trading assets	1,081,470	2,158	983	710	—	—	—	—	1,085,321
Derivatives	489,247	2,597	4,532	2,626	1,000	2,278	2,339	641	505,260
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	10,088	10,168	9,413	6,265	9,113	29,801	86,768	619,594	781,210
Reverse repurchase agreements – non-trading	540,928	153,653	51,841	15,017	6,242	35,159	13,262	—	816,102
Loans and advances to banks	270,588	112,357	24,404	31,501	14,819	12,563	14,121	387	480,740
Loans and advances to customers	534,432	361,700	280,303	175,600	175,056	330,593	560,443	1,076,171	3,494,298
Financial investments	185,570	469,399	308,923	98,612	93,043	264,088	706,842	211,367	2,337,844
Amounts due from Group companies	73,378	7,063	22,600	3,532	22,880	28,641	4,132	1	162,227
Accrued income and other financial assets	193,960	40,304	25,905	3,674	2,809	742	551	611	268,556
Financial assets at 31 Dec 2024	3,919,162	1,159,399	728,904	337,537	324,962	703,865	1,388,458	1,908,772	10,471,059
Non-financial assets									
Total assets at 31 Dec 2024	3,919,162	1,159,399	728,904	337,537	324,962	703,865	1,388,458	2,386,653	10,948,940
Financial liabilities									
Hong Kong currency notes in circulation	328,454	—	—	—	—	—	—	—	328,454
Repurchase agreements – non-trading	575,380	43,808	4,080	—	—	—	—	1,516	624,784
Deposits by banks	179,660	1,683	1,784	421	64	—	—	—	183,612
Customer accounts	5,043,710	1,021,931	305,414	81,302	66,316	31,696	14,233	4	6,564,606
Trading liabilities	85,781	776	—	—	—	—	—	—	86,557
Derivatives	472,563	11	1	18	10	150	571	164	473,488
Financial liabilities designated at fair value	41,972	38,852	18,416	10,153	12,998	16,218	10,978	29,152	178,739
Debt securities in issue	1,010	13,202	5,451	6,868	3,695	4,883	21,472	7,781	64,362
Amounts due to Group companies	125,329	19,450	675	67	217	31,611	112,738	106,080	396,167
Accruals and other financial liabilities	227,963	49,318	27,167	3,883	3,976	3,752	4,414	871	321,344
Financial liabilities at 31 Dec 2024	7,081,822	1,189,031	362,988	102,712	87,276	88,310	164,406	145,568	9,222,113
Non-financial liabilities									
Total liabilities at 31 Dec 2024	7,081,822	1,189,031	362,988	102,712	87,276	88,310	164,406	994,387	10,070,932

Notes on the Consolidated Financial Statements

26 Analysis of cash flows payable under financial liabilities by remaining contractual maturities

	Due not more than 1 month HK\$m	Due over 1 month but not more than 3 months HK\$m	Due between 3 and 12 months HK\$m	Due between 1 and 5 years HK\$m	Due after 5 years HK\$m	Total HK\$m
At 31 Dec 2025						
Hong Kong currency notes in circulation	342,994	—	—	—	—	342,994
Repurchase agreements – non-trading	565,460	55,469	1,336	1,401	—	623,666
Deposits by banks	226,545	2,143	4,579	—	—	233,267
Customer accounts	5,688,330	960,561	445,567	37,242	7	7,131,707
Trading liabilities	88,404	—	—	—	—	88,404
Derivatives	418,678	502	496	1,573	918	422,167
Financial liabilities designated at fair value	70,937	31,056	31,763	29,731	34,374	197,861
Debt securities in issue	832	8,548	5,638	29,987	6,155	51,160
Amounts due to Group companies	108,746	16,482	9,954	156,222	189,496	480,900
Other financial liabilities	200,156	42,821	32,400	7,287	866	283,530
	7,711,082	1,117,582	531,733	263,443	231,816	9,855,656
Loan and other credit-related commitments	3,682,681	—	—	—	—	3,682,681
Financial guarantees	56,941	—	—	—	—	56,941
	11,450,704	1,117,582	531,733	263,443	231,816	13,595,278
Proportion of cash flows payable in period	84%	8%	4%	2%	2%	
At 31 Dec 2024						
Hong Kong currency notes in circulation	328,454	—	—	—	—	328,454
Repurchase agreements – non-trading	576,859	43,772	4,158	—	1,523	626,312
Deposits by banks	179,875	1,694	2,292	—	—	183,861
Customer accounts	5,052,552	1,034,325	466,325	54,206	4	6,607,412
Trading liabilities	86,557	—	—	—	—	86,557
Derivatives	474,389	75	99	735	852	476,150
Financial liabilities designated at fair value	42,285	39,334	42,122	28,083	29,161	180,985
Debt securities in issue	1,036	13,836	17,525	29,452	8,515	70,364
Amounts due to Group companies	126,134	23,106	9,498	184,003	154,260	497,001
Other financial liabilities	220,568	41,416	29,117	6,548	891	298,540
	7,088,709	1,197,558	571,136	303,027	195,206	9,355,636
Loan and other credit-related commitments	3,477,806	33	—	—	—	3,477,839
Financial guarantees	59,153	—	—	—	—	59,153
	10,625,668	1,197,591	571,136	303,027	195,206	12,892,628
Proportion of cash flows payable in period	83%	9%	4%	2%	2%	

The balances in the above table shows, on an undiscounted basis, all cash flows relating to principal and future coupon payments (except for trading liabilities and derivatives not treated as hedging derivatives). For this reason, balances in the above table do not agree directly with those in our consolidated balance sheet. Undiscounted cash flows payable in relation to hedging derivative liabilities are classified according to their contractual maturities. Trading liabilities and derivatives not treated as hedging derivatives are included in the 'Due not more than 1 month' time bucket and not by contractual maturity.

In addition, loan and other credit-related commitments and financial guarantees are generally not recognised on our balance sheet. The undiscounted cash flows potentially payable under loan and other credit-related commitments and financial guarantees are classified on the basis of the earliest date they can be called.

27 Contingent liabilities, contractual commitments and guarantees

	2025 HK\$m	2024 HK\$m
Guarantees and contingent liabilities:		
– financial guarantees ¹	56,941	59,153
– performance and other guarantees ²	410,145	382,039
– other contingent liabilities	2,023	1,680
At 31 Dec	469,109	442,872
Commitments ³ :		
– documentary credits and short-term trade-related transactions	24,272	24,731
– forward asset purchases and forward deposits placed	111,621	107,464
– undrawn formal standby facilities, credit lines and other commitments to lend	3,546,788	3,345,644
At 31 Dec	3,682,681	3,477,839

- 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.
- 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\$2,133,892m of commitments at 31 December 2025 (2024: HK\$2,027,320m) to which the impairment requirements in HKFRS 9 are applied.

The above table discloses the nominal principal amounts of commitments (excluding other commitments as disclosed in Note 28), guarantees and other contingent liabilities, which represent the amounts at risk should contracts be fully drawn upon and clients default. As a significant proportion of guarantees and commitments are expected to expire without being drawn upon, the total of the nominal principal amounts is not representative of future liquidity requirements.

It also reflects the group's maximum exposure under a large number of individual guarantee undertakings. The risks and exposures from guarantees are captured and managed in accordance with HSBC's overall credit risk management policies and procedures. Guarantees are subject to an annual credit review process.

Other contingent liabilities at 31 December 2025 included amounts in relation to legal and regulatory matters as set out in Note 37.

28 Other commitments

Capital commitments

At 31 December 2025, capital commitments, mainly related to the commitment for purchase of properties, were HK\$3,371m (2024: HK\$3,578m).

29 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 to set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- cash and non-cash collateral (debt securities and equities) has been received/pledged for derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements to cover net exposure in the event of default or other predetermined events.

The effect of over-collateralisation is excluded.

'Amounts not subject to enforceable netting agreements' include contracts executed in jurisdictions where the rights of set off may not be upheld under the local bankruptcy laws, and transactions where a legal opinion evidencing enforceability of the right of offset may not have been sought, or may have been unable to obtain.

For risk management purposes, the net amounts of loans and advances to customers are subject to limits, which are monitored and the relevant customer agreements are subject to review and updated, as necessary, to ensure that the legal right to set off remains appropriate.

Notes on the Consolidated Financial Statements

Offsetting of financial assets and financial liabilities

	Amounts subject to enforceable netting arrangements							
				Amounts not offset in the balance sheet			Amounts not subject to enforceable netting arrangements ¹	
	Gross amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments, including non-cash collateral	Cash collateral	Net amount	Balance sheet total	
HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 31 Dec 2025								
Financial assets²								
Derivatives	559,954	(184,985)	374,969	(308,345)	(33,847)	32,777	23,977	398,946
Reverse repos, stock borrowing and similar agreements classified as:								
– trading assets	64,925	–	64,925	(64,747)	(13)	165	14,413	79,338
– third party	58,798	–	58,798	(58,785)	(13)	–	14,413	73,211
– amounts due from Group companies	6,127	–	6,127	(5,962)	–	165	–	6,127
– reverse repurchase agreements – non-trading	939,110	(45,168)	893,942	(892,794)	(1,148)	–	32,177	926,119
– third party	895,366	(41,874)	853,492	(852,344)	(1,148)	–	32,177	885,669
– amounts due from Group companies	43,744	(3,294)	40,450	(40,450)	–	–	–	40,450
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss								
– third party	30	–	30	(30)	–	–	–	30
	1,564,019	(230,153)	1,333,866	(1,265,916)	(35,008)	32,942	70,567	1,404,433
Financial liabilities³								
Derivatives	577,305	(184,985)	392,320	(299,293)	(57,787)	35,240	26,654	418,974
Repos, stock lending and similar agreements classified as:								
– trading liabilities	22,411	–	22,411	(22,411)	–	–	–	22,411
– third party	22,411	–	22,411	(22,411)	–	–	–	22,411
– amounts due to Group companies	–	–	–	–	–	–	–	–
– repurchase agreements – non-trading	626,522	(45,168)	581,354	(581,215)	(82)	57	98,472	679,826
– third party	566,153	(41,874)	524,279	(524,211)	(68)	–	98,472	622,751
– amounts due to Group companies	60,369	(3,294)	57,075	(57,004)	(14)	57	–	57,075
	1,226,238	(230,153)	996,085	(902,919)	(57,869)	35,297	125,126	1,121,211
At 31 Dec 2024								
Financial assets²								
Derivatives	674,148	(203,344)	470,804	(363,511)	(52,738)	54,555	34,456	505,260
Reverse repos, stock borrowing and similar agreements classified as:								
– trading assets	81,948	–	81,948	(81,843)	(82)	23	–	81,948
– third party	53,408	–	53,408	(53,326)	(82)	–	–	53,408
– amounts due from Group companies	28,540	–	28,540	(28,517)	–	23	–	28,540
– reverse repurchase agreements – non-trading	840,976	(32,113)	808,863	(807,358)	(1,157)	348	39,026	847,889
– third party	806,392	(29,316)	777,076	(775,649)	(1,157)	270	39,026	816,102
– amounts due from Group companies	34,584	(2,797)	31,787	(31,709)	–	78	–	31,787
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss								
– third party	193	–	193	(193)	–	–	–	193
	1,597,265	(235,457)	1,361,808	(1,252,905)	(53,977)	54,926	73,482	1,435,290
Financial liabilities³								
Derivatives	642,189	(203,344)	438,845	(350,770)	(45,625)	42,450	34,643	473,488
Repos, stock lending and similar agreements classified as:								
– trading liabilities	23,041	–	23,041	(23,041)	–	–	–	23,041
– third party	22,875	–	22,875	(22,875)	–	–	–	22,875
– amounts due to Group companies	166	–	166	(166)	–	–	–	166
– repurchase agreements – non-trading	640,757	(32,113)	608,644	(604,284)	(62)	4,298	84,696	693,340
– third party	569,404	(29,316)	540,088	(535,740)	(62)	4,286	84,696	624,784
– amounts due to Group companies	71,353	(2,797)	68,556	(68,544)	–	12	–	68,556
	1,305,987	(235,457)	1,070,530	(978,095)	(45,687)	46,748	119,339	1,189,869

1 These exposures continue to be secured by financial collateral, but the group may not have sought or been able to obtain a legal opinion evidencing enforceability of the offsetting right.

2 Include balances due from Group companies of HK\$170,126m (2024: HK\$212,803m).

3 Include balances due to Group companies of HK\$211,377m (2024: HK\$230,228m).

Notes on the Consolidated Financial Statements

30 Segmental analysis

The group Operating Committee is considered the Chief Operating Decision Maker ('CODM') for the purpose of identifying the group's reportable segments. Business segments results are assessed by the CODM for performance evaluation and capital resources allocation, 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 infrastructures to the extent that they can be meaningfully attributed to business segments. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs that are not allocated to business segments are included in 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. Measurement of segmental assets, liabilities, income and expenses is in accordance with the group's accounting policies. Shared costs are included in segments on the basis of actual recharges. The intra-group elimination items for the business segments are presented in Corporate Centre.

Our business segments and geographical information

Following our organisational announcement in October 2024, effective from 1 January 2025, the group's reportable segments under HKFRS 8 comprise three businesses along with Corporate Centre. These replace our previously reported operating segments up to 31 December 2024.

- The Hong Kong business comprises Retail Banking and Wealth and Commercial Banking of HSBC Hong Kong and Hang Seng Bank.
- CIB is formed from the integration of our Commercial Banking business outside Hong Kong with our Global Banking and Markets business.
- IWPB comprises Premier banking outside Hong Kong, our Private Bank, and our wealth manufacturing businesses of Asset Management and Insurance.

Performance by reportable segments is presented in the 'Financial Review' on page 15 as specified as 'Audited'.

Information by geographical region

	Hong Kong ¹ HK\$m	Rest of Asia-Pacific HK\$m	Intra-segment elimination HK\$m	Total HK\$m
For the year ended 31 Dec 2025				
Net operating income before change in expected credit losses and other credit impairment charges	179,673	95,613	(535)	274,751
Profit before tax	97,380	52,230	—	149,610
At 31 Dec 2025				
Total assets	8,251,934	4,220,970	(789,673)	11,683,231
Total liabilities	7,783,820	3,744,913	(789,673)	10,739,060
Credit commitments and contingent liabilities (contract amounts)	2,094,783	2,057,007	—	4,151,790
For the year ended 31 Dec 2024				
Net operating income before change in expected credit losses and other credit impairment charges	165,696	100,493	(494)	265,695
Profit before tax	86,191	67,741	—	153,932
At 31 Dec 2024				
Total assets	7,787,827	4,041,156	(880,043)	10,948,940
Total liabilities	7,360,474	3,590,501	(880,043)	10,070,932
Credit commitments and contingent liabilities (contract amounts)	1,974,888	1,945,823	—	3,920,711

1 This represents Hong Kong as a geographical region and is different from Hong Kong business defined for the group's segmental analysis.

Information by country/territory

	Revenue ¹		Non-current assets ²	
	For the year ended 31 Dec		At 31 Dec	
	2025 HK\$m	2024 HK\$m	2025 HK\$m	2024 HK\$m
Hong Kong	179,673	165,696	131,432	134,806
Mainland China	11,693	19,538	187,862	187,451
Australia	10,277	9,582	1,484	1,459
India	17,427	15,981	2,826	2,844
Indonesia	3,489	3,487	2,993	3,042
Malaysia	7,552	7,206	2,003	1,802
Singapore	22,766	21,721	4,229	4,214
Taiwan	6,031	5,583	2,647	2,328
Other	15,843	16,901	2,263	2,466
Total	274,751	265,695	337,739	340,412

1 Revenue (defined as 'Net operating income before change in expected credit losses and other impairment charges') is attributable to countries based on the location of the principal operations of the branch, subsidiary, associate or joint venture.

2 Non-current assets consist of property, plant and equipment, goodwill, other intangible assets, interests in associates and joint ventures and certain other assets.

Notes on the Consolidated Financial Statements

31 Related party transactions

The group's related parties include the parent, fellow subsidiaries, associates, joint ventures, post-employment benefit plans for the group's employees, Key Management Personnel ('KMP') as defined by HKAS 24, close family members of KMP and entities that are controlled or jointly controlled by KMP or their close family members.

Particulars of transactions with related parties are set out below.

(a) Inter-company

The group is wholly owned by HSBC Asia Holdings Limited, which in turn is a wholly-owned subsidiary of HSBC Holdings plc (incorporated in England).

The group entered into transactions with its fellow subsidiaries in the normal course of business, including the acceptance and placement of interbank deposits, correspondent banking transactions and off-balance sheet transactions. The Bank also acted as agent for the distribution of retail investment funds for fellow subsidiaries and paid professional fees for services provided by fellow subsidiaries.

The group shared the costs of certain IT projects and also used certain processing services of fellow subsidiaries. These costs are reported under 'General and administrative expenses – other administrative expenses' in the income statement.

The balances of amounts due to and from the relevant parties at the year end were as follows:

	2025						2024					
	Immediate holding company		Ultimate holding company		Fellow subsidiaries		Immediate holding company		Ultimate holding company		Fellow subsidiaries	
	Highest balance during year	Balance at 31 Dec	Highest balance during year	Balance at 31 Dec	Highest balance during year	Balance at 31 Dec	Highest balance during year	Balance at 31 Dec	Highest balance during year	Balance at 31 Dec	Highest balance during year	Balance at 31 Dec
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Assets	5	3	1,738	668	409,951	315,321	4	3	3,327	1,589	445,895	325,889
– trading assets ^{1,5}	—	—	206	206	28,600	6,134	—	—	234	107	28,961	28,544
– derivative assets	2	2	73	—	152,419	123,547	—	—	58	58	154,231	152,419
– other assets ^{1,4,6}	3	1	1,459	462	228,932	185,640	4	3	3,035	1,424	262,703	144,926
Liabilities⁹	291,120	268,751	3,974	1,349	364,148	271,946	273,762	253,124	4,435	2,180	457,073	302,559
– trading liabilities ^{1,7}	—	—	65	—	204	—	—	—	143	7	169	168
– financial liabilities designated at fair value ^{1,2}	251,585	249,441	—	—	—	—	233,825	215,816	—	—	10	—
– derivative liabilities	23	—	1,841	699	177,357	153,603	—	—	3,682	1,820	159,687	159,687
– other liabilities ^{1,4,8}	4,247	2,910	2,068	650	186,427	118,262	4,177	2,722	610	353	297,033	142,619
– insurance contract liabilities ¹	—	—	—	—	160	81	—	—	—	—	174	85
– subordinated liabilities ^{1,3,4}	35,265	16,400	—	—	—	—	35,760	34,586	—	—	—	—
Guarantees	—	—	—	—	30,551	27,399	—	—	—	—	28,121	24,382
Commitments	—	—	—	—	6,271	3,695	—	—	—	—	5,394	875

- 1 These balances are presented under 'Amounts due from/to Group companies' in the consolidated balance sheet.
- 2 The balance at 31 December 2025 included capital and loss-absorbing capacity ('LAC') instruments of HK\$249,441m (2024: HK\$215,816m). During the year, there were repayment of HK\$21,988m (2024: HK\$9,725m) and issuance of HK\$47,471m (2024: HK\$4,398m). The carrying amount of financial liabilities designated at fair value was HK\$3,312m higher than the contractual amount at maturity (2024: HK\$2,790m lower). The cumulative loss in fair value attributable to changes in credit risk was HK\$7,047m (2024: HK\$5,723m loss). The balances are under Level 2.
- 3 The balance at 31 December 2025 included subordinated liabilities of HK\$16,400m to meet TLAC requirements (2024: HK\$34,586m). During the year, there were repayment of HK\$19,593m (2024: no repayments) and no issuances (2024: no issuances).
- 4 The fair value hierarchy of assets and liabilities at amortised cost are under Level 2 and the fair value has no material difference with carrying value.
- 5 Includes trading reverse repo agreements and other similar secured lending of HK\$6,127m (2024: HK\$28,540m).
- 6 Includes non-trading reverse repo agreements and other similar secured lending of HK\$40,450m (2024: HK\$31,787m).
- 7 There were no trading repurchase agreements and other similar secured lending in 2025 (2024: HK\$166m).
- 8 Includes non-trading repurchase agreements and other similar secured lending of HK\$57,075m (2024: HK\$68,556m).
- 9 HK\$92,289m (2024: HK\$98,515m) of the group's non-capital LAC instruments reference to legacy lbors (including indirect references) in their terms. The group expects to be able to remediate or mitigate these risks by the relevant calculation dates, which will occur post cessation of the relevant lbor.

The group routinely enters into related party transactions with other entities in the Group. These include transactions to facilitate third-party transactions with customers, transactions for internal risk management, and other transactions relevant to Group processes. These transactions and the above 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.

(b) Share option and share award schemes

The group participates in various share option and share plans operated by HSBC whereby share options or shares of HSBC are granted to employees of the group. 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 share options is treated as a capital contribution and is recorded within 'Other reserves'. In respect of share awards, the group recognises a liability to the ultimate holding company over the vesting period. This liability is measured at the fair value of the shares at each reporting date, with changes since the award dates adjusted through the capital contribution account within 'Other reserves'. The balances of the capital contribution and the liability at 31 December 2025 amounted to HK\$2,310m and HK\$3,079m respectively (2024: HK\$2,839m and HK\$2,220m respectively).

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(c) Post-employment benefit plans

At 31 December 2025, HK\$9.4bn (2024: HK\$8.8bn) of the group's post-employment plan assets were under management by group companies, earning management fees of HK\$72m in 2025 (2024: HK\$63m). At 31 December 2025, the group's post-employment benefit plans had placed deposits of HK\$927m (2024: HK\$818m) with its banking subsidiaries, earning interest payable to the schemes of HK\$3.8m (2024: HK\$10.3m). The above outstanding 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.

