BASE LISTING DOCUMENT

Non-collateralised Structured Products

Base Listing Document relating to Hong Kong Listed Structured Products

to be issued by

HSBC

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 1 April 2025

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 U.S. Executive Order 13959, as amended by U.S. Executive Order 14032, or 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 include (i) securities whose purchase or sale by E.O. 13959 U.S. Persons is restricted under Executive Order 13959 (as amended) 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 Executive Order 13959 (as amended) restrictions applicable to those underlyings and investors should seek their own independent legal advice regarding compliance with Executive Order 13959 (as amended).

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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?	The **Warrants** which we may issue under the programme include: (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?	The **Inline Warrants** which we may issue under the programme include: (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?	The callable bull/bear contracts (the "**CBBCs**") which we may issue under the programme include: (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 *(pari passu)* 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?

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.

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).

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.

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:

Type of structured product

The launch announcement and supplemental listing document will specify the type of the series of structured products offered.

Exercise	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.
Settlement Basis	The holder of the structured products will be entitled to a cash payment upon exercise (assuming that the cash payment is greater than zero).
Issue price	The launch announcement and supplemental listing document will specify the issue price of the structured product.
Underlying	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).
Expiry Date	The launch announcement and supplemental listing document will specify the expiry date for the series of structured products offered.
Liquidity Provider	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?	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. 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.

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.

The Bank Group has past experience of financial and operational loss sustained as a consequence of the economic cycle, various 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. A key source of uncertainty for 2025 and beyond comes from the expected shift in economic and financial policies in the United States ("**U.S.**"). Potential changes in U.S. tariff policy and other countries' responses are likely to have significant consequences for the global growth outlook and global trade, and may result in higher inflation and affect interest rate expectations. The uncertain outcome of the policies of the government of the PRC (the "**PRC Government**") introduced to stimulate domestic growth and support a rebalancing of the economy including the property sector is also a source of potential risk. In particular, the economic challenges affecting the PRC's property sector could further affect the Bank Group's customers in the region and reduce their activity and demand for the Bank Group's services.

- Inflation and monetary policy: The combined pressure of tariffs, inflation and high interest rates can have material impacts on the Bank Group's customers as the can erode real purchasing power and increase debt service costs. Higher 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 higher rates were to result in lower lending volumes and weaker wealth and insurance revenue. Across most of the Bank Group's markets, headline inflation continued to subside throughout 2024 and major central banks, including the U.S. Federal Reserve and the Bank of England, enacted monetary easing in the second half of 2024. However, uncertainty over the trajectory of U.S. economic and trade policies, specifically around additional trade barriers and/or tariffs and immigration has shifted the balance of risks around inflation and future interest rate trajectory and may affect future global growth.

- Financial stability: Changing economic conditions and shifting policy create a more uncertain and volatile environment for asset markets. Accommodative financial conditions in the aftermath of the Covid-19 pandemic may have increased vulnerabilities given the rise in asset price valuations and the increase in debt levels. Changes to asset prices can adversely affect the Bank Group by increasing the financial vulnerability of customers and decreasing the value of collateral and other claims.

- Fiscal policy and high levels of government debt: Through the Covid-19 pandemic period, government debt levels across both developed and emerging markets increased sharply, and in many cases left growth and employment dependent on continued deficit spending. Against the backdrop of higher global interest rates, a high level of public debt issuance and a strong U.S. dollar, borrowing costs for certain countries could increase further. This could adversely impact the fiscal capacity and debt sustainability of highly indebted sovereign issuers. Emerging markets with higher levels of U.S. dollar-denominated debt and weaker public finances could be further impacted by higher U.S. interest rates and the U.S. dollar's strength which could result in higher repayment costs and refinancing risks and the associated possibility of sovereign rating downgrades. Where the Bank Group has exposure to such sovereigns or related parties, it could incur losses. At the same time, external sovereign ratings 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.

- Geopolitical risks: Geopolitical risks remain high. The disruption of key supply routes, particularly through the Red Sea continues to add costs to impact global supply cost. Escalation, resurgence or other changes in the Russia-Ukraine war and the conflict in the Middle East could impact economic activity regionally, or globally for a prolonged period which, in turn, 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 section headed "*The Bank Group is subject to political, social and other risks in the countries and territories in which it operates*" under this risk factor.

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: The Bank Group's 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 its impairment estimates;

- Sector-wide impairment: Changing economic conditions, policies and funding costs may give rise to a deterioration in specific industries