(d) Associates and joint ventures

The group provides certain banking and financial services to associates and joint ventures, including loans, overdrafts, interest and non-interest bearing deposits and current accounts. Details of interests in associates and joint ventures are set out in Note 14.

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.

Transactions and balances during the year with associates and joint ventures

	2025		2024	
	Highest balance during the year	Balance at 31 December	Highest balance during the year	Balance at 31 December
	HK\$m	HK\$m	HK\$m	HK\$m
Amounts due from associates – unsubordinated	73,207	34,637	61,980	38,466
Amounts due to associates	19,736	8,337	20,503	12,530
Amounts due to joint ventures	38	9	18	8
Fair value of derivative assets with associates	6,928	5,196	7,000	5,792
Fair value of derivative liabilities with associates	20,513	11,362	28,634	20,314
Guarantees and Commitments	325	240	374	276

The above outstanding balances arose in the ordinary course of business and on substantially the same terms, including interest rates and security, as comparable transactions with third-party counterparties.

(e) Key Management Personnel

The Key Management Personnel of the Bank are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and the group, and include the Directors of the Bank, certain senior executives of the Bank, directors of HSBC Holdings plc and certain senior executives of HSBC Holdings plc.

Compensation of Key Management Personnel

	2025	2024
	HK\$m	HK\$m
Salaries and other short-term benefits	323	364
Post employment benefits	10	12
Termination benefits	—	2
Share-based payments	107	135
Total	440	513

The establishment of the Operating Committee ('OpCo') led to a reassessment and update of the KMP population. Compensation figures for the two periods are not directly comparable.

Transactions, arrangements and agreements involving Key Management Personnel

	2025	2024
	HK\$m	HK\$m
During the year		
Highest average assets ¹	41,852	50,407
Highest average liabilities ¹	21,256	20,512
Contribution to group's profit before tax	1,586	2,075
At the year end		
Guarantees	4,456	4,079
Commitments	9,341	10,115

¹ The disclosure of the highest average balance during the year is considered the most meaningful information to represent transactions during the year.

Transactions, arrangements and agreements are entered into by the group with companies that may be controlled by Key Management Personnel of the group and their immediate relatives. These transactions are primarily loans and deposits, and were entered into in the ordinary course of business and on substantially the same terms, including interest rates and security, as comparable transactions with persons or companies of a similar standing or, where applicable, with other employees. The transactions did not involve more than the normal risk of repayment or present other unfavourable features. Change in expected credit losses recognised for the year, and expected credit loss allowances against balances outstanding at the end of the year, in respect of Key Management Personnel were insignificant (2024: insignificant).

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(f) Loans to directors

Directors are defined as the Directors of the Bank, its ultimate holding company, HSBC Holdings plc and intermediate holding companies. Loans to directors also include loans to companies that are controlled by, and entities that are connected with these directors. Particulars of loans to directors disclosed pursuant to section 17 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

	Aggregate amount outstanding at 31 Dec		Maximum aggregate amount outstanding during the year	
	2025 HK\$m	2024 HK\$m	2025 HK\$m	2024 HK\$m
By the Bank	388	197	571	303
By subsidiaries	15	1	16	1
	403	198	587	304

These amounts include principal and interest, and the maximum liability that may be incurred under guarantees.

32 Fair values 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.

Fair value of investment funds are sourced from the underlying fund managers which are based upon an assessment of the underlying investees' financial positions, results, risk profile and prospects.

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 are applied where additional factors are not incorporated into the primary product valuation model.

The majority of financial instruments measured at fair value are in MSS and Insurance. The group's fair value governance structure comprises its Finance function and Valuation Committees. 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 group's relevant Valuation Committees, which consist of independent support functions and consider all material subjective valuations. Within MSS and Insurance, these Committees are overseen by the Group's Valuation Committee Review Group and the Group Insurance Valuation and Impairment Committee respectively.

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 issued by the Group. 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.

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, recorded in other comprehensive income, 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. These are 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. These are 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. These are financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

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Financial instruments carried at fair value and bases of valuation

	Fair Value Hierarchy ³			Third-party total HK\$m	Inter-company ² HK\$m	Total HK\$m
	Level 1 HK\$m	Level 2 HK\$m	Level 3 HK\$m			
At 31 Dec 2025						
Assets						
Trading assets ¹	871,827	333,420	18,183	1,223,430	—	1,223,430
Derivatives	1,963	271,043	2,391	275,397	123,549	398,946
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	324,423	426,897	173,402	924,722	—	924,722
Financial investments	1,479,276	419,880	3,143	1,902,299	—	1,902,299
Liabilities						
Trading liabilities ¹	61,601	26,798	5	88,404	—	88,404
Derivatives	452	262,358	1,863	264,673	154,301	418,974
Financial liabilities designated at fair value ¹	—	174,279	20,920	195,199	—	195,199
At 31 Dec 2024						
Assets						
Trading assets ¹	786,951	284,818	13,552	1,085,321	—	1,085,321
Derivatives	3,090	348,439	1,254	352,783	152,477	505,260
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	240,126	398,426	142,658	781,210	—	781,210
Financial investments	1,308,889	393,198	3,017	1,705,104	—	1,705,104
Liabilities						
Trading liabilities ¹	55,574	30,978	5	86,557	—	86,557
Derivatives	1,553	309,212	1,216	311,981	161,507	473,488
Financial liabilities designated at fair value ¹	—	155,779	22,960	178,739	—	178,739

- 1 These balances exclude HK\$6,340m Level 2 assets (2024: HK\$28,651m) and HK\$249,441m Level 2 liabilities (2024: HK\$215,991m) held with HSBC Group entities.
- 2 Derivatives balances with HSBC Group entities are largely under 'Level 2'.
- 3 There were no material transfers between Level 1 and Level 2 during the reporting period.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Financial investments HK\$m	Trading assets HK\$m	Designated and otherwise mandatorily measured at fair value through profit or loss HK\$m	Derivatives HK\$m	Total HK\$m	Trading liabilities HK\$m	Designated at fair value HK\$m	Derivatives HK\$m	Total HK\$m
Private equity and related investments	3,143	—	145,772	—	148,915	—	—	—	—
Structured notes	—	—	—	—	—	—	20,920	—	20,920
Bonds	—	11,048	15,480	—	26,528	3	—	—	3
Others	—	7,135	12,150	2,391	21,676	2	—	1,863	1,865
At 31 Dec 2025	3,143	18,183	173,402	2,391	197,119	5	20,920	1,863	22,788
Private equity and related investments	3,017	—	127,014	—	130,031	—	—	—	—
Structured notes	—	—	25	—	25	—	22,960	—	22,960
Bonds	—	5,537	5,698	—	11,235	—	—	—	—
Others	—	8,015	9,921	1,254	19,190	5	—	1,216	1,221
At 31 Dec 2024	3,017	13,552	142,658	1,254	160,481	5	22,960	1,216	24,181

Private equity and related investments

The fair value of a private equity investment (including private equity, infrastructure and private credit, primarily held to support our Insurance business, and strategic investments) is estimated on the basis of an analysis of the investee's financial position and results, risk profile, prospects and other factors; by reference to market valuations for similar entities quoted in an active market; the price at which similar companies have changed ownership; or from published net asset values ('NAVs') received. If necessary, adjustments are made to the NAV of funds to obtain the best estimate of fair value.

Structured notes

The fair value of Level 3 structured notes is derived from the fair value of the underlying debt security, and the fair value of the embedded derivative is determined as described in the paragraph below on derivatives. These structured notes comprise principally equity-linked notes issued by HSBC, which provide the counterparty with a return linked to the performance of equity securities and other portfolios.

Examples of the unobservable parameters include long-dated equity volatilities and correlations between equity prices, and interest and foreign exchange rates.

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Derivatives

OTC derivative valuation models calculate the present value of expected future cash flows, based upon 'no arbitrage' principles. For many vanilla derivative products, the modelling approaches used are standard across the industry. For more complex derivative products, there may be some differences in market practice. Inputs to valuation models are determined from observable market data wherever possible, including prices available from exchanges, dealers, brokers or providers of consensus pricing. Certain inputs may not be observable in the market directly, but can be determined from observable prices via model calibration procedures or estimated from historical data or other sources.

Bonds

The fair value input for bonds and secondary market loans is price, determined utilising market standard valuation techniques such as price-based, discounted cash flows, and internal models. Where uncertainty of inputs and assumptions exist in the determination of a fair value price and are significant, the position will be considered Level 3. Examples of such inputs are credit spreads, interest rate spreads, choice of comparables, earning projections and liquidity/observability of the underlying currency.

Reconciliation of fair value measurements in Level 3 of the fair value hierarchy

Movement in Level 3 financial instruments

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value ¹	
						HK\$m	HK\$m
At 1 Jan 2025	3,017	13,552	142,658	1,254	5	22,960	1,216
Total gains or losses recognised in profit or loss	–	1,669	11,656	3,098	(4)	210	3,057
– net income or losses from financial instruments held for trading or managed on a fair value basis	–	1,669	–	3,098	(4)	210	3,057
– net income/(losses) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	11,569	–	–	–	–
– other income/(losses)	–	–	87	–	–	–	–
Total gains or losses recognised in other comprehensive income ('OCI')	156	430	326	2	(2)	407	6
Purchases	11	10,953	30,925	–	–	–	–
New issuances	–	–	–	–	–	8,069	–
Sales	–	(2,677)	(1,056)	–	–	–	–
Settlements	–	(4,040)	(21,033)	(1,321)	4	(8,567)	(2,492)
Transfers out	(41)	(5,911)	(10,001)	(1,009)	(2)	(3,704)	(473)
Transfers in	–	4,207	19,927	367	4	1,545	549
At 31 Dec 2025	3,143	18,183	173,402	2,391	5	20,920	1,863
Unrealised gains or losses recognised in profit or loss relating to assets and liabilities held at 31 Dec 2025	–	2,969	2,458	1,548	–	(88)	(803)
– net income or losses from financial instruments held for trading or managed on a fair value basis	–	2,969	–	1,548	–	–	(803)
– net income/(losses) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	–	–	2,350	–	–	–	–
– other income/(losses)	–	–	108	–	–	(88)	–

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Movement in Level 3 financial instruments (continued)

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Trading liabilities	Designated at fair value ¹	Derivatives
At 1 Jan 2024	3,542	9,260	122,586	2,143	2	28,657	2,409
Total gains or losses recognised in profit or loss	—	2,581	6,783	1,647	5	306	1,283
– net income or losses from financial instruments held for trading or managed on a fair value basis	—	2,581	—	1,647	5	306	1,283
– net income/(losses) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	5,674	—	—	—	—
– other income/(losses)	—	—	1,109	—	—	—	—
Total gains or losses recognised in other comprehensive income ('OCI')	(64)	(216)	(229)	(21)	—	(102)	(29)
Purchases	1,402	5,686	44,368	—	—	—	—
New issuances	—	—	—	—	—	3,694	—
Sales	—	(273)	(702)	—	—	—	—
Settlements	(1,723)	(4,240)	(29,766)	(1,302)	(14)	458	(1,391)
Transfers out	(140)	(422)	(1,850)	(1,634)	—	(11,768)	(1,318)
Transfers in	—	1,176	1,468	421	12	1,715	262
At 31 Dec 2024	3,017	13,552	142,658	1,254	5	22,960	1,216
Unrealised gains or losses recognised in profit or loss relating to assets and liabilities held at 31 Dec 2024	—	(788)	(139)	340	—	(26)	(240)
– net income or losses from financial instruments held for trading or managed on a fair value basis	—	(788)	—	340	—	—	(240)
– net income/(losses) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	—	—	(299)	—	—	—	—
– other income/(losses)	—	—	160	—	—	(26)	—

1 Includes structured deposits where the settlement balance represents the net of matured and new deposits.

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 observability of valuation inputs and price transparency.

Effect of changes in significant unobservable assumptions to reasonably possible alternatives

Sensitivity of fair values to reasonably possible alternative assumptions

	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
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Derivatives, trading assets and trading liabilities ¹	484	(563)	—	—	451	(448)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value through profit or loss	9,005	(8,815)	—	—	7,760	(7,503)	—	—
Financial investments	—	—	162	(162)	—	—	184	(184)
At 31 Dec	9,489	(9,378)	162	(162)	8,211	(7,951)	184	(184)

1 'Derivatives, trading assets and trading liabilities' are presented as one category to reflect the manner in which these instruments are risk-managed.

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.

Key unobservable inputs to Level 3 financial instruments

The following table lists key unobservable inputs to Level 3 financial instruments and provides the range of those inputs at 31 December 2025.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value		Key valuation techniques	Key unobservable inputs	2025		2024	
	Assets	Liabilities			Full range of inputs		Full range of inputs	
	HK\$m	HK\$m			Lower	Higher	Lower	Higher
Private equity and related investments ¹	148,915	—	Price – Net asset value	Current Value/Cost	0	75	0	72
Structured notes	—	20,920						
– equity-linked notes	—	5,473	Model – Option model	Equity volatility	5%	89%	7%	70%
– FX-linked notes	—	6,489	Model – Option model	Equity correlation	10%	93%	26%	94%
– other	—	8,958	Model – Option model	FX volatility	3%	56%	4%	35%
Other Portfolios	48,204	1,868						
– bonds	26,528	3	Market proxy	Price ³	0	109	0	104
– other ²	21,676	1,865						
At 31 Dec 2025	197,119	22,788						

1 'Private equity including strategic investments' includes private equity, private credit and private equity fund, primarily held as part of our Insurance business and for strategic investments.

2 'Other' includes a range of smaller asset holdings.

3 Price higher and lower range are reported in US \$.

Private equity and related investments

The 'private equity' holdings include private equity investments and private equity funds held as limited partners. The key unobservable input is the current value of the underlying positions, determined using valuation techniques in line with the International Private Equity and Venture Capital Valuation Guidelines. The inputs represented are an appropriate range of inputs normalised across different exposure types.

Market proxy

Market proxy pricing may be used for an instrument when specific market pricing is not available but there is evidence from instruments with common characteristics. In some cases it might be possible to identify a specific proxy, but more generally evidence across a wider range of instruments will be used to understand the factors that influence current market pricing and the manner of that influence.

Volatility

Volatility is a measure of the anticipated future variability of a market price. It varies by underlying reference market price, and by strike and maturity of the option. Certain volatilities, typically those of a longer-dated nature, are unobservable and are estimated from observable data. The range of unobservable volatilities reflects the wide variation in volatility inputs by reference market price.

Correlation

Correlation is a measure of the inter-relationship between two market prices and is expressed as a number between minus one and one. It is used to value more complex instruments where the payout is dependent upon more than one market price. There is a wide range of instruments for which correlation is an input, and consequently a wide range of both same-asset correlations and cross-asset correlations is used. In general, the range of same-asset correlations will be narrower than the range of cross-asset correlations.

Unobservable correlations may be estimated based upon a range of evidence, including consensus pricing services, group's trade prices, proxy correlations and examination of historical price relationships. The range of unobservable correlations quoted in the table reflects the wide variation in correlation inputs by market price pair.

Inter-relationships between key unobservable inputs

Key unobservable inputs to Level 3 financial instruments may not be independent of each other. As described above, market variables may be correlated. This correlation typically reflects the manner in which different markets tend to react to macroeconomic or other events.

Furthermore, the effect of changing market variables on the group's portfolio will depend on the group's net risk position in respect of each variable.

33 Fair values of financial instruments not carried at fair value

Fair values of financial instruments not carried at fair value and bases of valuation

	Fair Value Hierarchy				Total HK\$m
	Carrying amount HK\$m	Quoted market price Level 1 HK\$m	Observable inputs Level 2 HK\$m	Significant unobservable inputs Level 3 HK\$m	
At 31 Dec 2025					
Assets¹					
Reverse repurchase agreements – non-trading	885,669	–	886,607	–	886,607
Loans and advances to banks	516,658	–	514,306	2,256	516,562
Loans and advances to customers	3,641,752	–	110,839	3,476,428	3,587,267
Financial investments – at amortised cost	635,676	533,390	101,506	–	634,896
Liabilities¹					
Repurchase agreements – non-trading	622,751	–	622,692	–	622,692
Deposits by banks	232,930	–	232,923	–	232,923
Customer accounts	7,097,003	–	7,097,640	–	7,097,640
Debt securities in issue	47,020	–	45,440	1,950	47,390
At 31 Dec 2024					
Assets¹					
Reverse repurchase agreements – non-trading	816,102	–	816,235	–	816,235
Loans and advances to banks	480,740	–	473,789	6,974	480,763
Loans and advances to customers	3,494,298	–	88,810	3,348,466	3,437,276
Financial investments – at amortised cost	632,740	523,658	98,910	–	622,568
Liabilities¹					
Repurchase agreements – non-trading	624,784	–	624,718	–	624,718
Deposits by banks	183,612	–	183,605	–	183,605
Customer accounts	6,564,606	–	6,566,610	–	6,566,610
Debt securities in issue	64,362	–	62,909	1,950	64,859

1 Amounts with HSBC Group entities are not reflected here. Further details are set out in Note 31.

The fair values above 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.

Other financial instruments not carried at fair value are typically short term in nature or re-priced to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. They include cash and balances at central banks, Hong Kong Government certificates of indebtedness, Hong Kong currency notes in circulation, other financial assets and other financial liabilities, all of which are measured at amortised cost.

Valuation

Fair value is an 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 an instrument's cash flow over its expected future life. Our valuation methodologies and assumptions in determining fair values for which no observable market prices are available may differ from those of other companies.

Repurchase and reverse repurchase agreements – non-trading

Fair values approximate carrying amounts as these balances are generally short dated.

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. From time to time, we may engage a third-party valuation specialist to measure the fair value of a pool of loans.

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.

Financial investments

The fair values of listed financial investments are determined using bid market prices. The fair values of unlisted financial investments are determined using valuation techniques that incorporate the prices and future earnings streams of equivalent quoted securities.

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Deposits by banks and customer accounts

The fair values of on-demand deposits are approximated by their carrying value. For deposits with longer-term maturities, fair values are estimated using discounted cash flows, applying current rates offered for deposits of similar remaining maturities.

Debt securities in issue and subordinated liabilities

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.

34 Structured entities

The group is involved with both consolidated and unconsolidated structured entities through the securitisation of financial assets, conduits and investment funds, established either by the group or a third party.

Consolidated structured entities

The group primarily uses consolidated structured entities to securitise customer loans and advances it originates to diversify its sources of funding for asset origination and capital efficiency purposes. The loans and advances are transferred by the group to the structured entities for cash or synthetically, and the structured entities issue debt securities to investors. The group's transactions with these entities are not significant.

Unconsolidated structured entities

The term 'unconsolidated structured entities' refers to all structured entities not controlled by the group. The group enters into transactions with unconsolidated structured entities in the normal course of business to facilitate customer transactions and for specific investment opportunities.

Nature and risks associated with the group's interests in unconsolidated structured entities

Total asset values of the entities (HK\$bn)	Securitisations	HSBC managed funds	Non-HSBC managed funds	Other	Total
0-4	180	156	248	41	625
4-15	1	40	214	—	255
15-39	—	21	110	—	131
39-196	—	10	77	—	87
196+	—	1	11	—	12
Number of entities at 31 Dec 2025	181	228	660	41	1,110
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Total assets in relation to the group's interests in the unconsolidated structured entities	73,002	67,232	167,123	6,478	313,835
– trading assets	—	1,402	—	—	1,402
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	65,830	167,123	—	232,953
– derivatives	—	—	—	—	—
– loans and advances to customers	73,002	—	—	6,381	79,383
– other assets	—	—	—	97	97
Total liabilities in relation to the group's interests in the unconsolidated structured entities	—	—	—	130	130
– derivatives	—	—	—	130	130
Other off balance sheet commitments	89	11,334	62,313	10,257	83,993
The group's maximum exposure at 31 Dec 2025	73,091	78,566	229,436	16,605	397,698
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
0-4	138	112	259	34	543
4-15	2	35	187	—	224
15-39	—	16	89	—	105
39-196	—	5	82	—	87
196+	—	1	14	—	15
Number of entities at 31 Dec 2024	140	169	631	34	974
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Total assets in relation to the group's interests in the unconsolidated structured entities	41,463	38,667	157,329	3,348	240,807
– trading assets	—	490	—	—	490
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	38,177	157,329	—	195,506
– derivatives	—	—	—	2	2
– loans and advances to customers	41,463	—	—	3,263	44,726
– other assets	—	—	—	83	83
Total liabilities in relation to the group's interests in the unconsolidated structured entities	—	—	—	213	213
– derivatives	—	—	—	213	213
Other off balance sheet commitments	28	7,250	57,176	6,765	71,219
The group's maximum exposure at 31 Dec 2024	41,491	45,917	214,505	9,900	311,813

Notes on the Consolidated Financial Statements

The maximum exposure to loss from the group's interests in unconsolidated structured entities represents the maximum loss it could incur as a result of its involvement with these entities regardless of the probability of the loss being incurred.

- For commitments, guarantees and written credit default swaps, the maximum exposure to loss is the notional amount of potential future losses.
- For retained and purchased investments in and loans to unconsolidated structured entities, the maximum exposure to loss is the carrying value of these interests at the balance sheet date.

The maximum exposure to loss is stated gross of the effects of hedging and collateral arrangements entered into to mitigate the group's exposure to loss.

Securitisations

The group has interests in unconsolidated securitisation vehicles through holding notes issued by these entities.

HSBC managed funds

The group establishes and manages money market funds and non-money market investment funds to provide customers with investment opportunities. The group, as fund manager, may be entitled to receive management and performance fees based on the assets under management. The group may also retain units in these funds.

Non-HSBC managed funds

The group purchases and holds units of third-party managed funds in order to facilitate business and meet customer needs.

Other

The group has established structured entities in the normal course of business, such as structured credit transactions for customers, to provide finance to public and private sector infrastructure projects, and for asset and structured finance transactions. In addition to the interest disclosed above, the group enters into derivative contracts, reverse repos and stock borrowing transactions with structured entities. These interests arise in the normal course of business for the facilitation of third-party transactions and risk management solutions.

Structured entities sponsored by the group

The amount of assets transferred to and income received from such sponsored entities during 2025 and 2024 were not significant.

35 Bank balance sheet and statement of changes in equity

Bank balance sheet at 31 December 2025

	2025 HK\$m	2024 HK\$m
Assets		
Cash and balances at central banks	166,601	168,333
Hong Kong Government certificates of indebtedness	342,994	328,454
Trading assets	1,064,666	942,643
Derivatives	384,056	484,858
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	32,272	16,920
Reverse repurchase agreements – non-trading	552,928	509,377
Loans and advances to banks	313,514	308,322
Loans and advances to customers	2,043,948	1,920,185
Financial investments	1,600,179	1,351,402
Amounts due from Group companies	417,317	453,517
Investments in subsidiaries	115,240	112,938
Interests in associates and joint ventures	39,911	39,830
Goodwill and intangible assets	27,773	26,579
Property, plant and equipment	63,769	66,380
Deferred tax assets	433	451
Prepayments, accrued income and other assets	293,478	234,852
Total assets	7,459,079	6,965,041
Liabilities		
Hong Kong currency notes in circulation	342,994	328,454
Repurchase agreements – non-trading	528,942	554,756
Deposits by banks	186,765	144,991
Customer accounts	4,523,263	4,114,014
Trading liabilities	72,513	67,546
Derivatives	406,557	462,127
Financial liabilities designated at fair value	71,104	65,259
Debt securities in issue	26,409	25,999
Retirement benefit liabilities	667	595
Amounts due to Group companies	549,009	510,035
Accruals and deferred income, other liabilities and provisions	196,698	196,604
Current tax liabilities	11,033	3,456
Deferred tax liabilities	10,972	9,120
Total liabilities	6,926,926	6,482,956
Equity		
Share capital	180,181	180,181
Other equity instruments	79,158	64,677
Other reserves	12,028	3,281
Retained earnings	260,786	233,946
Total equity	532,153	482,085
Total equity and liabilities	7,459,079	6,965,041

Notes on the Consolidated Financial Statements

Bank statement of changes in equity for the year ended 31 December 2025

	Other reserves								Total equity
	Share capital ¹	Other equity instruments	Retained earnings	Property revaluation reserve	Financial assets at FVOCI reserve	Cash flow hedge reserve	Foreign exchange reserve	Other ⁴	
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	
At 1 Jan 2025	180,181	64,677	233,946	36,110	(3,850)	819	(25,427)	(4,371)	482,085
Profit for the year	—	—	121,030	—	—	—	—	—	121,030
Other comprehensive income/(expense) (net of tax)	—	—	(1,100)	(876)	8,459	2,884	(289)	—	9,078
– debt instruments at fair value through other comprehensive income	—	—	—	—	7,774	—	—	—	7,774
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	290	—	—	—	290
– cash flow hedges	—	—	—	—	—	2,873	—	—	2,873
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(1,125)	—	—	—	—	—	(1,125)
– property revaluation	—	—	—	(876)	—	—	—	—	(876)
– remeasurement of defined benefit asset/liability	—	—	25	—	—	—	—	—	25
– foreign exchange gains reclassified to income statement on disposal or dilution of foreign operations	—	—	—	—	—	—	(3)	—	(3)
– exchange differences	—	—	—	—	395	11	(286)	—	120
Total comprehensive income/(expense) for the year	—	—	119,930	(876)	8,459	2,884	(289)	—	130,108
Other equity instruments issued ²	—	31,686	—	—	—	—	—	—	31,686
Other equity instruments redeemed ³	—	(17,205)	—	—	—	—	—	—	(17,205)
Dividends to shareholders ⁵	—	—	(94,104)	—	—	—	—	—	(94,104)
Movement in respect of share-based payment arrangements	—	—	(292)	—	—	—	—	(457)	(749)
Transfers and other movements ⁶	—	—	1,306	(974)	—	—	—	—	332
At 31 Dec 2025	180,181	79,158	260,786	34,260	4,609	3,703	(25,716)	(4,828)	532,153
At 1 Jan 2024	180,181	52,465	229,858	38,869	(2,511)	1,985	(21,584)	(4,181)	475,082
Profit for the year	—	—	113,159	—	—	—	—	—	113,159
Other comprehensive income/(expense) (net of tax)	—	—	(2,029)	180	(1,339)	(1,166)	(3,843)	—	(8,197)
– debt instruments at fair value through other comprehensive income	—	—	—	—	(1,468)	—	—	—	(1,468)
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	285	—	—	—	285
– cash flow hedges	—	—	—	—	—	(1,158)	—	—	(1,158)
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(2,346)	—	—	—	—	—	(2,346)
– property revaluation	—	—	—	180	—	—	—	—	180
– remeasurement of defined benefit asset/liability	—	—	317	—	—	—	—	—	317
– foreign exchange gains reclassified to income statement on disposal or dilution of foreign operations	—	—	—	—	—	—	—	—	—
– exchange differences	—	—	—	—	(156)	(8)	(3,843)	—	(4,007)
Total comprehensive income/(expense) for the year	—	—	111,130	180	(1,339)	(1,166)	(3,843)	—	104,962
Other equity instruments issued ²	—	27,873	—	—	—	—	—	—	27,873
Other equity instruments redeemed ³	—	(15,661)	—	—	—	—	—	—	(15,661)
Dividends to shareholders ⁵	—	—	(109,776)	—	—	—	—	—	(109,776)
Movement in respect of share-based payment arrangements	—	—	(206)	—	—	—	—	(190)	(396)
Transfers and other movements ⁶	—	—	2,940	(2,939)	—	—	—	—	1
At 31 Dec 2024	180,181	64,677	233,946	36,110	(3,850)	819	(25,427)	(4,371)	482,085

1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years.

2 During 2025, additional tier 1 capital instruments amounting to US\$3,500m were issued with an issuance cost of US\$35m and an additional tier 1 capital instrument amounting to SG\$800m was issued with an issuance cost of SG\$8m.

During 2024, additional tier 1 capital instruments amounting to SG\$1,500m were issued with an issuance cost of SG\$15m and an additional tier 1 capital instrument amounting to US\$2,500m was issued with an issuance cost of US\$25m.

3 During 2025, an additional tier 1 capital instrument was redeemed at par (US\$2,200m).

During 2024, an additional tier 1 capital instrument was redeemed at par (US\$2,000m).

4 The other reserves mainly comprise share of associates' other reserves, purchase premium arising from transfer of business from fellow subsidiaries, property revaluation reserve relating to transfer of properties to a fellow subsidiary and the share-based payment reserve. The share-based payment reserve is used to record the amount relating to share awards and options granted to employees of the group directly by HSBC Holdings plc.

5 Including distributions paid on perpetual subordinated loans classified as equity under HKFRS.

6 The movements include transfers from the property revaluation reserve to retained earnings in relation to depreciation of revalued properties.

36 Business acquisition and disposal

On 24 September 2025, The Hongkong and Shanghai Banking Corporation Limited, Sri Lanka branch, entered into a binding agreement to sell its retail banking business to Nations Trust Bank PLC. Regulatory approvals for the transaction have now been received, and completion is expected in the first half 2026, at which point an estimated immaterial pre-tax gain on disposal will be recognised.

37 Legal proceedings and regulatory matters

The group is party to legal proceedings and regulatory matters in a number of jurisdictions arising out of its normal business operations. Apart from the matters described below, the group considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 1.2(o) of the Annual Report and Accounts 2025. While the outcomes of legal proceedings and regulatory matters are inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made in respect of these matters as at 31 December 2025. Any provision recognised does not constitute an admission of wrongdoing or legal liability. It is not practicable to provide an aggregate estimate of potential liability for our legal proceedings and regulatory matters as a class of contingent liabilities.

Korean short selling indictment

In March 2024, the Korean Prosecutors' Office issued a criminal indictment against the Bank and three current and former employees for breaching short selling rules under the Financial Investment Services and Capital Markets Act in connection with trades carried out between August 2021 and December 2021. In September 2025, the Korean appellate court confirmed the acquittal of the Bank of all charges. The Korean Prosecutors' Office has further appealed to the Korean Supreme Court.

Other regulatory investigations, reviews and litigation

The Bank and/or certain of its affiliates are also subject to a number of other enquiries and examinations, requests for information, investigations and reviews by various tax authorities, regulators, competition and law enforcement authorities, as well as legal proceedings including litigation, arbitration and other contentious proceedings, in connection with various matters arising out of their businesses and operations.

At the present time, the Bank does not expect the ultimate resolution of any of these matters to be material to the group's financial position; however, given the uncertainties involved in legal proceedings and regulatory matters, there can be no assurance regarding the eventual outcome of a particular matter or matters.

38 Ultimate holding company

The ultimate holding company of the Bank is HSBC Holdings plc, which is incorporated in England.

The largest group in which the accounts of the Bank are consolidated is that headed by HSBC Holdings plc. The consolidated accounts of HSBC Holdings plc are available to the public on the HSBC Group's website at www.hsbc.com or may be obtained from 8 Canada Square, London E14 5HQ, United Kingdom.

39 Events after the balance sheet date

On 8 January 2026, the proposal to privatise Hang Seng Bank Limited ('Hang Seng Bank') through a scheme of arrangement was approved by Hang Seng Bank shareholders. On approval, a financial liability was recognised in the group's consolidated financial statements for the present value of the HK\$106bn purchase consideration. A corresponding adjustment to equity, net of derecognising the non-controlling interest ('NCI') which stood at HK\$58.8bn as at 31 December 2025, was also recognised. On 8 January 2026, the group issued 17,448,928,000 ordinary shares at HK\$2.50 per share to its parent company, HSBC Asia Holdings Limited. On 26 January 2026, the scheme of arrangement became effective and Hang Seng Bank was subsequently delisted from The Stock Exchange of Hong Kong Limited on 27 January 2026. To demonstrate funding availability for the proposal, securities of HK\$129.3bn were segregated and reported as encumbered on the balance sheet as at 31 December 2025. These assets were designated to demonstrate that sufficient resources were available at all times to settle the acquisition consideration and to provide a buffer against potential mark-to-market movements. The transaction was settled on 4 February 2026. At that point, all payment obligations under the scheme of arrangement were met, and the segregation of assets ceased.

40 Approval of financial statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 25 February 2026.

Financial Review

Results for 2025

(Unaudited)

Profit before tax for 2025 reported by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group') decreased by HK\$4,322m, or 3%, to HK\$149,610m.

Consolidated income statement and balance sheet data by reportable segments¹

(Audited)

	Hong Kong HK\$m	Corporate and Institutional Banking ('CIB') HK\$m	International Wealth and Premier Banking ('IWPB') HK\$m	Corporate Centre ² HK\$m	Total HK\$m
Year ended 31 Dec 2025					
Net interest income/(expense)	96,411	53,258	23,539	(44,805)	128,403
Net fee income	21,772	12,668	15,683	428	50,551
Net income from financial instruments measured at fair value through profit or loss	6,094	32,408	80,062	42,507	161,071
Insurance finance income/(expense)	6	—	(75,653)	(3)	(75,650)
Insurance service result	688	—	11,384	(74)	11,998
Other operating income/(expense) ³	1,188	3,295	2,716	(8,821)	(1,622)
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	126,159	101,629	57,731	(10,768)	274,751
– of which: external	83,535	166,623	45,797	(21,204)	274,751
inter-segment	42,624	(64,994)	11,934	10,436	—
Change in expected credit losses and other credit impairment charges	(11,510)	(204)	(1,034)	(4)	(12,752)
Net operating income/(expense)	114,649	101,425	56,697	(10,772)	261,999
Operating expenses	(37,684)	(43,357)	(32,128)	(7,711)	(120,880)
Operating profit/(loss)	76,965	58,068	24,569	(18,483)	141,119
Share of profit in associates and joint ventures	—	—	117	16,644	16,761
Impairment of interest in associate ³	—	—	—	(8,270)	(8,270)
Profit/(loss) before tax	76,965	58,068	24,686	(10,109)	149,610
Balance sheet data at 31 Dec 2025					
Loans and advances to customers (net)	1,786,394	1,242,820	611,523	1,015	3,641,752
Customer accounts	4,229,760	1,690,927	1,176,300	16	7,097,003
Year ended 31 Dec 2024					
Net interest income/(expense)	95,687	53,320	23,634	(55,004)	117,637
Net fee income	18,077	11,336	12,786	318	42,517
Net income from financial instruments measured at fair value through profit or loss	4,618	31,081	39,145	53,110	127,954
Insurance finance income/(expense)	4	—	(35,688)	21	(35,663)
Insurance service result	357	—	7,785	(11)	8,131
Other operating income	886	1,735	1,994	504	5,119
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	119,629	97,472	49,656	(1,062)	265,695
– of which: external	79,655	168,522	35,774	(18,256)	265,695
inter-segment	39,974	(71,050)	13,882	17,194	—
Change in expected credit losses and other credit impairment charges	(8,393)	(2,480)	(908)	(165)	(11,946)
Net operating income/(expense)	111,236	94,992	48,748	(1,227)	253,749
Operating expenses	(38,028)	(40,790)	(29,477)	(9,297)	(117,592)
Operating profit/(loss)	73,208	54,202	19,271	(10,524)	136,157
Share of profit in associates and joint ventures	—	—	261	17,514	17,775
Profit before tax	73,208	54,202	19,532	6,990	153,932
Balance sheet data at 31 Dec 2024					
Loans and advances to customers (net)	1,826,663	1,142,736	523,927	972	3,494,298
Customer accounts	3,940,456	1,557,743	1,066,393	14	6,564,606

1 Following the Group's organisational announcement in October 2024, effective from 1 January 2025, the group's reportable segments comprise three new businesses – Hong Kong, CIB, and IWPB – along with Corporate Centre. These replace the previously reported operating segments up to 31 December 2024. Comparatives have been re-presented to conform to the current year's presentation. Further details on the change are set out in Note 30 'Segmental analysis' on the Consolidated financial statements.

2 Includes inter-segment elimination.

3 In Corporate Centre, the amount in 'Other operating income/(expense)' includes a loss of HK\$8,955m inclusive of reserves recycling, recorded in 2025 as a result of the dilution of our shareholding in Bank of Communications Co., Ltd. ('BoCom'). We have also recognised a HK\$8,270m impairment loss following an impairment test on the carrying amount of the group's investment in BoCom in 'Impairment of interest in associate'. Further details are set out in Note 14 'Interests in associates and joint ventures'.

EXHIBIT B

RISK MANAGEMENT SYSTEM

The information in this Exhibit B describes the risk management system of the Issuer and references herein to the “**HSBC Group**” or the “**group**” are to the Issuer and its subsidiaries.

The information in this Exhibit B has been extracted from the Annual Report and Accounts 2025 of the Issuer. Reference to page numbers (i.e. the pages numbers which appear on the bottom of the pages) in this Exhibit B are to pages of the Annual Report and Accounts 2025. The extracts set out in this Exhibit B are not complete and reference should be made to the Annual Report and Accounts 2025 which is available on our website which is presently at <https://www.hsbc.com/investors/results-and-announcements>.

Risk Review

Our approach to risk

(Unaudited)

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 seek to 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 risk management framework

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by the Group's culture and values. This is outlined in our Risk Management Framework ('RMF'), including the key principles and practices that we employ in managing material risks, both financial and non-financial.

The 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, and meet external commitments. It translates our strategy, values and commitments into practical actions and risk-based decisions.

Our group Risk and Compliance function is responsible for the group's RMF. Independent from the business segments, including our sales and trading functions, it provides challenge, oversight and appropriate balance of risk and reward in decision-making. Their responsibility includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risk.

Responsibility for managing both financial and non-financial risk, including regulatory compliance and financial crime risks, 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 our various specialist risk stewards and the collective accountability held by our chief risk and compliance officers. 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.

Our risk appetite

Our risk appetite defines the level and types of risk that we are willing to take to achieve our strategic objectives.

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

Our enterprise-wide risk appetite is expressed holistically through various risk management mechanisms and activities, in both quantitative and qualitative terms and is formally articulated through our Risk Appetite Statement ('RAS').

The group's 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 group's RAS is reported to the group Risk Management Meeting ('RMM') to support targeted insight and discussion of 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.

Each principal subsidiary and material banking entities are covered by a RAS, and their alignment with the group's RAS is monitored.

Our risk governance

The Board has ultimate supervisory responsibility for the effective management of risk. It is advised on risk-related matters by the Risk Committee. The Risk Committee reviews the effectiveness of the group's risk management framework and internal controls systems and oversees the group's approach to conduct, fairness and prevention of financial crime. Through review and independent challenge of reports presented by management at its meetings, the Risk Committee oversees the effectiveness of monitoring, assessment and management of the risk environment as well as the risk management framework.

The group's Chief Risk and Compliance Officer ('CRCO'), 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.

Risk Review

The group uses 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. This structure is summarised in the following table.

Governance structure for the management of risk and compliance

Authority	Membership	Responsibilities include:
Risk Management Meeting of the group	group CRCO group General Counsel group Co-Chief Executive Officers group Chief Financial Officer Chief Executive Officer of Hang Seng Bank Limited All other group Operating Committee members	<ul style="list-style-type: none"> – Supporting the group CRCO in exercising Board-delegated risk management authority. – Overseeing the implementation of risk appetite and the risk management framework. – Forward-looking assessment of the risk environment, analysing possible risk impacts and taking appropriate action. – Monitoring all categories of risk and determining appropriate mitigating action. – Promoting a supportive Group culture in relation to risk management and conduct.
Global business/Market risk management meetings	Global business/Market CRCOs/Market Chief Risk Officers ¹ Global business/Market Chief Executive Officers Global business/Market Chief Financial Officers Global business/Market heads of global functions ²	<ul style="list-style-type: none"> – Supporting the group CRCO in exercising Board-delegated risk management authority. – Forward-looking assessment of the risk environment, analysing possible risk impacts and taking appropriate action. – Implementation of risk appetite and the risk management framework. – Monitoring all categories of risk and determining appropriate mitigating actions. – Embedding a supportive culture in relation to risk management and controls.

1 In markets where we have Chief Compliance Officers.

2 This category includes Global business/Market Chief Compliance Officers, where applicable.

- ▶ The RMM has been established as a management forum in alignment with the Group's new Governance Framework and Operating Rhythm during 2025 as set out on page 6.
- ▶ The Board committees with responsibility for oversight of risk-related matters are set out on page 6.
- ▶ Treasury risks are the responsibility of the group Finance Management Meeting ('FMM') and the group Risk Committee. Global Treasury actively manages these risks, supported by the group Asset and Liability Management Committee ('ALCO') and local ALCOs, overseen by Treasury Risk Management and the group FMM.

Our 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 structures as described below.

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.

The 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, including 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, guidance and assurance of the first line of defence to help ensure it is managing risk effectively.
- The third line of defence is our Global Internal Audit function, which provides independent assurance as to whether our risk management approach and processes are designed and operating effectively.

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, each major subsidiary conducts regular macroeconomic and event-driven scenario analysis specific to its region. They 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'), and those required by the Monetary Authority of Singapore and the Australian Prudential Regulation Authority.

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 FMM and RC.

Key developments in 2025

Martin Haythorne retired from his role as the group's Chief Risk Officer from end of June 2025. Kathleen Gan, who was the Group Financial and Business Integration Lead was appointed as the group's Chief Risk and Compliance Officer with effect from June 2025.

In 2025, we continued to manage risks related to macroeconomic and geopolitical uncertainties and develop risk management capabilities through the continued enhancement of the risk management framework. We work to maintain and build stronger relationships with regulators and other external stakeholders to support our business and customer objectives. We also retained our focus on risk transformation and financial crime, and continued to assess the group's operational resilience capability whilst prioritising

Risk Review

the most significant enterprise risks. More specifically, we sought to enhance our risk management in the following areas:

- We have advanced our comprehensive initiative aimed at strengthening our global regulatory reporting processes and making them more sustainable, including enhancements to data, consistency and controls. While this programme continues, there may be further impacts on some of our regulatory ratios as we implement recommended changes and continue to enhance our controls across the process.
- We strengthened our control environment through the continued embedding of our Global Chief Control Oversight function which established a centralised approach to controls oversight across the first line of defence business and process owners, including a globally consistent approach to control standards, aggregated reporting and testing.
- We enhanced our technology and cybersecurity controls to help improve the resilience and security of our technology services in response to the heightened external threat environment.
- We responded to new innovations in the financial system, including growing adoption of digital assets and currencies, as well as the evolving use of AI through reviewing and enhancing controls across risk areas to help us and our customers safely benefit from innovation.
- 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 the financial stability of our third parties to better manage our supply chain and we continue to assess and seek to manage our operational resilience.
- We have further enhanced the way we manage climate considerations across the organisation. This has been achieved through risk policy and guideline updates, including our climate risk approach guidance document, and further development of our risk metrics and assessments to help monitor and manage exposures. We have also reviewed a number of climate models and have sought to enhance our internal climate scenario analysis capabilities.
- We deployed advanced technology and analytics capabilities into new markets 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.
- We continued to promote our whistleblowing service, HSBC Confidential, ensuring it is fully embedded in our speak-up culture. Continual enhancement is being undertaken to ensure optimal effectiveness of the service, while maintaining adherence to regulation and legislation.
- We have refreshed our conduct approach to ensure it remains clear, accessible and aligned with how we work today, while maintaining the same strong standards and enhancing our capability to drive positive outcomes for our customers and protect the integrity of financial markets.

Top and emerging risks

(Unaudited)

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 region and business segments, for any risks that may require global escalation. We update our top and emerging risks as necessary.

Our current top and emerging risks are as follows:

Risk	Trend	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.
Technology and cybersecurity risk	▲	There is an increased 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 technology and threat landscape, including those arising from ongoing geopolitical and macroeconomic events alongside third-party incidents 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.
Environmental, social and governance ('ESG') risks	▲	We are subject to ESG risks, including in relation to climate change, nature and human rights. These risks have increased due to diverging national and political agendas, a more complex and prescriptive regulatory environment in certain jurisdictions, as well as increasing frequency of severe weather events across the globe. Financial institutions' actions and investment decisions in respect of ESG 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 and export control 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.
Digitalisation and technological advances risk	▲	Developments in technology and changes in regulations continue to enable new entrants to the banking industry as well as new products and services offered by competitors. This challenges us to continue to innovate with new digital capabilities and evolve our products, to attract, retain and best serve our customers. Along with opportunities, new technology, including generative AI, can introduce risks and disruption. We seek to ensure technology developments are managed with appropriate controls and oversight.
Evolving regulatory environment risk	▶	The regulatory and compliance risk are set against continued geopolitical risk and regulatory focus on operational resilience, resolvability, prudential requirements, financial reporting and data, ESG, as well as encouraging sound risk and financial crime management practices. There is a noticeable increase in fragmentation of approaches, including in relation to AI and Central Bank Digital Currencies ('CBDCs') and a trend in some jurisdictions towards deregulation, as well as regulatory actions to support business growth.

Risk Review

Risk	Trend	Description
Internally driven		
Data risk	▶	We use data to serve our customers and run our operations, often in real-time within digital experiences and processes. If our data is not accurate and timely, our ability to serve customers, operate with resilience or meet regulatory requirements could be impacted. We seek to ensure that non-public data is kept confidential, and that we comply with the growing number of regulations that govern data privacy and cross-border movement of data.
Risks arising from the receipt of services from third parties	▲	We procure goods and services from a range of third parties. Due to the current macroeconomic and geopolitical climate, the risk of service disruption in our supply chain has heightened. We continue to strengthen our controls, oversight and risk management policies and processes to select and manage third parties, including our third parties' own supply chains, particularly for key activities that could affect our operational resilience.
Model risk	▶	Model risk arises whenever business decision making includes reliance on models. We use models in both financial and nonfinancial contexts, as well as in a range of business applications. Evolving regulatory requirements and enhanced expectations continue to drive changes to the way model risk is managed across the banking industry, with a particular focus on capital and credit loss models. New technologies, including generative AI, are driving a need for enhanced model risk controls.
Strategic execution risk	▲	Successful execution of our strategy enables us to help address the swiftly changing needs of our customers and stakeholders. We are committed to enhancing the effectiveness of strategic execution risk controls and monitoring. This will help us minimise disruptions during a period of heightened execution risk, driven by our ongoing simplification and initiatives to streamline operations and reduce costs.
Risks associated with workforce capability, capacity and environmental factors with potential impact on growth	▲	Our businesses, functions and markets are exposed to risks associated with employee retention and talent availability, the evolving skill requirements of our workforce, and compliance with employment laws and regulations. Voluntary attrition across the group remains stable, but failure to manage these risks may impact the delivery of our strategic objectives or lead to regulatory sanctions or legal claims, and the risks are heightened during the current period of fundamental organisational change.

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

Our material banking risks

(Unaudited)

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

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
<p>Credit risk</p> <p>Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.</p>	<p>Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and derivatives.</p>	<p>Credit risk is:</p> <ul style="list-style-type: none"> – measured as the amount that 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.
<p>Treasury risk</p> <p>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 an adverse impact on earnings or capital due to structural and transactional foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.</p>	<p>Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions, or the external environment.</p>	<p>Treasury risk is:</p> <ul style="list-style-type: none"> – 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.
<p>Market risk</p> <p>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.</p>	<p>Market risk arises from both trading portfolios and non-trading portfolios. Market risk for non-trading portfolios is discussed in the Treasury risk section on page 46. Market risk exposures arising from our insurance operations are discussed on page 57.</p>	<p>Market risk is:</p> <ul style="list-style-type: none"> – 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 for the group and the various business segments.

Risk Review

Description of risks – banking operations (continued)

Risks	Arising from	Measurement, monitoring and management of risk
<p>Climate risk</p> <p>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.</p>	<p>Climate risk can materialise through:</p> <ul style="list-style-type: none"> – physical risk, which arises from the increased frequency and severity of extreme 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 – the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to stakeholders. 	<p>Climate risk is:</p> <ul style="list-style-type: none"> – 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 our net zero ambitions.
<p>Resilience risk</p> <p>Resilience risk is the risk of sustained and significant business disruption causing the inability to provide critical services to our customers, affiliates and counterparties.</p>	<p>Resilience risk arises from failures or inadequacies in processes, people, systems or external events.</p>	<p>Resilience risk is:</p> <ul style="list-style-type: none"> – 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.
<p>Regulatory compliance risk</p> <p>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.</p>	<p>Regulatory compliance risk arises from the failure to observe the relevant laws, codes, rules and regulations, potentially resulting in adverse market or conduct outcomes, fines, penalties and reputational harm.</p>	<p>Regulatory compliance risk is:</p> <ul style="list-style-type: none"> – assessed and measured with reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement of our regulatory compliance teams; – monitored against the first line of defence risk and control assessments, and testing, alongside the outcome of the second line of defence monitoring and control assurance activities, as well as internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees accordingly, and monitoring activities to help ensure compliance.
<p>Financial crime risk</p> <p>Financial crime risk is the risk that HSBC's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, and the facilitation of tax evasion, sanctions and export control violations and evasion, money laundering, terrorist financing and proliferation financing.</p>	<p>Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.</p>	<p>Financial crime risk is:</p> <ul style="list-style-type: none"> – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement of, and assessment by our financial crime risk teams; – monitored against the first line of defence risk and control assessments, and the results of the monitoring and control assurance activities of the second line of defence functions; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help embed their observance. Proactive risk control and/or remediation work is undertaken where required.
<p>Model risk</p> <p>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.</p>	<p>Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.</p>	<p>Model risk is:</p> <ul style="list-style-type: none"> – 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, supervising their adoption to help ensure operational effectiveness, and ensuring models are approved for use.

Risk Review

Our insurance manufacturing subsidiaries have additional regulations than those of our banking operations. Risks in the insurance entities are managed using methodologies and processes that are subject to oversight at group level. Our insurance operations are also subject to many of the same risks as our banking operations, and these are covered by the group's risk management processes. However, there are specific risks inherent to the insurance operations as noted below.

Description of risks – insurance manufacturing operations

Risks	Arising from	Measurement, monitoring and management of risk
Financial risk For insurance entities, financial risk includes the risk of not being able to effectively 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 risk arises from: <ul style="list-style-type: none"> – market risk affecting 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: <ul style="list-style-type: none"> – measured for credit risk, in terms of the market value that could be lost if a counterparty fails to make repayments; for market risk, in terms of fluctuation in key reporting metrics; and for liquidity risk, 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.
Insurance risk Insurance 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.	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 risk is: <ul style="list-style-type: none"> – measured in terms of the variance between actual experience and expected assumptions and impact on key financial reporting metrics; – 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.

Credit risk

▶ See page 22 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 actively managed the risks related to macroeconomic uncertainties, including interest rates, inflation, fiscal and monetary policy, broader geopolitical uncertainties and conflicts.

▶ For further details, see 'Top and emerging risks' on page 21.

Governance and structure

(Unaudited)

We have established credit risk management and related 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)

The Credit Risk sub-function in Global Risk and Compliance is responsible for the key policies and processes for managing credit risk, which include formulating group 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 'Financial Instruments' process focuses on three main areas: modelling, data and forward economic guidance; implementation; and governance.

Modelling, data and forward economic guidance

(Unaudited)

This involves establishing HKFRS 9 modelling and data processes across various geographies, including internal model risk governance and independent reviews. A centralised process generates unbiased global economic scenarios, which are reviewed quarterly for consistency with current economic conditions and risks. These scenarios are subject to final review and approval by senior management in a forward economic guidance global business impairment committee.

Implementation

(Unaudited)

A centralised impairment engine calculates expected credit losses using data from various systems, which is subject to 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.

Governance

(Unaudited)

Management review forums, including representatives from Credit Risk and Finance, review and approve impairment results. These approvals are reviewed by retail and wholesale group's impairment committees for final approval. Required committee members include the relevant Chief Risk Officers, Chief Financial Officers and the group's Financial Controller.

Risk Review

Concentration of exposure

(Audited)

Concentration of credit risk occurs when multiple counterparties share similar economic traits or operate in the same sectors or regions, making them collectively vulnerable to changes in economic or political conditions. To mitigate this risk, the bank uses various controls such as portfolio and counterparty limits, approval and review processes, and stress testing across industries, countries and businesses.

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 encompass a range of granular internal credit rating grades assigned to wholesale and retail customers, and the external ratings attributed by external agencies to debt securities.

For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based

Credit quality classification

(Unaudited)

	Sovereign debt securities and bills	Other debt securities and bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating	12-month Basel probability of default %	Internal credit rating	12 month probability-weighted PD %
Quality classification^{1,2}						
Strong	BBB and above	A- and above	CRR 1 to CRR 2	0 – 0.169	Band 1 and 2	0.000 – 0.500
Good	BBB- to BB	BBB+ to BBB-	CRR 3	0.170 – 0.740	Band 3	0.501 – 1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR 4 to CRR 5	0.741 – 4.914	Band 4 and 5	1.501 – 20.000
Sub-standard	B- to C	B- to C	CRR 6 to CRR 8	4.915 – 99.999	Band 6	20.001 – 99.999
Credit impaired	Default	Default	CRR 9 to CRR 10	100	Band 7	100

1 Customer risk rating ('CRR').

2 12-month Point-in-time ('PIT') 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 in Note 1.2(j) on the consolidated financial statements.

Forborne loans and advances

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

- ▶ For details of our policy on forbearance, see Note 1.2(j) in the financial statements.

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 related forbearance measures may not result in the loan

upon the mapping of related customer risk rating ('CRR') to external credit rating.

Wholesale lending

(Unaudited)

The 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.

Retail lending

(Unaudited)

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

being classified as credit impaired unless combined with other indicators of credit impairment. These are classified 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 classed as forborne results in the customer being classed 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 and 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.

Risk Review

Impairment assessment

(Audited)

For details of our impairment policies on loans and advances and financial investments, see Note 1.2(j) on the financial statements.

Write-off of loans and advances

(Audited)

Under HKFRS9, 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 between 150 and 210 days past due. The standard period runs until the end of the month in which the account becomes

180 days contractually delinquent. However, in exceptional circumstances, to avoid unfair customer outcomes, deliver customer duty or meet regulatory expectations, the period may be extended further.

For secured 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. Where these assets are maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default, the prospect of recovery is re-assessed.

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.

Summary of credit risk

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

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

(Audited)

	2025		2024	
	Gross carrying/ nominal amount HK\$m	Allowance for ECL ¹ HK\$m	Gross carrying/ nominal amount HK\$m	Allowance for ECL ¹ HK\$m
At 31 Dec				
Loans and advances to customers at amortised cost	3,682,120	(40,368)	3,529,958	(35,660)
Loans and advances to banks	516,684	(26)	480,779	(39)
Other financial assets measured at amortised cost	2,358,996	(456)	2,257,430	(392)
– cash and balances at central banks	204,345	—	211,047	—
– Hong Kong Government certificates of indebtedness	342,994	—	328,454	—
– reverse repurchase agreements – non-trading	885,669	—	816,102	—
– financial investments	635,728	(52)	632,781	(40)
– prepayments, accrued income and other assets ²	290,260	(404)	269,046	(352)
Amounts due from Group companies	166,580	(7)	133,576	—
Total gross carrying amount on-balance sheet	6,724,380	(40,857)	6,401,743	(36,091)
Loans and other credit related commitments	2,133,892	(590)	2,027,320	(700)
Financial guarantee	51,634	(59)	52,988	(62)
Total nominal amount off-balance sheet³	2,185,526	(649)	2,080,308	(762)
	8,909,906	(41,506)	8,482,051	(36,853)

	Fair value	Allowance for ECL	Fair value	Allowance for ECL
	HK\$m	HK\$m	HK\$m	HK\$m
At 31 Dec				
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI') ⁴	1,894,477	(87)	1,698,374	(103)

- 1 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 is recognised as a provision.
- 2 Includes only those financial instruments that are subject to the impairment requirements of HKFRS 9. 'Prepayments, accrued income and other assets', as presented within the consolidated balance sheet on page 66, comprises both financial and non-financial assets, including cash collateral and settlement accounts.
- 3 Represents the maximum amount at risk should the contracts be fully drawn upon and client defaults.
- 4 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the consolidated income statement.

Risk Review

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.
- Purchased or originated credit-impaired financial assets ('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.

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

(Audited)

	Gross carrying/nominal amount ¹					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2 ⁴	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%	%	%	%	%
Loans and advances to customers	3,258,971	314,007	108,548	594	3,682,120	(2,859)	(7,104)	(30,085)	(320)	(40,368)	0.1	2.3	27.7	53.9	1.1
– personal	1,570,679	49,876	8,623	–	1,629,178	(1,553)	(3,362)	(1,324)	–	(6,239)	0.1	6.7	15.4	–	0.4
– corporate ²	1,333,324	258,102	98,504	594	1,690,524	(1,092)	(3,709)	(27,994)	(320)	(33,115)	0.1	1.4	28.4	53.9	2.0
– financial institutions ³	354,968	6,029	1,421	–	362,418	(214)	(33)	(767)	–	(1,014)	0.1	0.5	54.0	–	0.3
Loans and advances to banks	516,236	448	–	–	516,684	(26)	–	–	–	(26)	–	–	–	–	–
Other financial assets	2,348,620	9,956	420	–	2,358,996	(232)	(40)	(184)	–	(456)	–	0.4	43.8	–	–
Loans and other credit-related commitments	2,094,666	38,648	578	–	2,133,892	(361)	(192)	(37)	–	(590)	–	0.5	6.4	–	–
– personal	1,583,325	7,967	365	–	1,591,657	(36)	–	–	–	(36)	–	–	–	–	–
– corporate ²	363,145	28,231	213	–	391,589	(294)	(183)	(37)	–	(514)	0.1	0.6	17.4	–	0.1
– financial institutions ³	148,196	2,450	–	–	150,646	(31)	(9)	–	–	(40)	–	0.4	–	–	–
Financial guarantee	47,768	3,762	104	–	51,634	(17)	(34)	(8)	–	(59)	–	0.9	7.7	–	0.1
– personal	6,924	–	–	–	6,924	–	–	–	–	–	–	–	–	–	–
– corporate ²	31,940	3,730	104	–	35,774	(13)	(34)	(8)	–	(55)	–	0.9	7.7	–	0.2
– financial institutions ³	8,904	32	–	–	8,936	(4)	–	–	–	(4)	–	–	–	–	–
At 31 Dec 2025	8,266,261	366,821	109,650	594	8,743,326	(3,495)	(7,370)	(30,314)	(320)	(41,499)	–	2.0	27.6	53.9	0.5

The above table does not include balances due from Group companies.

- 1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
- 2 Includes corporate and commercial.
- 3 Includes non-bank financial institutions.
- 4 The shift of gross carrying value of corporate loans and advances between stage 1 and 2 arose from higher average probability of default ('PD') for the remaining term at the reporting date reflecting updates to our PD models. These were compared with the PD calculated at origination.

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 following disclosure presents the ageing of stage 2 financial assets by those less than 30 DPD and greater than 30 DPD and therefore presents those financial assets classified as stage 2 due to ageing (30 DPD) and those identified at an earlier stage (less than 30 DPD).

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

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	of which: Up-to-date	of which: 1 to 29 DPD ^{1,2}	of which: 30 and > DPD ^{1,2}	Stage 2	of which: Up-to-date	of which: 1 to 29 DPD ^{1,2}	of which: 30 and > DPD ^{1,2}	Stage 2	of which: Up-to-date	of which: 1 to 29 DPD ^{1,2}	of which: 30 and > DPD ^{1,2}
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%	%	%	%
At 31 Dec 2025												
Loans and advances to customers at amortised cost	314,007	302,503	7,460	4,044	(7,104)	(6,213)	(307)	(584)	2.3	2.1	4.1	14.4
– personal	49,876	40,395	6,210	3,271	(3,362)	(2,531)	(258)	(573)	6.7	6.3	4.2	17.5
– corporate and commercial	258,102	256,079	1,250	773	(3,709)	(3,649)	(49)	(11)	1.4	1.4	3.9	1.4
– non-bank financial institutions	6,029	6,029	–	–	(33)	(33)	–	–	0.5	0.5	–	–

- 1 Days past due ('DPD').
- 2 The DPD amounts presented above are on a contractual basis and include the benefit of any customer relief payment holidays granted.

Risk Review

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

(Audited)

	Gross carrying/nominal amount ¹					Allowance for ECL					ECL coverage %				
	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total	Stage 1	Stage 2	Stage 3	POCI	Total
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%	%	%	%	%
Loans and advances to customers	3,178,662	252,726	98,267	303	3,529,958	(2,629)	(8,242)	(24,577)	(212)	(35,660)	0.1	3.3	25.0	70.0	1.0
– personal	1,488,104	42,863	9,084	—	1,540,051	(1,344)	(2,988)	(1,282)	—	(5,614)	0.1	7.0	14.1	—	0.4
– corporate ²	1,397,664	201,657	87,771	303	1,687,395	(1,105)	(5,183)	(22,573)	(212)	(29,073)	0.1	2.6	25.7	70.0	1.7
– financial institutions ³	292,894	8,206	1,412	—	302,512	(180)	(71)	(722)	—	(973)	0.1	0.9	51.1	—	0.3
Loans and advances to banks	480,356	423	—	—	480,779	(38)	(1)	—	—	(39)	—	0.2	—	—	—
Other financial assets	2,245,780	11,262	388	—	2,257,430	(242)	(22)	(128)	—	(392)	—	0.2	33.0	—	—
Loans and other credit-related commitments	1,990,634	35,807	879	—	2,027,320	(418)	(239)	(43)	—	(700)	—	0.7	4.9	—	—
– personal	1,466,778	9,043	266	—	1,476,087	(31)	—	(15)	—	(46)	—	—	5.6	—	—
– corporate ²	389,225	24,718	613	—	414,556	(352)	(230)	(25)	—	(607)	0.1	0.9	4.1	—	0.1
– financial institutions ³	134,631	2,046	—	—	136,677	(35)	(9)	(3)	—	(47)	—	0.4	—	—	—
Financial guarantee	48,736	4,094	158	—	52,988	(35)	(11)	(16)	—	(62)	0.1	0.3	10.1	—	0.1
– personal	6,749	1	—	—	6,750	—	—	—	—	—	—	—	—	—	—
– corporate ²	35,822	4,062	158	—	40,042	(32)	(11)	(16)	—	(59)	0.1	0.3	10.1	—	0.1
– financial institutions ³	6,165	31	—	—	6,196	(3)	—	—	—	(3)	—	—	—	—	—
At 31 Dec 2024	7,944,168	304,312	99,692	303	8,348,475	(3,362)	(8,515)	(24,764)	(212)	(36,853)	—	2.8	24.8	70.0	0.4

The above table does not include balances due from Group companies.

- 1 Represents the maximum amount at risk should the contracts be fully drawn upon and clients default.
- 2 Includes corporate and commercial.
- 3 Includes non-bank financial institutions.

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

(Audited)

	Gross carrying amount				Allowance for ECL				ECL coverage %			
	Stage 2	of which: Up-to-date	of which: 1 to 29 DPD ^{1,2}	of which: 30 and > DPD ^{1,2}	Stage 2	of which: Up-to-date	of which: 1 to 29 DPD ^{1,2}	of which: 30 and > DPD ^{1,2}	Stage 2	of which: Up-to-date	of which: 1 to 29 DPD ^{1,2}	of which: 30 and > DPD ^{1,2}
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	%	%	%	%
At 31 Dec 2024												
Loans and advances to customers at amortised cost	252,726	241,557	7,454	3,715	(8,242)	(7,481)	(252)	(509)	3.3	3.1	3.4	13.7
– personal	42,863	33,930	5,659	3,274	(2,988)	(2,282)	(206)	(500)	7.0	6.7	3.6	15.3
– corporate and commercial	201,657	199,505	1,711	441	(5,183)	(5,130)	(44)	(9)	2.6	2.6	2.6	2.0
– non-bank financial institutions	8,206	8,122	84	—	(71)	(69)	(2)	—	0.9	0.8	2.4	—

- 1 Days past due ('DPD').
- 2 The DPD amounts presented above are on a contractual basis and include the benefit of any customer relief payment holidays granted.

Credit exposure

(Audited)

Maximum exposure to credit risk

This section provides information on balance sheet items and their offsets as well as loan and other credit-related commitments.

'Maximum exposure to credit risk' table

The following table presents our maximum exposure to credit risk before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk, and it excludes equity securities as they are not subject to credit risk. For financial assets recognised on the balance sheet, maximum exposure to credit risk equals their carrying amount and is net of allowance for ECL. For financial guarantees and other guarantees 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.

Other credit risk mitigants

There are arrangements in place that reduce our maximum exposure to credit risk. These include a charge over collateral on borrowers' specific assets, such as residential properties, collateral held in the form of financial instruments that are not held on the balance sheet and short positions in securities. In addition, for financial assets held as part of linked insurance/investment contracts the risk is predominantly borne by the policyholder.

Collateral available to mitigate credit risk is disclosed in the Collateral section on pages 42-45.

Maximum exposure to credit risk before collateral held or other credit enhancements

	2025 HK\$m	2024 HK\$m
Cash and balances at central banks	204,345	211,047
Hong Kong Government certificates of indebtedness	342,994	328,454
Trading assets	671,525	626,722
Derivatives	398,946	505,260
Financial assets designated at fair value	572,294	506,512
Reverse repurchase agreements – non-trading	885,669	816,102
Loans and advances to banks	516,658	480,740
Loans and advances to customers	3,641,752	3,494,298
Financial investments	2,530,153	2,331,114
Amounts due from Group companies	192,443	175,004
Other assets	293,051	268,556
Total on-balance sheet exposure to credit risk	10,249,830	9,743,809
Total off-balance sheet	4,148,753	3,917,953
Financial guarantees and other similar contracts	466,662	440,814
Loan and other credit-related exposure	3,682,091	3,477,139
At 31 Dec	14,398,583	13,661,762

Total exposure to credit risk remained broadly unchanged in 2025 with loans and advances continuing to be the largest element.

Credit deterioration of financial instruments

- ▶ A summary of our current policies and practices regarding the identification, treatment and measurement of stage 1, stage 2, stage 3 (credit impaired) and POCI financial instruments can be found in Note 1.2(j) on the consolidated financial statements.

Measurement uncertainty and sensitivity analysis of ECL estimates

(Audited)

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple scenarios based on economic forecasts and distributional estimates and apply these 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 economic 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.

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.

The Central Scenario 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 see the 'Insights from climate scenario analysis' section of 'Managing Climate Risk' on page 13.

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 move permanently away from past trends. It is calibrated to a 5% probability.

Risk Review

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 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 are described below.

The consensus Central scenario

The Central scenario incorporates higher growth forecasts for 2026 relative to the fourth quarter of 2024, in most of 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 to reflect 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 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.

Forecast US GDP growth has also improved relative to 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.

Global GDP is expected to grow by 2.5% in 2026 in the Central scenario, and the average rate of global GDP growth is forecast to be 2.6% over the five-year forecast period.

The key features of our Central scenario are:

- Forecast GDP growth has improved since the fourth quarter of 2024, although the outlook still envisages either a slowdown or stabilisation in growth in 2026, relative to 2025, for most markets.
- In most markets, unemployment is forecast to rise moderately in 2026 in line with slower economic activity and subdued hiring. It will remain relatively low by historical standards.
- The evolution of inflation is mixed. In the US, inflation is expected to fall gradually but remain above central bank target rates through 2026, reflecting higher tariffs. 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 Brent crude oil price is forecast to average around USD65 per barrel over the projection period.

The Central scenario was created with forecasts available in late November, and subsequently kept under review until the end of December 2025.

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

Central scenario 2026-2030 (as at 4Q25)

	Hong Kong %	Mainland China %
GDP growth (annual average 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		
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 growth (annual average 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
Inflation rate (annual average growth rate)		
2026	1.8	0.7
2027	1.9	1.2
2028	2.0	1.4
2029	2.2	1.5
2030	2.2	1.5
5 year average ¹	2.0	1.3
Central bank policy rate (annual average, %)²		
2026	3.8	3.0
2027	3.5	3.0
2028	3.6	3.1
2029	3.8	3.1
2030	3.9	3.2
5 year average ¹	3.7	3.1

1 The five-year average is calculated over a projected period of 20 quarters from 1Q26 to 4Q30 for the 4Q25 scenario.

2 For mainland China, rate shown is the Loan Prime Rate.

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.

Risk Review

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

Consensus Upside scenario 2026-2030 (as at 4Q25)

	Hong Kong %	Mainland China %
GDP level (% , 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)
Inflation rate (YoY % change, max) ³	2.9 (2Q26)	1.5 (4Q30)
Central bank policy rate (% , max) ³	4.2 (1Q26)	3.4 (1Q27)

- Cumulative change to the highest level of the series during the 20-quarter projection.
- The lowest projected unemployment rate in the scenario.
- The highest/lowest projected policy rate and year-on-year percentage change in inflation in the scenario. For mainland China, the Central bank policy rate shown is the Loan Prime Rate.

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;
- 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 affect economic confidence, the global goods trade and supply chains for critical technologies.

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. Oil prices trough at \$40 per barrel.

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

Consensus Downside scenario 2026-2030 (as at 4Q25)

	Hong Kong %	Mainland China %
GDP level (% , 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)
Inflation rate (YoY % change, max) ³	0.1 (4Q26)	(2.9)(4Q26)
Central bank policy rate (% , max) ³	5.0 (2Q26)	1.5 (4Q26)

- Cumulative change to the lowest level of the series during the 20-quarter projection.
- The highest projected unemployment or policy rate in the scenario.
- For China, the table shows the lowest year-on-year percentage change in inflation and projected policy rates in the scenario. The Central bank policy rate shown is the Loan Prime Rate. For Hong Kong, the policy rate is shown as the maximum, consistent with the operation of US-dollar-linked exchange rates.

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. In the scenario, oil prices trough at \$30 per barrel.

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

Downside 2 scenario 2026-2030 (as at 4Q25)

	Hong Kong %	Mainland China %
GDP level (% , 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)
Inflation rate (YoY % change, max) ³	(1.7)(2Q27)	(6.5)(4Q26)
Central bank policy rate (% , max) ³	5.0 (2Q26)	1.2 (2Q27)

- Cumulative change to the lowest level of the series during the 20-quarter projection.
- The highest projected unemployment/policy rate in the scenario.
- For China, the table shows the lowest year-on-year percentage change in inflation and projected policy rates in the scenario. The Central bank policy rate shown is the Loan Prime Rate. For Hong Kong, the policy rate is shown as the maximum, consistent with the operation of US-dollar-linked exchange rates.

Scenario weighting

Scenario 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.

Risk Review

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	10	10	10
Central	75	75	75
Downside	10	10	10
Downside 2	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.

Critical estimates and judgements

The HKFRS 9 Expected Credit Losses ('ECL') calculation involved significant judgements, assumptions and estimates. These included 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 ECL calculations

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

For wholesale portfolios, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). PDs use the correlation of forward economic guidance with default rates for a particular industry within a country, and LGDs use the correlation of forward economic guidance with collateral values and realisation rates for a particular country 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 that

contain internal, external and macroeconomic variables. The macroeconomic impact on PD is modelled over the period equal to the remaining maturity of the 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 forecasts and applying the corresponding LGD expectation relative to the updated forecast collateral values.

For unsecured retail portfolios historically observed recovery rates are leveraged to measure loss. For both mortgages and unsecured portfolios, a limited number of portfolios utilise a stressed LGD applied to the Downside 2 scenario.

Management judgemental adjustments

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

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

Management judgmental adjustments are reviewed under the HKFRS 9 governance process (as detailed in the section 'Credit risk management' on page 24). 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 defence. 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 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.

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\$0.6bn compared with 31 December 2024.

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

Management judgemental adjustments to ECL as at 31 December 2025¹

	Retail HK\$bn	Wholesale ² HK\$bn	Total HK\$bn
Modelled ECL (A) ³	6.1	5.3	11.4
Corporate lending adjustments	—	(0.1)	(0.1)
Total management judgemental adjustments (B) ⁴	—	(0.1)	(0.1)
Other adjustments (C) ⁵	0.1	0.7	0.8
Final ECL (A + B + C) ⁶	6.2	5.9	12.1

Risk Review

Management judgemental adjustments to ECL as at 31 December 2024¹

	Retail HK\$bn	Wholesale ² HK\$bn	Total HK\$bn
Modelled ECL (A) ³	5.4	6.2	11.6
Corporate lending adjustments	—	0.5	0.5
Total management judgemental adjustments (B) ⁴	—	0.5	0.5
Other adjustments (C) ⁵	0.2	0.8	1.0
Final ECL (A + B + C) ⁶	5.6	7.5	13.1

- Management judgemental adjustments presented in the table reflect increases or (decreases) to ECL, respectively.
- The wholesale portfolio corresponds to adjustments to the performing portfolio (stage 1 and stage 2).
- Modelled ECL (A) refers to probability-weighted allowance for ECL before any adjustments are applied.
- Total management judgemental adjustments (B) 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.
- 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.
- As presented within our internal credit risk governance (see page 24).

At 31 December 2025, wholesale management judgemental adjustments were a decrease to allowance for ECL of HK\$0.1bn (31 December 2024: HK\$0.5bn increase). The reduction is mainly due to few real estate customers moved to individually assessment approach as they migrated to stage 3.

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 mortgage exposures, the sensitivity analysis includes allowance for ECL for defaulted obligors of loans and advances. This is because the retail ECL for secured mortgage portfolios including loans in all stages 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 with 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.

Wholesale analysis

HKFRS 9 ECL sensitivity to future economic conditions¹

	Hong Kong	Mainland China
ECL coverage of financial instruments subject to significant measurement uncertainty at 31 Dec 2025²	HK\$m	HK\$m
Reported ECL	3,412	1,465
Consensus scenarios ECL		
Central scenario	3,120	1,369
Upside scenario	2,375	1,067
Downside scenario	4,430	1,989
Alternative (Downside 2) scenario ECL	8,894	3,088

	HK\$m	HK\$m
ECL coverage of financial instruments subject to significant measurement uncertainty at 31 Dec 2024²		
Reported ECL	5,126	1,383
Consensus scenarios ECL		
Central scenario	4,793	1,099
Upside scenario	3,619	652
Downside scenario	7,048	2,559
Alternative (Downside 2) scenario ECL	11,642	6,898

- Excludes defaulted obligors.
- 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 due to few real estate customers moved to individually assessment approach as they migrated to stage 3.

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions¹

	At 31 December 2025 ²				
	Reported ECL	Central Scenario	Upside Scenario	Downside Scenario	Alternative (Downside 2) scenario ECL
ECL coverage of loans and advances to customers	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
Hong Kong	3,608	3,478	3,415	3,693	5,310
	At 31 December 2024 ²				
Hong Kong	3,137	2,963	2,895	3,192	7,991

- ECL sensitivities exclude portfolios using less complex modelling approaches.
- ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.

Compared with 31 December 2024, Downside 2 ECL sensitivity in Hong Kong decreased, primarily due to the House Price Index projections being less severe in 2025.

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

(Unaudited)

The following disclosure provides a reconciliation by stage of the group's gross carrying/nominal amount and allowances for loans and advances to banks and customers, including loan commitments and financial guarantees.

Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument.

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 transfer of stage 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 customer risk rating ('CRR')/probability of default ('PD') movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'changes to risk parameters – credit quality' line item.

Changes in 'Net new and further lending/repayments' represents the impact from volume movements within the Group's lending portfolio and includes 'New financial assets originated or purchased', 'assets derecognised (including final repayments)' and 'changes to risk parameters – further lending/repayment'.

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

(Audited)

	Stage 1		Stage 2		Stage 3		POCI		Total	
	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
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 Jan 2025	5,681,968	(3,119)	293,050	(8,494)	99,305	(24,636)	302	(212)	6,074,625	(36,461)
Transfers of financial instruments:	(268,604)	(1,582)	232,657	5,943	35,947	(4,361)	—	—	—	—
– transfers from stage 1 to stage 2	(518,607)	799	518,607	(799)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	254,385	(2,350)	(254,385)	2,350	—	—	—	—	—	—
– transfers to stage 3	(4,753)	6	(35,515)	4,747	40,268	(4,753)	—	—	—	—
– transfers from stage 3	371	(37)	3,950	(355)	(4,321)	392	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	1,326	—	(1,481)	—	(357)	—	—	—	(512)
Changes due to modifications not derecognised	—	—	—	—	(10)	(3)	—	—	(10)	(3)
Net new and further lending/ (repayments)	416,926	(442)	(167,985)	1,742	(20,847)	1,734	276	20	228,370	3,054
Changes in risk parameters – credit quality	—	810	—	(6,009)	—	(9,978)	—	(116)	—	(15,293)
Changes to model used for ECL calculation	—	(347)	—	1,079	—	(3)	—	—	—	729
Assets written off	—	—	—	—	(9,702)	9,702	—	—	(9,702)	9,702
Credit-related modifications that resulted in derecognition	—	—	—	—	—	—	—	—	—	—
Foreign exchange	101,667	51	4,606	(103)	902	(139)	7	(3)	107,182	(194)
Others	(48,851)	37	(5,465)	(5)	3,637	(2,088)	9	(9)	(50,670)	(2,065)
At 31 Dec 2025	5,883,106	(3,266)	356,863	(7,328)	109,232	(30,129)	594	(320)	6,349,795	(41,043)
ECL income statement charge for the year		1,347		(4,669)		(8,607)		(96)		(12,025)
Recoveries										1,111
Modification losses on contractual cash flows that did not result in derecognition										(23)
Others										(1,751)
Total ECL income statement charge for the year										(12,688)

Risk Review

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

	At 31 Dec 2025		Year ended 31 Dec 2025
	Gross carrying/ nominal amount HK\$m	Allowance for ECL HK\$m	ECL charge HK\$m
As above	6,349,795	(41,043)	(12,688)
Other financial assets measured at amortised cost	2,358,996	(456)	(49)
Non-trading reverse repurchase agreement commitments	34,535	—	—
Performance and other guarantees not considered for HKFRS 9	—	—	(37)
Amounts due from Group companies	166,580	(7)	(9)
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied/Summary consolidated income statement	8,909,906	(41,506)	(12,783)
Debt instruments measured at FVOCI	1,894,477	(87)	31
Total allowance for ECL/total income statement ECL charge for the year	N/A	(41,593)	(12,752)

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

(Audited)

	Stage 1		Stage 2		Stage 3		POCI		Total	
	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
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
At 1 Jan 2024	5,712,679	(3,208)	403,099	(8,871)	65,050	(27,557)	289	(163)	6,181,117	(39,799)
Transfers of financial instruments:	(93,712)	(1,874)	27,752	6,918	65,960	(5,044)	—	—	—	—
– transfers from stage 1 to stage 2	(332,172)	695	332,172	(695)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	249,053	(2,553)	(249,053)	2,553	—	—	—	—	—	—
– transfers to stage 3	(10,866)	14	(57,022)	5,187	67,888	(5,201)	—	—	—	—
– transfers from stage 3	273	(30)	1,655	(127)	(1,928)	157	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	1,205	—	(1,045)	—	(72)	—	—	—	88
Changes due to modifications not derecognised	—	—	—	—	(194)	—	—	—	(194)	—
Net new and further lending/(repayments)	180,702	(165)	(132,184)	1,776	(18,124)	3,345	(9)	16	30,385	4,972
Changes in risk parameters – credit quality	—	592	—	(6,749)	—	(9,931)	—	(43)	—	(16,131)
Changes to model used for ECL calculation	—	209	—	(595)	—	9	—	—	—	(377)
Assets written off	—	—	—	—	(17,598)	17,598	—	—	(17,598)	17,598
Credit-related modifications that resulted in derecognition	—	—	—	—	—	—	—	—	—	—
Foreign exchange	(114,927)	114	(5,617)	68	(737)	175	—	—	(121,281)	357
Others	(2,774)	8	—	4	4,948	(3,159)	22	(22)	2,196	(3,169)
At 31 Dec 2024	5,681,968	(3,119)	293,050	(8,494)	99,305	(24,636)	302	(212)	6,074,625	(36,461)
ECL income statement charge for the year	—	1,841	—	(6,613)	—	(6,649)	—	(27)	—	(11,448)
Recoveries	—	—	—	—	—	—	—	—	—	857
Modification losses on contractual cash flows that did not result in derecognition	—	—	—	—	—	—	—	—	—	(240)
Others	—	—	—	—	—	—	—	—	—	(1,058)
Total ECL income statement charge for the year	—	—	—	—	—	—	—	—	—	(11,889)

	At 31 Dec 2024		Year ended 31 Dec 2024
	Gross carrying/ nominal amount HK\$m	Allowance for ECL HK\$m	ECL charge HK\$m
As above	6,074,625	(36,461)	(11,889)
Other financial assets measured at amortised cost	2,257,430	(392)	(17)
Non-trading reverse repurchase agreement commitments	16,420	—	—
Performance and other guarantees not considered for HKFRS 9	N/A	N/A	8
Amounts due from Group companies	133,576	—	—
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied/Summary consolidated income statement	8,482,051	(36,853)	(11,898)
Debt instruments measured at FVOCI	1,698,374	(103)	(48)
Total allowance for ECL/total income statement ECL charge for the year	N/A	(36,956)	(11,946)

Credit quality

Credit quality of financial instruments

(Audited)

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 PD, whereas stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition for the majority of portfolios. Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and stage 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in stage 2.

The five credit quality classifications provided below each encompass a range of granular internal credit rating grades assigned to wholesale and personal lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table on page 25.

Distribution of financial instruments by credit quality at 31 December 2025

(Audited)

	Gross carrying/notional amount					Total HK\$m	Allowance for ECL HK\$m	Net HK\$m
	Strong HK\$m	Good HK\$m	Satisfactory HK\$m	Sub- standard HK\$m	Credit impaired HK\$m			
In-scope for HKFRS 9 impairment								
Loans and advances to customers held at amortised cost	2,130,610	758,473	634,288	49,607	109,142	3,682,120	(40,368)	3,641,752
– personal	1,355,531	151,081	106,351	7,592	8,623	1,629,178	(6,239)	1,622,939
– corporate and commercial	539,022	526,037	485,201	41,166	99,098	1,690,524	(33,115)	1,657,409
– non-bank financial institutions	236,057	81,355	42,736	849	1,421	362,418	(1,014)	361,404
Loans and advances to banks	498,386	16,764	774	760	–	516,684	(26)	516,658
Cash and balances at central banks	199,841	4,009	495	–	–	204,345	–	204,345
Hong Kong Government certificates of indebtedness	342,994	–	–	–	–	342,994	–	342,994
Reverse repurchase agreements – non-trading	552,210	210,188	123,242	29	–	885,669	–	885,669
Financial investments held at amortised cost	629,505	4,307	1,913	3	–	635,728	(52)	635,676
Prepayments, accrued income and other assets	168,371	68,407	51,140	1,922	420	290,260	(404)	289,856
Debt instruments measured at fair value through other comprehensive income ¹	1,862,415	8,468	19,187	2,119	–	1,892,189	(87)	1,892,102
Out-of-scope for HKFRS 9 impairment								
Trading assets	582,240	47,055	41,208	739	283	671,525	–	671,525
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	470,611	69,053	22,034	2,669	152	564,519	–	564,519
Derivatives	214,569	45,302	14,762	757	7	275,397	–	275,397
Total gross carrying amount on-balance sheet	7,651,752	1,232,026	909,043	58,605	110,004	9,961,430	(40,937)	9,920,493
Percentage of total credit quality	77%	12%	9%	1%	1%	100%		
Loans and other credit related commitments	2,312,129	808,216	538,787	18,484	1,365	3,678,981	(590)	3,678,391
Financial guarantee and similar contracts	204,696	152,607	78,688	2,940	753	439,684	(424)	439,260
Total nominal off-balance sheet amount	2,516,825	960,823	617,475	21,424	2,118	4,118,665	(1,014)	4,117,651

The above table does not include balances due from Group companies.

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 balance sheet as it excludes fair value gains and losses.

Risk Review

Distribution of financial instruments by credit quality at 31 December 2024

(Audited)

	Gross carrying/notional amount					Total HK\$m	Allowance for ECL HK\$m	Net HK\$m
	Strong HK\$m	Good HK\$m	Satisfactory HK\$m	Sub- standard HK\$m	Credit impaired HK\$m			
In-scope for HKFRS 9 impairment								
Loans and advances to customers held at amortised cost	2,076,438	650,088	640,507	64,355	98,570	3,529,958	(35,660)	3,494,298
– personal	1,323,609	118,374	85,651	3,333	9,084	1,540,051	(5,614)	1,534,437
– corporate and commercial	561,394	473,222	505,702	59,003	88,074	1,687,395	(29,073)	1,658,322
– non-bank financial institutions	191,435	58,492	49,154	2,019	1,412	302,512	(973)	301,539
Loans and advances to banks	473,448	4,800	1,589	942	—	480,779	(39)	480,740
Cash and balances at central banks	206,159	4,882	6	—	—	211,047	—	211,047
Hong Kong Government certificates of indebtedness	328,454	—	—	—	—	328,454	—	328,454
Reverse repurchase agreements – non-trading	435,956	214,899	164,933	314	—	816,102	—	816,102
Financial investments held at amortised cost	602,351	28,572	1,855	3	—	632,781	(40)	632,741
Prepayments, accrued income and other assets	172,734	50,523	42,365	3,036	388	269,046	(352)	268,694
Debt instruments measured at fair value through other comprehensive income ¹	1,616,296	69,505	20,252	2,255	—	1,708,308	(103)	1,708,205
Out-of-scope for HKFRS 9 impairment								
Trading assets	530,534	64,535	30,941	672	40	626,722	—	626,722
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	406,037	73,560	19,047	1,020	85	499,749	—	499,749
Derivatives	280,832	41,574	29,936	441	—	352,783	—	352,783
Total gross carrying amount on-balance sheet	7,129,239	1,202,938	951,431	73,038	99,083	9,455,729	(36,194)	9,419,535
Percentage of total credit quality	75%	13%	10%	1%	1%	100%		
Loans and other credit related commitments	2,109,067	778,750	564,381	22,008	2,757	3,476,963	(700)	3,476,263
Financial guarantee and similar contracts	183,877	154,322	72,874	5,004	735	416,812	(379)	416,433
Total nominal off-balance sheet amount	2,292,944	933,072	637,255	27,012	3,492	3,893,775	(1,079)	3,892,696

The above table does not include balances due from Group companies.

- 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 balance sheet as it excludes fair value gains and losses.

Risk Review

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

	Gross carrying/notional amount						Allowance for ECL	Net
	Strong HK\$m	Good HK\$m	Satisfactory HK\$m	Sub- standard HK\$m	Credit impaired HK\$m	Total HK\$m		
Loans and advances to banks	498,386	16,764	774	760	—	516,684	(26)	516,658
– stage 1	498,044	16,764	766	662	—	516,236	(26)	516,210
– stage 2	342	—	8	98	—	448	—	448
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Loans and advances to customers at amortised cost	2,130,610	758,473	634,288	49,607	109,142	3,682,120	(40,368)	3,641,752
– stage 1	2,112,877	682,234	455,820	8,040	—	3,258,971	(2,859)	3,256,112
– stage 2	17,733	76,239	178,468	41,567	—	314,007	(7,104)	306,903
– stage 3	—	—	—	—	108,548	108,548	(30,085)	78,463
– POCI	—	—	—	—	594	594	(320)	274
Other financial assets measured at amortised cost	1,892,922	286,913	176,787	1,954	420	2,358,996	(456)	2,358,540
– stage 1	1,891,746	283,884	172,685	305	—	2,348,620	(232)	2,348,388
– stage 2	1,176	3,029	4,102	1,649	—	9,956	(40)	9,916
– stage 3	—	—	—	—	420	420	(184)	236
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	1,670,367	324,041	134,308	4,598	578	2,133,892	(590)	2,133,302
– stage 1	1,667,639	309,597	114,928	2,502	—	2,094,666	(361)	2,094,305
– stage 2	2,728	14,444	19,380	2,096	—	38,648	(192)	38,456
– stage 3	—	—	—	—	578	578	(37)	541
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	25,677	14,760	10,333	760	104	51,634	(59)	51,575
– stage 1	25,657	14,040	7,981	90	—	47,768	(17)	47,751
– stage 2	20	720	2,352	670	—	3,762	(34)	3,728
– stage 3	—	—	—	—	104	104	(8)	96
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2025	6,217,962	1,400,951	956,490	57,679	110,244	8,743,326	(41,499)	8,701,827
Debt instruments at FVOCI ¹								
– stage 1	1,862,415	8,468	19,187	—	—	1,890,070	(71)	1,889,999
– stage 2	—	—	—	2,119	—	2,119	(16)	2,103
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2025	1,862,415	8,468	19,187	2,119	—	1,892,189	(87)	1,892,102

The above table does not include balances due from Group companies.

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 balance sheet as it excludes fair value gains and losses.

Risk Review

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

(Audited)

	Gross carrying/notional amount						Allowance for ECL	Net
	Strong HK\$m	Good HK\$m	Satisfactory HK\$m	Sub- standard HK\$m	Credit impaired HK\$m	Total HK\$m		
Loans and advances to banks	473,448	4,800	1,589	942	—	480,779	(39)	480,740
– stage 1	473,169	4,761	1,589	837	—	480,356	(38)	480,318
– stage 2	279	39	—	105	—	423	(1)	422
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Loans and advances to customers at amortised cost	2,076,438	650,088	640,507	64,355	98,570	3,529,958	(35,660)	3,494,298
– stage 1	2,059,563	609,398	502,130	7,571	—	3,178,662	(2,629)	3,176,033
– stage 2	16,875	40,690	138,377	56,784	—	252,726	(8,242)	244,484
– stage 3	—	—	—	—	98,267	98,267	(24,577)	73,690
– POCI	—	—	—	—	303	303	(212)	91
Other financial assets measured at amortised cost	1,745,654	298,876	209,159	3,353	388	2,257,430	(392)	2,257,038
– stage 1	1,744,493	294,357	205,176	1,754	—	2,245,780	(242)	2,245,538
– stage 2	1,161	4,519	3,983	1,599	—	11,262	(22)	11,240
– stage 3	—	—	—	—	388	388	(128)	260
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	1,529,908	324,742	164,739	7,052	879	2,027,320	(700)	2,026,620
– stage 1	1,526,488	313,865	145,416	4,865	—	1,990,634	(418)	1,990,216
– stage 2	3,420	10,877	19,323	2,187	—	35,807	(239)	35,568
– stage 3	—	—	—	—	879	879	(43)	836
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	26,409	11,550	13,895	976	158	52,988	(62)	52,926
– stage 1	26,314	11,335	10,605	482	—	48,736	(35)	48,701
– stage 2	95	215	3,290	494	—	4,094	(11)	4,083
– stage 3	—	—	—	—	158	158	(16)	142
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2024	5,851,857	1,290,056	1,029,889	76,678	99,995	8,348,475	(36,853)	8,311,622
Debt instruments at FVOCI ¹								
– stage 1	1,616,296	69,505	20,252	—	—	1,706,053	(82)	1,705,971
– stage 2	—	—	—	2,255	—	2,255	(21)	2,234
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2024	1,616,296	69,505	20,252	2,255	—	1,708,308	(103)	1,708,205

The above table does not include balances due from Group companies.

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 balance sheet as it excludes fair value gains and losses.

Commercial real estate

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

In the tables below, we have disclosed CRE exposures for Asia-Pacific and Hong Kong which are reported on the balance sheet under loans and advances to customers. We have also provided additional information related to exposures booked in Hong Kong excluding exposures to mainland China borrowers by stage and credit quality. These exposures mostly comprise lending to Hong Kong borrowers and, to a lesser degree, borrowers overseas.

Commercial real estate lending by stage

(Audited)

	At 31 Dec 2025			At 31 Dec 2024		
	The Hongkong and Shanghai Banking Corporation Limited HK\$m	Hong Kong HK\$m	Other HK\$m	The Hongkong and Shanghai Banking Corporation Limited HK\$m	Hong Kong HK\$m	Other HK\$m
Gross loans and advances						
Stage 1	169,512	85,680	83,832	266,659	175,850	90,809
Stage 2	118,668	108,411	10,257	70,698	59,167	11,531
Stage 3	62,686	58,907	3,779	50,103	46,340	3,763
POCI	231	195	36	142	142	—
Total	351,097	253,193	97,904	387,602	281,499	106,103
Allowance for ECL	(16,732)	(14,606)	(2,126)	(12,638)	(11,009)	(1,629)

Risk Review

Commercial real estate lending by credit quality

(Audited)

	At 31 Dec 2025			At 31 Dec 2024		
	The Hongkong and Shanghai Banking Corporation Limited HK\$m	Hong Kong HK\$m	Other HK\$m	The Hongkong and Shanghai Banking Corporation Limited HK\$m	Hong Kong HK\$m	Other HK\$m
Gross loans and advances						
Strong	60,860	27,257	33,603	70,716	35,116	35,600
Good	108,965	65,679	43,286	125,138	80,928	44,210
Satisfactory	95,977	81,588	14,389	105,276	84,262	21,014
Sub-standard	22,378	19,567	2,811	36,227	34,710	1,517
Credit impaired	62,917	59,102	3,815	50,245	46,483	3,762
Total	351,097	253,193	97,904	387,602	281,499	106,103

Commercial real estate lending to customers – Hong Kong excluding exposure to mainland China borrowers

(Audited)

	At 31 Dec 2025		At 31 Dec 2024	
	Total HK\$m	of which: Hang Seng Bank HK\$m	Total HK\$m	of which: Hang Seng Bank HK\$m
Gross loans and advances				
By stage				
Stage 1	83,024	39,538	171,874	81,274
Stage 2	106,266	49,941	50,599	29,438
Stage 3	49,084	26,984	35,369	19,806
POCI	—	—	—	—
Total	238,374	116,463	257,842	130,518
By credit quality				
Strong	25,794	12,942	34,825	20,161
Good	64,023	26,848	75,752	33,911
Satisfactory	80,582	36,092	83,213	39,880
Sub-standard	18,891	13,597	28,682	16,760
Credit impaired	49,084	26,984	35,370	19,806
Total	238,374	116,463	257,842	130,518
Allowance for ECL	(8,401)	(5,090)	(3,149)	(1,654)

(Unaudited)

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 values. Negative credit migration was mainly driven by the secured portfolio, which accounts for 57% of the total portfolio (31 December 2024: 54%), although the pace of migration slowed in the fourth quarter.

'Sub-standard' and 'credit-impaired' exposures increased to HK\$68.0bn (31 December 2024: HK\$64.1bn), of which 95% was secured (31 December 2024: 92%). As at 31 December 2025, the weighted average loan to value ('LTV'):

- of performing exposures rated 'sub-standard' was 42% (31 December 2024: 46%). There was immaterial exposure with an LTV of greater than 70% (31 December 2024: HK\$0.8bn); and
- of 'credit-impaired' exposures was 71% (31 December 2024: 58%). Within this portfolio, HK\$14.8bn had an LTV of greater than 70% (31 December 2024: HK\$9.3bn).

Within which, for Hang Seng Bank, the weighted average 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\$0.8bn); and
- of 'credit-impaired' exposures was 74% (31 December 2024: 60%). Within this portfolio, HK\$8.6bn had an LTV of greater than 70% (31 December 2024: HK\$5.4bn).

Collateral information and LTV calculations were based on total limits, inclusive of off-balance sheet commitments of HK\$333.2bn as of 31 December 2025 (31 December 2024: HK\$382.1bn).

The unsecured portfolio remains largely stable, with some migration between performing credit grades and 89% rated 'strong' or 'good' (31 December 2024: 91%). '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 cash flows.

Market conditions remain challenging with valuation pressures and liquidity constraints likely to continue in the near term, particularly for mid-sized and sub-investment grade corporates. The recent improvement in sentiment is nevertheless expected to gradually translate into improved cash flows 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.

Risk Review

Mainland China commercial real estate

The following table presents the group's exposure to borrowers classified in the CRE sector where the ultimate parent is based in mainland China, as well as all CRE exposures booked on mainland China balance sheets. In addition to CRE as defined in our primary CRE disclosure above, 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.

Mainland China CRE exposure

(Audited)

	At 31 Dec 2025			
	Hong Kong HK\$m	Mainland China HK\$m	Rest of Asia-Pacific HK\$m	Total HK\$m
Loans and advances to customers ¹	16,186	27,043	—	43,229
Guarantees issued and others ²	815	105	35	955
Total mainland China CRE exposure	17,001	27,148	35	44,184
Distribution of mainland China CRE exposure by credit quality				
– Strong	2,282	14,149	29	16,460
– Good	1,857	4,539	—	6,396
– Satisfactory	1,199	3,979	—	5,178
– Sub-standard	675	2,601	6	3,282
– Credit Impaired	10,988	1,880	—	12,868
	17,001	27,148	35	44,184
Allowance for ECL by credit quality				
– Strong	(1)	(20)	—	(21)
– Good	(3)	(39)	—	(42)
– Satisfactory	(3)	(40)	—	(43)
– Sub-standard	(67)	(772)	—	(839)
– Credit Impaired	(6,229)	(772)	—	(7,001)
	(6,303)	(1,643)	—	(7,946)
Allowance for ECL				
ECL Stage 1	(2)	(29)	—	(31)
ECL Stage 2	(72)	(842)	—	(914)
ECL Stage 3	(6,101)	(772)	—	(6,873)
ECL POCI	(128)	—	—	(128)
	(6,303)	(1,643)	—	(7,946)
ECL Coverage %	37.1	6.1	—	18.0

	At 31 Dec 2024			
Loans and advances to customers ¹	24,553	28,683	72	53,308
Guarantees issued and others ²	621	128	40	789
Total mainland China CRE exposure	25,174	28,811	112	54,097
Distribution of mainland China CRE exposure by credit quality				
– Strong	917	14,125	95	15,137
– Good	4,491	4,616	8	9,115
– Satisfactory	1,522	6,978	—	8,500
– Sub-standard	6,028	1,057	9	7,094
– Credit Impaired	12,216	2,035	—	14,251
	25,174	28,811	112	54,097
Allowance for ECL by credit quality				
– Strong	—	(37)	—	(37)
– Good	(2)	(21)	—	(23)
– Satisfactory	(2)	(101)	—	(103)
– Sub-standard	(2,029)	(234)	(2)	(2,265)
– Credit Impaired	(5,826)	(627)	—	(6,453)
	(7,859)	(1,020)	(2)	(8,881)
Allowance for ECL				
ECL Stage 1	(2)	(73)	—	(75)
ECL Stage 2	(2,031)	(320)	(2)	(2,353)
ECL Stage 3	(5,772)	(627)	—	(6,399)
ECL POCI	(54)	—	—	(54)
	(7,859)	(1,020)	(2)	(8,881)
ECL Coverage %	31.2	3.5	1.8	16.4

1 Amounts represent gross carrying amount.

2 Amounts represent nominal amount for guarantees and other contingent liabilities.

Risk Review

(Unaudited)

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 seen in the fourth quarter of 2025. This portfolio nevertheless continues to reduce due to repayments and write-offs, driving an overall reduction in allowances for ECL to HK\$8.0bn as of 31 December 2025 (31 December 2024: HK\$ 8.9bn), mainly held against unsecured exposures.

Of the residual portfolio of mainland China CRE loans booked in Hong Kong, the large majority of the performing exposure is lending to state-owned enterprises and relatively strong privately-owned enterprises. This is reflected in the relatively low allowances for ECL in this part of the portfolio.

The onshore portfolio booked in mainland China remains of higher credit quality, with lower ECL allowances reflecting collateral held. The portfolio continues to rebalance in favour 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.

The group has additional exposures to mainland China CRE as a result of lending to multinational corporates booked outside of mainland China, which is not incorporated in the table above.

Credit-impaired loans

(Audited)

We determine 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 past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default. If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 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.

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 cash flow resources rather than placing primary reliance on collateral and other credit risk enhancements. Depending on the customer's standing and the type of product, facilities may be provided without any collateral or other credit enhancements. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the bank may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk. Where there is sufficient collateral, an expected credit loss is not recognised. This is the case for reverse repurchase agreements and for certain loans and advances to customers where the loan to value ('LTV') is very low.

Mitigants may include a charge on borrowers' specific assets, such as real estate or financial instruments. Other credit risk mitigants include short positions in securities and financial assets held as part of linked insurance/investment contracts where the risk is predominantly borne by the policyholder. Additionally, risk may be managed by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees. Guarantees are normally taken from corporates and export credit agencies. Corporates would normally provide guarantees as part of a parent/subsidiary relationship and span a number of credit grades. The export credit agencies will normally be investment grade.

Certain credit mitigants are used strategically in portfolio management activities. Across Corporate and Institutional Banking, risk limits and utilisations, maturity profiles and risk quality are monitored and managed proactively. This process is key to the setting of risk appetite for these larger, more complex, geographically distributed customer groups. While the principal form of risk management continues to be at the point of exposure origination, through the lending decision-making process, Corporate and Institutional Banking also utilises loan sales and credit default swap ('CDS') hedges to manage concentrations and reduce risk.

These transactions are the responsibility of a dedicated Corporate and Institutional Banking portfolio management team. Hedging activity is carried out within agreed credit parameters, and is subject to market risk limits and a robust governance structure. Where applicable, CDSs are entered into directly with a central clearing house counterparty. Otherwise, our exposure to CDS protection providers is diversified among mainly banking counterparties with strong credit ratings.

CDS mitigants are held at portfolio level and are not included in the expected credit loss calculations. CDS mitigants are not reported in the presentation below.

Collateral on loans and advances

(Audited)

Collateral held is analysed separately for CRE and for other corporate, commercial and financial (non-bank) lending. The following tables include off-balance sheet loan commitments, primarily undrawn credit lines.

The collateral measured in the following tables consists of fixed first charges on real estate, and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis, actual values realised are a function of market conditions. No adjustment has been made to the collateral for any expected costs of recovery. Marketable securities are measured at their fair value.

Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer's business are not measured in the following tables. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. When collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies charge, the collateral value is pro-rated across the loans and advances protected by the collateral.

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments, actual values realised are a function of market conditions. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral as explained further on page 75.

Risk Review

Personal lending

(Unaudited)

The following table provides a quantification of the value of fixed charges we hold over specific assets where we have a history of enforcing, and are able to enforce, collateral in satisfying a debt in the event of the borrower failing to meet its contractual obligations, and

where the collateral is cash or can be realised by sale in an established market.

The collateral valuation excludes any adjustments for obtaining and selling the collateral and, in particular, loans shown as not collateralised or partially collateralised may also benefit from other forms of credit mitigants.

Residential mortgages including loan commitments by level of collateral

(Audited)

	2025		2024	
	Gross carrying/ nominal amount HK\$m	ECL coverage %	Gross carrying/ nominal amount HK\$m	ECL coverage %
Stage 1				
Fully collateralised	1,243,396	—	1,140,466	—
LTV ratio:				
– less than 70%	909,645	—	865,626	—
– 71% to 90%	240,758	—	177,936	—
– 91% to 100%	92,993	—	96,904	—
Partially collateralised (A):	37,331	—	91,264	—
– collateral value on A	35,881	—	85,738	—
Total	1,280,727	—	1,231,730	—
Stage 2				
Fully collateralised	29,146	0.4	20,096	0.5
LTV ratio:				
– less than 70%	17,082	0.2	11,857	0.3
– 71% to 90%	7,809	0.5	6,456	0.7
– 91% to 100%	4,255	1.3	1,783	1.1
Partially collateralised (B):	942	1.3	824	0.5
– collateral value on B	900	—	769	—
Total	30,088	0.4	20,920	0.5
Stage 3				
Fully collateralised	5,309	3.9	5,992	4.3
LTV ratio:				
– less than 70%	3,926	2.6	4,513	3.4
– 71% to 90%	1,073	4.9	1,249	5.5
– 91% to 100%	310	16.1	230	14.4
Partially collateralised (C):	308	18.8	241	17.9
– collateral value on C	267	—	212	—
Total	5,617	4.7	6,233	4.8
At 31 Dec	1,316,432	—	1,258,883	—

Risk Review

Other personal lending

(Unaudited)

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.

Commercial real estate loans and advances

(Unaudited)

The value of CRE collateral is determined by using a combination of external and internal valuations and physical inspections. For CRE, where the facility exceeds regulatory threshold requirements, group policy requires an independent review of the valuation at least every three years, or more frequently as the need arises. In Hong Kong, unsecured lending is typically limited to major property companies.

Commercial real estate loans and advances including loan commitments by level of collateral

(Audited)

	2025		2024	
	Gross carrying/ nominal amount HK\$m	ECL coverage %	Gross carrying/ nominal amount HK\$m	ECL coverage %
Stage 1				
Not collateralised	186,316	—	217,174	—
Fully collateralised	85,223	0.1	179,049	0.1
Partially collateralised (A):	8,514	0.1	8,929	0.2
– collateral value on A	4,171		4,916	
Total	280,053	0.1	405,152	0.1
Stage 2				
Not collateralised	25,833	2.1	21,564	12.6
Fully collateralised	109,182	1.4	56,135	1.7
Partially collateralised (B):	1,184	4.4	614	1.5
– collateral value on B	378		411	
Total	136,199	1.6	78,313	4.7
Stage 3				
Not collateralised	9,170	66.3	11,782	48.4
Fully collateralised	45,635	11.7	34,868	6.8
Partially collateralised (C):	7,955	36.7	4,428	17.8
– collateral value on C	5,713		3,138	
Total	62,760	22.8	51,078	17.4
POCI				
Not collateralised	43	—	—	—
Fully collateralised	99	—	—	—
Partially collateralised (D):	151	84.8	142	38.1
– collateral value on D	24		24	
Total	293	43.7	142	38.1
At 31 Dec	479,305	3.5	534,685	2.4

Risk Review

Other corporate, commercial and non-bank financial institutions lending

(Unaudited)

Other corporate, commercial and non-bank financial institutions loans are analysed separately in the following table. For financing activities in other corporate and commercial lending, collateral value is not strongly correlated to principal repayment performance.

Collateral values are generally refreshed when an obligor's general credit performance deteriorates and we have to assess the likely performance of secondary sources of repayment should it prove necessary to rely on them.

Other corporate, commercial and non-bank financial institutions loans and advances including loan commitments by level of collateral

(Audited)

	2025		2024	
	Gross carrying/ nominal amount HK\$m	ECL coverage %	Gross carrying/ nominal amount HK\$m	ECL coverage %
Stage 1				
Not collateralised	2,650,430	—	2,412,898	—
Fully collateralised	251,855	0.1	297,063	0.1
Partially collateralised (A):	282,032	—	269,830	—
– collateral value on A	105,468		97,843	
Total	3,184,317	—	2,979,791	—
Stage 2				
Not collateralised	247,679	0.3	259,784	0.3
Fully collateralised	64,139	1.6	56,995	1.8
Partially collateralised (B):	31,390	0.3	24,671	0.4
– collateral value on B	13,143		9,563	
Total	343,208	0.5	341,450	0.5
Stage 3				
Not collateralised	10,612	61.6	16,304	54.8
Fully collateralised	16,638	15.1	15,481	6.5
Partially collateralised (C):	10,851	50.5	9,298	48.5
– collateral value on C	6,094		5,380	
Total	38,101	38.2	41,083	35.2
POCI				
Not collateralised	134	50.4	—	—
Fully collateralised	229	54.2	162	98.1
Partially collateralised (D):	—	—	—	—
– collateral value on D	—		—	
Total	363	52.8	162	98.1
At 31 Dec	3,565,989	0.5	3,362,486	0.5

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 summarised below:

- Some securities issued by governments, banks and other financial institutions benefit from additional credit enhancements provided by government guarantees that cover the assets.
- Debt securities issued by banks and financial institutions include asset-backed securities ('ABSs') and similar instruments, which are supported by underlying pools of financial assets. Credit risk associated with ABSs is reduced through the purchase of CDS protection.
- Trading loans and advances mainly consist of reverse repos and stock borrowing, which are by their nature collateralised.
- Cash collateral is posted to satisfy margin requirements. There is limited credit risk on cash collateral posted since in the event of default of the counterparty this would be set off against the related liability.

The group's maximum exposure to credit risk includes financial guarantees and similar contracts granted, as well as loan and other credit-related commitments. Depending on the terms of the arrangement, we may use additional credit mitigation if a guarantee is called upon or a loan commitment is drawn and subsequently defaults.

Derivatives

(Unaudited)

We participate in transactions exposing us to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter ('OTC') derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to market factors such as an interest rate, exchange rate or asset price.

The counterparty risk from derivatives transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit valuation adjustment ('CVA').

Treasury Risk

► See page 22 for our definition of Treasury risk.

Approach and policy

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

The approach to treasury management is shaped by the organisational needs, taking into account the regulatory, economic and commercial landscape. The aim is to maintain a strong capital and liquidity base to manage inherent business risks and invest in accordance with the strategy, adhering to both group and local regulatory requirements at all times.

The group policy is supported by a comprehensive risk management framework.

Treasury risk management

Key developments in 2025

(Unaudited)

- Operationalised Structural FX hedging programme to manage capital ratios in accordance with the group's Structural FX Risk Management Strategy.
- Continued to execute structural hedge for net interest income ('NII') stabilisation in line with strategy.
- Continued to enhance the group's recovery and resolution capabilities, in line with the Group's preferred resolution strategy and regulatory expectations.
- Continued to take initiatives to strengthen 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.

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 Global Treasury sub-function manages capital, liquidity and funding risk, IRRBB, structural foreign exchange risk and transactional foreign exchange risk on an on-going basis and provides support to governance committees.

The Treasury Risk Management ('TRM') sub-function carries out independent review, challenge and assurance of the appropriateness of the risk management activities undertaken by Global Treasury. Global Internal Audit provides independent assurance that risk is managed effectively.

Capital risk

Framework

(Audited)

Our capital management approach is guided by a Global Capital Risk Policy, complemented by frameworks for recovery and resolution planning and stress testing. The policy sets out our approach to

determining key capital risk appetites for CET1, Tier1, Total capital, Loss Absorbing Capacity ('LAC') and the 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 we are exposed 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 we continue to develop our approach for climate risk management. Banking subsidiaries align their ICAAPs with global guidance, while considering local regulatory regimes to establish their own risk appetites and ratios.

Our capital management process is articulated in our annual capital plan which is approved by the Board. The plan is designed with the objective of maintaining both an appropriate amount of capital and an optimal mix between the different components of capital. Capital and Risk-Weighted Assets ('RWAs') 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 our 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 LAC resources to its subsidiaries. These investments are substantially funded by the Bank's own capital and non-capital LAC debts. 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, other equity instruments, retained earnings, other reserves and subordinated liabilities.

Regulatory capital requirements

(Audited)

The Hong Kong Monetary Authority ('HKMA') supervises the group on both 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. In most jurisdictions, non-banking financial subsidiaries are also subject to the supervision and capital requirements of local regulatory authorities.

Risk Review

In accordance with the Banking (Capital) Rules under the Basel III final reform package which took effect on 1 January 2025, approaches used by the group to calculate the capital charges are summarised in the following table:

Risk category	Our approach
Credit risk	The group uses the advanced internal ratings-based approach and the foundation internal ratings-based 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.
Counterparty credit risk	The group uses both the standardised (counterparty credit risk) approach and the internal models (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions.
Securitisation	The group uses the securitisation internal ratings-based approach, securitisation external ratings-based approach or securitisation standardised approach to determine credit risk for its banking book securitisation exposures.
Credit valuation adjustment risk	The group uses the standardised credit valuation adjustment approach and the full basic credit valuation adjustment approach to calculate its credit valuation adjustment risk capital charge.
Market risk	The group uses the standardised (market risk) approach to calculate its market risk capital charge.
Operational risk	The group uses the standardised operational risk approach to calculate its operational risk capital charge.

During the year, the group complied with all the capital requirements of HKMA on both a consolidated and solo-consolidated basis.

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') requirement 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 remained unchanged in 2025. HKMA has also maintained the D-SIB designation and the HLA requirement at 2.5% for the group based on the announcement on 31 Dec 2025.

The group is classified as a material subsidiary under the Financial Institutions (Resolution) (Loss-absorbing Capacity Requirements – Banking Sector) Rules ('LAC Rules') and therefore is subject to the LAC requirements to maintain its internal LAC risk-weighted ratio and the internal LAC leverage ratio at or above specified minimums.

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).

	At	
	31 Dec 2025	31 Dec 2024
	%	%
Leverage ratio	6.0	5.8
Capital and leverage ratio exposure measure	HK\$m	HK\$m
Tier 1 capital	643,430	581,944
Total exposure measure	10,785,341	10,038,018

The leverage ratio as at 31 December 2025 is stable compared with the position as at 31 December 2024.

Further details regarding the group's leverage position can be viewed in the Banking Disclosure Statement at 31 December 2025, which is available in the Regulatory Disclosure Section of our website: www.hsbc.com.hk.

Capital adequacy at 31 December 2025

(Unaudited)

The following tables show the capital ratios, RWAs and capital base as contained in the 'Capital Adequacy Ratio' return submitted to the HKMA on a consolidated basis under the requirements of section 3C(1) of the Banking (Capital) Rules.

The basis of consolidation for financial accounting purposes is described in Note 1 on the consolidated financial statements and differs from that used for regulatory purposes. Further information on the regulatory consolidation basis and a full reconciliation between the group's accounting and regulatory balance sheets can be viewed in the Banking Disclosure Statement 2025. Subsidiaries not included in the group's consolidation for regulatory purposes are primarily securities and insurance companies. The capital invested by the group in these companies is deducted from regulatory capital, subject to threshold.

The Bank and its banking subsidiaries maintain regulatory reserves to satisfy the provisions of the Banking Ordinance and local regulatory requirements for prudential supervision purposes.

At 31 December 2025, the effect of this regulatory reserve requirement is to reduce the amount of reserves which can be distributed to shareholders by HK\$17,064m (31 December 2024: HK\$15,736m).

Basel III final reform package

(Unaudited)

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 and Capital rules sub-sections have been updated to align with the new standards.

The standardized Risk-Weighted Asset ('RWA') output floor was introduced under the Basel III final reform package with a phase-in period of five years from initial implementation. Any impact from the output floor would be towards the end of the phase in period.

Capital ratios

(Unaudited)

	At	
	31 Dec 2025	31 Dec 2024
	%	%
Common Equity Tier 1 ('CET1') capital ratio	19.1	16.3
Tier 1 capital ratio	21.8	18.4
Total capital ratio	23.6	20.3

Risk-weighted assets by risk type

(Unaudited)

	At	
	31 Dec 2025	31 Dec 2024
	HK\$m	HK\$m
Credit risk	2,294,208	2,426,160
Counterparty credit risk	154,246	147,479
Market risk	166,272	149,946
Operational risk	343,186	443,567
Sovereign concentration risk	—	—
Total	2,957,912	3,167,152

Risk Review

Capital base

(Unaudited)

The following table sets out the composition of the group's capital base under Basel III at 31 December 2025.

Capital base

(Unaudited)

	At	
	31 Dec 2025 HK\$m	31 Dec 2024 HK\$m
Common Equity Tier 1 ('CET1') capital		
Shareholders' equity	781,718	733,239
– shareholders' equity per balance sheet	884,573	819,049
– revaluation reserve capitalisation issue	(1,454)	(1,454)
– other equity instruments	(79,158)	(64,677)
– unconsolidated subsidiaries	(22,243)	(19,679)
Non-controlling interests	27,852	32,708
– non-controlling interests per balance sheet	59,598	58,959
– non-controlling interests in unconsolidated subsidiaries	(2,696)	(2,584)
– surplus non-controlling interests disallowed in CET1	(29,050)	(23,667)
Regulatory deductions to CET1 capital	(246,072)	(249,826)
– valuation adjustments	(3,303)	(3,069)
– goodwill and intangible assets	(36,090)	(35,050)
– deferred tax assets net of deferred tax liabilities	(2,599)	(2,249)
– cash flow hedging reserve	(3,660)	(815)
– changes in own credit risk on fair valued liabilities	5,957	4,709
– defined benefit pension fund assets	(421)	(315)
– significant Loss-absorbing Capacity ('LAC') investments in unconsolidated financial sector entities	(129,658)	(134,235)
– property revaluation reserves ¹	(59,234)	(63,066)
– regulatory reserve	(17,064)	(15,736)
Total CET1 capital	563,498	516,121
Additional Tier 1 ('AT1') capital		
Total AT1 capital before regulatory deductions	79,932	65,841
– perpetual subordinated loans	79,158	64,677
– allowable non-controlling interests in AT1 capital	774	1,164
Regulatory deductions to AT1 capital	–	(18)
– significant LAC investments in unconsolidated financial sector entities	–	(18)
Total AT1 capital	79,932	65,823
Total Tier 1 capital	643,430	581,944
Tier 2 capital		
Total Tier 2 capital before regulatory deductions	60,984	64,590
– term subordinated debt	24,721	29,825
– property revaluation reserves ¹	27,310	29,034
– impairment allowances and regulatory reserve eligible for inclusion in Tier 2 capital	8,250	4,330
– allowable non-controlling interests in Tier 2 capital	703	1,401
Regulatory deductions to Tier 2 capital	(6,955)	(3,079)
– significant LAC investments in unconsolidated financial sector entities	(6,955)	(3,079)
Total Tier 2 capital	54,029	61,511
Total capital	697,459	643,455

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

A detailed breakdown of the group's CET1 capital, AT1 capital, Tier 2 capital and regulatory deductions can be viewed in the Banking Disclosure Statement 2025.

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, associate, joint venture or 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'). We present 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 our banking subsidiaries and foreign branches subject to minimum regulatory capital requirements from exchange rates fluctuations.

We hedge structural foreign exchange positions where it is capital efficient to do so, and within approved limits. The hedging positions are monitored and rebalanced to manage RWA or downside risks associated with the group's foreign currency investments.

The group had the following net structural foreign currency exposures that were not less than 10% of the total net structural foreign currency exposures:

	Local Currency (m)	Equivalent (HK\$m)
At 31 Dec 2025		
Renminbi	241,138	268,444
US dollars	11,226	87,388
At 31 Dec 2024		
Renminbi	243,434	259,002
US dollars	11,356	88,192

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, except for minor residual foreign exchange exposure arising from timing differences or for other reasons. Transactional foreign exchange exposure generated through other comprehensive income reserves is managed by the Global Treasury sub-function within approved appetite.

Liquidity and funding risk

Management oversight of liquidity and funding risks at both group and entity level 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 policies procedures and reporting standards.

Operating entities are 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 operating entities 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. ILAAP supports

determination of liquidity and funding risk appetite and assesses the capability to manage liquidity and funding effectively in major entities. 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.

Framework

(Unaudited)

The Global Treasury sub-function is 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.

All operating entities are required to prepare an ILAAP document at appropriate frequency. Compliance with liquidity and funding requirements is monitored and reported to governance committees on a regular basis.

Liquidity and Funding Risk management processes include:

- maintaining compliance with relevant regulatory requirements of the operating 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 contingent liquidity risks arising from undrawn commitments;
- monitoring of depositor and maturity concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile; and
- maintaining and testing liquidity contingency plans.

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 Liquidity Coverage Ratio ('LCR'), Internal Liquidity Metrics ('ILM') and Net Stable Funding Ratio ('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 legal entity depositor concentration limit;
- cumulative term funding maturity concentrations limit;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

Sources of funding

(Unaudited)

Primary sources of funding are customer current accounts, customer savings deposits payable on demand or at short notice and term deposits. Wholesale securities (secured and unsecured) are issued to supplement customer deposits and change the currency mix, maturity profile or location of liabilities.

Currency mismatch

(Unaudited)

Group policy requires all operating entities to manage currency mismatch risks 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 current collateral obligations of derivative contracts (which are International Swaps and Derivatives Association ('ISDA') compliant credit support annex ('CSA') contracts), the additional collateral required to post in the event of one-notch and two-notch downgrade in credit ratings is immaterial.

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 is required to maintain both LCR and NSFR of not less than 100%.

The average LCR of the group for the period are as follows:

	Quarter ended	
	31 Dec 2025	31 Dec 2024
	%	%
Average LCR	149.0	162.2

The 3-month average LCR decreased by 13.2 percentage points from 162.2% for the quarter ended 31 December 2024 to 149.0% for the quarter ended 31 December 2025 mainly as a result of securities segregated and encumbered to private Hang Seng Bank Limited.

The majority of high quality liquid assets ('HQLA') included in the LCR are Level 1 assets as defined in the BLR, which consist mainly of government debt securities.

The total weighted amount of HQLA of the group for the period are as follows:

	Weighted amount (average value) at quarter ended	
	31 Dec 2025	31 Dec 2024
	HK\$m	HK\$m
Level 1 assets	1,939,161	1,878,908
Level 2A assets	122,613	108,641
Level 2B assets	98,252	76,689
Total	2,160,026	2,064,238

The NSFR of the group for the period are as follows:

	Quarter ended	
	31 Dec 2025	31 Dec 2024
	%	%
Net stable funding ratio	147.7	152.2

The NSFR decreased by 4.5 percentage points from 152.2% for the quarter ended 31 December 2024 to 147.7% for the quarter ended 31 December 2025.

Interdependent assets and liabilities included in the group's NSFR are certificates of indebtedness held and legal tender notes issued.

Measurement of interest rate risk in the banking book processes

(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 global 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 Global Treasury sub-function 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

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 Global Treasury sub-function. It also incorporates the effect of interest rate behaviouralisation and commercial margins.

Economic value of equity sensitivity

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. It is measured and reported as part of our internal risk metrics, regulatory rules (including the Supervisory Outlier Test) and external Pillar 3 disclosures. The group and operating entities are required to monitor EVE sensitivities as a percentage of capital resources.

- ▶ Further details of the group's risk management of interest rate risk in the banking book can be found in the Pillar 3 Disclosures at 31 December 2025.

Market Risk

► See page 22 for our definition of Market risk.

Overview

(Unaudited)

Market risk arises from both trading portfolios and non-trading portfolios. Trading portfolios comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.

Market risk management

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 types	Trading risk
	<ul style="list-style-type: none"> – Foreign exchange and commodities – Interest rates – Credit spreads – Equities
Global business	CIB
Risk measure	Value at risk Sensitivity Stress testing

The objective of our 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 our established risk appetite.

Market risk is managed and controlled through limits approved by the group's Board. These limits are allocated across business lines and to the group's legal entities. The group 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 its local Markets and Securities Services or Market Treasury unit for management, or to separate books managed under the supervision of the local Asset and Liability Management Committee. The Traded Risk sub-function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow the approval of new products. Trading Risk also restricts trading in the more complex derivatives products to offices with appropriate levels of product expertise and control systems.

Key risk management processes

Monitoring and limiting market risk exposures

(Audited)

Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite.

We use 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 factor on specific instruments or portfolios, including interest rates, foreign exchange rates and equity prices. We use 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.

Value at risk

(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 we capitalise them. Where we do not calculate VaR explicitly, we use alternative tools as summarised in the 'Stress testing' section below.

Our 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; and
- calculations to a 99% confidence level and using a one-day holding period.

The models also incorporate the effect of 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.
- 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 our 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.

Stress testing is implemented at legal entity, group and overall Group levels. A set of scenarios is used consistently across all regions within the Group. The market risk stress testing incorporates both historical and hypothetical events. Market risk reverse stress tests are designed to identify vulnerabilities in our portfolios by looking for scenarios that lead to loss levels considered severe for the relevant portfolio. These scenarios may be local or idiosyncratic in nature and complement the systematic top-down stress testing.

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

Risk Review

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. Market risk was managed using a complementary set of risk measures and limits, including stress testing and scenario analysis. Main sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers.

Trading value at risk, 99% 1 day

(Audited)

	Foreign exchange and commodity HK\$m	Interest rate HK\$m	Equity HK\$m	Credit spread HK\$m	Portfolio diversification ¹ HK\$m	Total ² HK\$m
At 31 Dec 2025						
Year end	37	95	49	21	(73)	129
Average	50	135	63	25		143
Maximum	99	313	94	45		289
At 31 Dec 2024						
Year end	103	185	49	24	(201)	160
Average	70	241	55	21		241
Maximum	136	440	88	45		425

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, equity 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.

Climate risk **TCFD**

(Unaudited)

The Group's climate risk approach identifies two primary drivers of climate risk:

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

The Group continues to identify a thematic issue related to climate risk 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 its 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 23 for our definition of Climate risk.

Approach

The group acknowledges that the physical effects of climate change and the shift towards a net zero economy may pose substantial financial risks to companies, investors, and the financial system. The group may encounter climate risks directly or indirectly through its customer relationships, potentially leading to both financial and non-financial consequences.

Trading portfolios

(Audited)

Value at risk of the trading portfolios

Trading VaR was predominantly generated by the Markets and Securities Services business. Trading VaR was lower as at 31 December 2025 compared to 31 December 2024, mainly driven by reduced VaR exposed to interest rate risk and foreign exchange risk and portfolio diversification across different asset class VaRs.

The Group's climate risk approach aims to effectively manage material risks that could impact the Group's operations, financial performance and stability, and reputation. It is aligned to the Group-wide risk management framework, which sets out how the Group identifies, assesses and manages its risks across its three lines of defence. It is also informed by the evolving expectations of the Group's regulators. For further details of the three lines of defence framework, see page 20.

The group is committed to enhancing its climate risk capabilities across its 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 involved regularly 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 current processes for managing climate and sustainability-related targets, net zero transition plans, and climate strategy include conducting impact assessments of merger and acquisition activities.

The group's annual climate risk materiality assessment helps it to understand how climate risk may impact across HSBC's 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 13 to 14.

Risk Review

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

Climate risk – risk drivers		Details	Potential Impacts	Time horizons
Physical	Acute	Increased frequency and severity of weather events causing disruption to business operations.	<ul style="list-style-type: none"> – Decreased real estate values 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 emissions 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.		

Climate risk – thematic issue		
Risk of greenwashing	Firm	Making inaccurate, unclear, misleading or unsubstantiated claims in relation to HSBC'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 HSBC's relationships with clients or transactions it undertakes with them, where their sustainability commitments or related performance are misrepresented or are not aligned to HSBC's own commitments.

The table below provides a summary of how climate risk may impact a subset of HSBC'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 group continues to develop its climate risk management capabilities. The following outlines key developments in 2025:

- The group enhanced its approach to assessing the impact of climate change on capital, focusing on credit, traded and operational risk.
- The group enhanced its internal climate scenario analysis, including through improvements to input data and models. For further details of scenario analysis, see pages 13 to 14.
- The group further embedded climate risk considerations into credit risk assessments by leveraging the revised HSBC climate risk guidelines for relationship managers.

While the group has made progress, further work remains, including the need to develop additional metrics and tools to measure the group's exposure 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, Asia and Middle East, is responsible for the management of climate risk.

The group Environmental Risk Oversight Forum provided oversight of environmental risk in 2025.

The group Risk Committee receive regular updates on the group's climate risk profile.

Risk appetite

The group's climate risk appetite statement forms part of the group's risk appetite statement 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 group Risk Committee.

Policies, processes and controls

The Group continues to update and integrate climate risk into policies, processes and controls across many areas of the organisation.

Embedding the Group's climate risk approach

The below details how the group has embedded the management of climate risk across key risk types. For further details of the group's internal scenario analysis, see 'Insights from climate scenario analysis' on pages 13 to 14.

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 group's relationship managers engage with their key wholesale customers, including those in higher transition risk sectors, through a transition engagement questionnaire ('TEQ'). The TEQ covers all geographies, and it helps to gather information and assess the group's wholesale customers' business model 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 that relationship managers comment on climate risk factors in credit applications for new money requests and annual credit reviews. The group's 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.

Risk Review

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 on the group's wholesale customers.

Retail credit risk

Climate risk may impact retail credit risk through an increase in credit losses on its global retail mortgage portfolio, primarily due to the impact of physical risk. The group's climate scenario analysis conducted over last two 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 its 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 the group's approach continues to mature. Within the group's 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 physical risk properties. The group monitors the physical risk in seven key markets in the region namely Australia, Hong Kong, India, mainland China, Malaysia, Singapore, and Taiwan, against the defined appetite, further enhancing its ability to manage the financial risks from climate change.

The Group continues to improve its climate risk management approach, including enhancements to its internal climate risk policy in 2025 and associated controls. This includes mandating key risk indicators for physical risk and introducing climate risk assessment in mortgage decision making. Hong Kong introduced physical risk considerations into the mortgage origination process during 2025, utilising third party data.

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.

The group assessed impact of climate change on capital as part of the group internal capital adequacy assessment ('ICAAP'), focusing on credit risk, traded risk and operational risk; and performed climate risk stress testing as required by the regulators.

Internal liquidity adequacy assessment process ('ILAAP') included assessment of how climate risk may impact key liquidity risk drivers and the group's liquidity position.

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. The group monitors climate sensitive exposures against regional limits, including for vulnerable countries and high transition risk sectors.

Climate scenarios are included in the Group's 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 global and regional senior management.

Reputational risk

The Group manages the reputational impact of climate risk through its broader reputational risk framework, which plays a role in managing the risk of greenwashing, and is supported by its sustainability risk policies and metrics.

The group's regional network of sustainability risk managers provides policy guidance to relationship managers in relation to policy compliance, and in support of implementation across the group's wholesale banking activities.

- ▶ For further details of the Group's sustainability risk policies, see HSBC Holdings plc's Annual Report and Accounts at www.hsbc.com/investors/results-and-announcements/annual-report.
- ▶ For further details of the Group's approach to reputational risk, see <https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/reputational-risk>.

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 the Group's sustainability strategy. SER is embedded in the Group's risk taxonomy to help enable effective end-to-end risk management of the 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 group's 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, conflicts of interest and product marketing. The group continues to enhance the associated control frameworks, 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 across the region 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, risk management, and emissions reporting 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.

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.

Resilience risk

(Unaudited)

▶ See page 23 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. We responded to these in line with our Incident Management plans 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 prioritise our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need. We also remotely provide oversight and stewardship, including support of chief risk officers, in territories where we have no physical presence.

Governance and structure

The Group Resilience Risk target operating model provides a globally consistent view across resilience risks, strengthening our risk management oversight. We view resilience risk across seven sub-risk types related to: technology and cybersecurity 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 group RMM and the group Risk Committee.

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, IBS and important group business services to align to regulatory and customer expectations and to help minimise any potential impacts should disruption occur.

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.

Regulatory Compliance risk

(Unaudited)

▶ See page 23 for our definition of Regulatory Compliance risk.

Regulatory Compliance risk management

Key developments in 2025

Regulatory Compliance risk stewardship is provided across a wide range of transformational change and control enhancement initiatives supporting HSBC's strategy and organisational structure, such as the framework for digital assets, including Regulatory Compliance's stewardship of Markets and Securities Services (MSS)' asset tokenisation and issuance initiatives, as well as Regulatory Compliance control frameworks, policies and governance processes.

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 group Head of Regulatory Compliance reports to the group 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 group Risk and Compliance function.

Key risk management processes

The Global Regulatory Compliance sub-function is responsible for establishing global policies, standards, risk appetite, frameworks and tools to guide the group's management of Regulatory Compliance risk. The function 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 Group's Risk Management Framework including reporting to executive and non-executive risk governance committees for transparency, accountability and informed decision making. The group Head of Regulatory Compliance attends the group Risk Management Meeting and the group Risk Committee.

Financial crime risk

(Unaudited)

▶ See page 23 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 increasingly complex sanctions and export control risk. We continued to respond to financial sanctions and trade restrictions, including methods used to evade sanctions and export controls.

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

- deployment of our intelligence-led, dynamic risk assessment
- capability for customer account monitoring in additional entities and business segments;
- deployment and optimisation of a capability to increase our monitoring coverage of correspondent banking activity in additional markets;

Risk Review

- enhancing our fraud controls and continuing to invest in, and monitor, technological developments; and
- enhancements in response to the rapidly evolving and complex global payments landscape and refinement of our the control framework required to support HSBC's digital assets and currencies strategy.

Governance and structure

The structure of the Financial Crime sub-function within Risk and Compliance remained substantively unchanged in 2025. The group Head of Financial Crime continues to report to the Group Head of Financial Crime while remaining accountable to the group Chief Risk and Compliance Officer, while the group Risk Committee retains oversight of matters relating to financial crime.

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 HSBC 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 apply a consistently high financial crime standard globally.

We continued to invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. 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. In 2025, our focus remained on measures to improve the overall effectiveness of the global financial crime risk management framework and promote the risk-based approach.

Through our work with industry bodies, such as the Wolfsberg Group, we provided input into legislative and regulatory reform activities and supported the efforts of the global financial crime standard setter, the Financial Action Task Force. We did this by participating in consultations and other engagement, focused on delivering more effective outcomes in managing financial crime risk, which also enhances financial inclusion. Key themes for external engagement include risk-based supervision, the use of innovative technology, payment transparency standards, fraud risk management, and tackling sanctions and export controls evasion.

Model Risk

(Unaudited)

▶ See page 23 for our definition of Model risk.

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

We continued to prioritise the redevelopment of internal rating-based ('IRB') and internal model methods ('IMM') models, in relation to counterparty credit, as part of the IRB repair and Basel 3.1 and Fundamental Review of the Trading Book 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 in many jurisdictions are beginning to publish regulations and guidance.

Key developments in 2025

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

Initiatives during the year included:

- further enhanced our Model Risk Management ('MRM') Framework to meet the enhanced regulatory requirements, with a programme of work in progress to implement these changes across our model landscape.
- completed the identification of 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.
- revised our Model Risk Governance committee structures, as part of our organisational simplification, to ensure they continue to provide effective and efficient oversight of model risk.
- worked closely with Businesses to help develop IRB/Internal Models Method ('IMM')/Internal Models Approach ('IMA')/International Financial Reporting Standards ('IFRS') 9/stress testing models to meet risk management, pricing, capital management, and credit risk measurement needs.
- performed additional assurance work by the model risk governance teams, which act as second lines of defence.
- models using AI or generative AI techniques are reviewed by the relevant risk teams and monitored by the business to help ensure that identified risks have adequate oversight and review. A framework has been developed to manage the range of risks that are generated by these advanced techniques and to recognise the multidisciplinary nature of these risks.

Governance

The group's Model Risk Committee ('MRC') provides oversight of models used in the group and focuses on local delivery and requirements. The group MRC is chaired by the Regional Head of Enterprise Risk Management and the Regional Heads of Businesses, senior executives from Risk, Finance and Compliance are members in these meetings. Authorised sub-forums operating under the remit of the group MRC 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 were used for a range of business applications. These include customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting.

Our model risk management policies and procedures were regularly reviewed, and required the First Line of Defence to demonstrate comprehensive and effective controls based on a library of model risk controls provided by MRM.

MRM also reports on model risk to senior management and the Risk Committee on a regular basis through the use of the risk map, risk appetite, and regular key updates.

The effectiveness of these processes, including the model oversight structure, were regularly assessed to ensure clear authority, coverage and escalations. This contributed to fostering appropriate understanding and ownership of model risk within in the Businesses and Infrastructure teams.

Insurance manufacturing operations risk

Overview

(Unaudited)

The key risks for our insurance manufacturing operations are market risks, in particular interest rate and equity, credit risks and insurance underwriting. These have a direct impact on the financial results and capital positions of the insurance operations.

The group's insurance business

(Unaudited)

We sell insurance products through a range of channels including our branches, insurance sales forces, 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 financial advisers, tied agents and digital platforms is increasing.

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

We choose to manufacture these insurance products in the group's subsidiaries 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.

We have life insurance manufacturing operations in Hong Kong, Macau, Singapore and mainland China. In addition, we have an interest in a life insurance manufacturing associate in India, an internal reinsurance entity in Bermuda and a captive insurance entity in Hong Kong.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a select number of leading external insurance companies in order to provide insurance products to our customers. These arrangements are generally structured with our exclusive strategic partners and earn the group a combination of commissions, fees and a share of profits.

This section focusses only on the risks relating to the insurance products we manufacture.

Insurance manufacturing operations risk management

Key developments in 2025

(Unaudited)

The insurance manufacturing subsidiaries follow the group's risk management framework. In 2025, we continued to strengthen the insurance specific policies, frameworks and controls particularly across the financial and capital reporting processes, stress testing, asset-liability management, reinsurance and insurance underwriting risks. During the year there has been continued market volatility observed across interest rates, equity and credit markets and foreign exchange rates. This has been predominantly driven by geopolitical factors including the introduction of trade tariffs by the US, and wider inflationary concerns.

Governance and structure

(Unaudited)

Insurance risks are managed to a defined risk appetite, which is aligned to the group's risk appetite and risk management framework, including the group's three lines of defence model. The Global Insurance Risk Management Meeting oversees the risk and control framework for insurance business in the group.

The monitoring of the risks within our insurance operations is carried out by insurance risk teams. The group's risk stewardship sub-functions support the insurance risk teams in their respective areas of expertise.

Stress and scenario testing

(Unaudited)

Stress testing forms a key part of the risk management framework for the insurance business. We participate in local and group-wide regulatory stress tests, as well as internally developed stress and scenario tests, including group internal stress test exercises.

The results of these stress tests and the adequacy of management action plans to mitigate these risks are considered in the group's ICAAP and the entities' regulatory Own Risk and Solvency Assessments, which are produced by all material entities.

Key risk management processes

Market risk

(Audited)

All our insurance manufacturing subsidiaries have market risk mandates and limits that specify the investment instruments in which they are permitted to invest and the maximum quantum of market risk that they may retain. They manage market risk by using some or all of the techniques listed below, depending on the nature of the contracts written:

- We are able to adjust bonus rates and other discretionary benefits to manage the liabilities to policyholders for products with participating features. The effect is that a significant portion of the market risk is borne by the policyholder;
- We use asset and liability matching where asset portfolios are structured to support projected liability cash flows;
- We use derivatives and other financial instruments, along with reinsurance to protect against adverse market movements; and
- We design new products to mitigate market risk, such as changing the investment return sharing proportion between policyholders and the shareholder.

Credit risk

(Audited)

Our insurance manufacturing subsidiaries also have credit risk mandates and limits within which they are permitted to operate, which consider the credit risk exposure, quality and performance of their investment portfolios. Our 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 investment credit exposures using credit spread sensitivities and default probabilities.

We use a number of tools to manage and monitor credit risk. These include a credit report containing a watch-list of investments with current credit concerns, primarily investments that 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.

Capital and liquidity risk

(Audited)

Capital risk for our insurance manufacturing subsidiaries is assessed in the group's ICAAP based on their financial capacity to support the risks to which they are exposed. Capital adequacy is assessed on both the relevant local insurance regulatory basis and an internal capital basis.

Risk appetite buffers are set to ensure that the operations are able to remain solvent, allowing for business-as-usual volatility and extreme but plausible stress events.

Liquidity risk is less material for the insurance business. It is managed by cash flow 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.

Risk Review

Insurance manufacturing subsidiaries also complete quarterly liquidity risk reports and an annual review of the liquidity risks to which they are exposed.

Insurance underwriting risk

(Audited)

Our insurance manufacturing subsidiaries primarily use the following frameworks and processes to manage and mitigate insurance underwriting risks:

- a formal approval process for launching new products or making changes to products to ensure insurance risks are identified and mitigated;
- 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 reinsurers to keep risks within risk appetite, reduce volatility and improve capital efficiency; and
- oversight by financial reporting committees and actuarial review committees in each of our entities of the methodology and assumptions that underpin HKFRS 17 reporting to ensure that appropriate reserves are established to cover insurance underwriting risks.

Insurance manufacturing operations risk in 2025

Measurement

(Unaudited)

The tables below show the composition of assets and liabilities by the following contract types:

- ‘Life direct participating and investment discretionary participation feature (‘DPF’) contracts’ are life direct participating contracts and investment contracts with discretionary participating features. These are substantially measured under the variable fee approach measurement model.
- ‘Life other contracts’ are measured under the general measurement model and mainly include protection insurance contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over the life direct participating and investment DPF contracts.
- ‘Other contracts’ includes investment contracts for which HSBC does not bear significant insurance risk.

86% (2024: 87%) of both assets and liabilities are derived from Hong Kong.

Balance sheet of insurance manufacturing subsidiaries by type of contract¹

(Audited)

	Life direct participating and investment DPF contracts HK\$m	Life other contracts HK\$m	Other contracts HK\$m	Shareholders' assets and liabilities HK\$m	Total HK\$m
At 31 Dec 2025					
Financial assets	854,444	38,328	33,488	38,634	964,894
– financial assets designated and otherwise mandatorily measured at fair value	820,495	36,061	23,112	2,080	881,748
– derivatives	1,057	60	–	–	1,117
– financial investments measured at amortised cost	4,743	898	7,862	28,430	41,933
– financial investments measured at fair value through other comprehensive income	–	–	22	1,039	1,061
– other financial assets ²	28,149	1,309	2,492	7,085	39,035
Insurance contract assets	91	318	–	–	409
Reinsurance contract assets	–	46,221	–	–	46,221
Other assets and investment properties	13,880	750	347	20,732	35,709
Total assets at 31 Dec 2025	868,415	85,617	33,835	59,366	1,047,233
Liabilities under investment contracts designated at fair value	–	–	30,505	–	30,505
Insurance contract liabilities	901,638	33,739	–	–	935,377
Reinsurance contract liabilities	–	5,283	–	–	5,283
Deferred tax	–	–	–	11	11
Other liabilities	–	–	–	28,176	28,176
Total liabilities	901,638	39,022	30,505	28,187	999,352
Total equity	–	–	–	47,881	47,881
Total liabilities and equity at 31 Dec 2025	901,638	39,022	30,505	76,068	1,047,233

Risk Review

Balance sheet of insurance manufacturing subsidiaries by type of contract¹ (continued)

(Audited)

	Life direct participating and investment DPF contracts HK\$m	Life other contracts HK\$m	Other contracts HK\$m	Shareholders' assets and liabilities HK\$m	Total HK\$m
At 31 Dec 2024					
Financial assets	727,937	32,337	32,143	41,676	834,093
– financial assets designated and otherwise mandatorily measured at fair value	699,267	30,809	21,440	1,810	753,326
– derivatives	1,561	54	9	1	1,625
– financial investments measured at amortised cost	4,235	684	8,233	33,617	46,769
– financial investments measured at fair value through other comprehensive income	—	—	48	41	89
– other financial assets ²	22,874	790	2,413	6,207	32,284
Insurance contract assets	107	113	—	—	220
Reinsurance contract assets	—	37,655	—	—	37,655
Other assets and investment properties	13,898	472	284	13,916	28,570
Total assets at 31 Dec 2024	741,942	70,577	32,427	55,592	900,538
Liabilities under investment contracts designated at fair value	—	—	29,343	—	29,343
Insurance contract liabilities	764,423	29,696	—	—	794,119
Reinsurance contract liabilities	—	5,098	—	—	5,098
Deferred tax	—	—	—	10	10
Other liabilities	—	—	—	29,223	29,223
Total liabilities	764,423	34,794	29,343	29,223	857,793
Total equity	—	—	—	42,745	42,745
Total liabilities and equity at 31 Dec 2024	764,423	34,794	29,343	71,978	900,538

1 Balance sheet of insurance manufacturing operations is shown before elimination of inter-company transactions with HSBC non-insurance operations.

2 'Other financial assets' comprise mainly loans and advances to banks, cash and inter-company balances with other non-insurance legal entities.

Key risk types

Market risk

(Audited)

Description and exposure

Market risk is the risk of changes in market factors affecting capital or profit. Market factors include interest rates, equity and growth assets, credit spreads and foreign exchange rates.

Our exposure varies depending on the type of contract issued. Our most significant life insurance products are contracts with participating features. These products typically include some form of capital guarantee or guaranteed return on the sums invested by the policyholders, to which discretionary bonuses are added if allowed by the overall performance of the funds. For contracts without participating features, some form of guarantee may still exist but the group's ability to share risks with policyholders will be reduced. Funds supporting these savings products are invested in a mix of fixed income assets (to support guarantees) and other asset classes (to provide customers with the potential for enhanced returns).

These products expose the group to the risk of variation in asset returns, which will impact our participation in the investment performance.

In certain circumstances, asset returns may be insufficient to meet the policyholders' guaranteed benefits. For non-participating contracts, any resulting shortfall is borne by the group.

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

Sensitivities

(Unaudited)

The following table shows the sensitivity of the CSM, profit and total equity of our insurance manufacturing subsidiaries to changes in interest rates, credit spreads, growth assets and foreign exchange rates. These sensitivities are prepared in accordance with current HKFRS Accounting Standards.

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. The lower profit after tax sensitivity to yield curve shifts is driven by improved asset and liability matching in mainland China, partly offset by the impact of methodology updates in Hong Kong.

Risk Review

Sensitivity of the group's insurance manufacturing subsidiaries to market risk factors

(Audited)

	2025			2024		
	Effect on CSM	Effect on profit after tax for the year	Effect on total equity	Effect on CSM	Effect on profit after tax for the year	Effect on total equity
	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m	HK\$m
+100 basis point parallel shift in yield curves	(2,888)	261	261	(1,695)	578	578
-100 basis point parallel shift in yield curves	(387)	(940)	(940)	(828)	(1,551)	(1,551)
+100 basis point shift in credit spreads	(7,143)	(120)	(120)	(6,882)	(610)	(610)
-100 basis point shift in credit spreads	6,981	578	578	6,730	432	432
10% increase in growth assets ¹	3,520	492	492	3,002	362	362
10% decrease in growth assets ¹	(4,103)	(555)	(555)	(3,383)	(403)	(403)
10% appreciation in US dollar exchange rate against local functional currency ²	748	146	146	525	127	127
10% depreciation in US dollar exchange rate against local functional currency ²	(549)	(98)	(98)	(175)	(19)	(19)

1 'Growth assets' primarily comprise equity securities and investment properties. Variability in growth asset fair value constitutes a market risk to insurance manufacturing subsidiaries.

2 The 10% sensitivity range applies to all currencies except for the Hong Kong dollar, where the extent of change is limited by the impact of the HKD to USD peg.

Credit risk

(Audited)

Description and exposure

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 risks for our insurance manufacturers:

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

The amounts outstanding at the balance sheet date in respect of these items are shown in the table on page 58.

The credit quality of the reinsurers' share of liabilities under insurance contracts is assessed as 'strong' or 'good' (as defined on page 25), with none of the exposure being either past due or impaired (2024: none).

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
	HK\$m	HK\$m	HK\$m	HK\$m
Life direct participating and investment DPF contracts	837,033	901,638	731,066	764,423
Life other contracts	27,994	33,739	21,548	29,696
At 31 Dec	865,027	935,377	752,614	794,119

Credit risk on assets supporting unit-linked liabilities is predominantly borne by the policyholders. Therefore our exposure is primarily related to liabilities under non-linked insurance and investment contracts and shareholders' funds. The credit quality of insurance financial assets is included in the table on page 36.

The risk associated with credit spread volatility is to a large extent mitigated by holding debt securities to maturity, and sharing a degree of credit spread experience with policyholders.

Liquidity risk

(Audited)

Description and exposure

Liquidity risk is the risk that an insurance operation, 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 participating features.

The remaining maturity of insurance contract liabilities is included in Note 3 on page 88.

Risk Review

Insurance underwriting risk

Description and exposure

(Unaudited)

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 we face 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 table on page 58 analyses our life insurance underwriting risk exposures by type of contract.

The insurance underwriting risk profile and related exposures remain largely consistent with those observed at 31 December 2024.

Sensitivities

(Audited)

The table below shows the sensitivity of the CSM, profit and total equity of our insurance manufacturing entities to changes in non-economic assumptions, after considering the impacts of reinsurance contracts held as risk mitigation.

Sensitivity of the group's insurance manufacturing subsidiaries to insurance underwriting risk factors

(Audited)

These sensitivities are prepared in accordance with current HKFRS Accounting Standards.

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.

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.

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.

The impact of changing insurance underwriting risk factors is primarily absorbed within the CSM, unless contracts are onerous in which case the impact is directly to profit. The impact of changes to the CSM is released to profits over the life of the related insurance contracts.

	Effect on CSM HK\$m	Effect on profit after tax HK\$m	Effect on total equity HK\$m
At 31 Dec 2025			
10% increase in lapse rates	(2,276)	(3)	(3)
10% decrease in lapse rates	2,332	—	—
5% increase in mortality and/or morbidity rates	(588)	(85)	(96)
5% decrease in mortality and/or morbidity rates	600	67	81
10% increase in expense rates	(259)	(69)	(63)
10% decrease in expense rates	251	67	61
At 31 Dec 2024			
10% increase in lapse rates	(1,595)	(98)	(170)
10% decrease in lapse rates	1,665	105	210
5% increase in mortality and/or morbidity rates	(543)	(105)	(141)
5% decrease in mortality and/or morbidity rates	613	88	160
10% increase in expense rates	(207)	(47)	(76)
10% decrease in expense rates	229	53	82

EXHIBIT C

FURTHER INFORMATION ON CREDIT RATINGS

These are guidelines issued by Moody's and S&P on what each of their investment-grade ratings means as of the day immediately preceding the date of this base listing document. While we have correctly extracted and reproduced such information and take responsibility for such extraction and reproduction, there can be no assurance that the meaning of any such rating will not be revised by the relevant rating agency in the future and we have no responsibility to notify you of such change. If you are unsure about any information provided under this Exhibit C and/or what a credit rating means, you should seek independent professional advice.

A credit rating is forward looking opinion by a credit rating agency of a company's overall ability to meet its financial obligations. The focus is on the company's capacity to pay its debts as they become due. The rating does not necessarily apply to any specific obligation.

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Moody's long-term ratings definitions

Aaa

Obligations rated Aaa are judged to be of the highest quality subject to the lowest level of credit risk.

Aa

Obligations rated Aa are judged to be of high quality and are subject to very low credit risk.

A

Obligations rated A are judged to be upper medium-grade and are subject to low credit risk.

Baa

Obligations rated Baa are judged to be medium grade and subject to moderate credit risk; and as such may possess certain speculative characteristics.

Modifiers "1", "2" and "3"

Moody's appends numerical modifiers 1, 2 and 3 to each generic rating classification (except for Aaa). The modifier 1 indicates that the obligation ranks in the higher end of its generic rating category; the modifier 2 indicates a mid-range ranking; and the modifier 3 indicates a ranking in the lower end of that generic rating category.

Please refer to <https://ratings.moody's.io/ratings> for further details. If you do not understand what these credit ratings mean, you should obtain independent advice.

S&P long-term issuer credit ratings definitions

AAA

An obligor rated 'AAA' has extremely strong capacity to meet its financial commitments. 'AAA' is the highest issuer credit rating assigned by S&P.

AA

An obligor rated 'AA' has very strong capacity to meet its financial commitments. It differs from the highest-rated obligors only to a small degree.

A

An obligor rated 'A' has strong capacity to meet its financial commitments but is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligors in higher-rated categories.

BBB

An obligor rated 'BBB' has adequate capacity to meet its financial commitments. However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments.

Plus (+) or minus (-)

The above ratings (except for 'AAA') may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.

Please refer to <https://www.spglobal.com/ratings/en/regulatory/article/190705-s-p-global-ratings-definitions-s504352> (in English language version only) for further details. If you do not understand what these credit ratings mean, you should obtain independent advice.

Rating outlooks

A rating outlook is an opinion regarding the likely rating direction over the medium term. The rating outlook assigned by Moody's and S&P will usually indicate whether the rating direction is likely to be positive, negative, stable or developing.

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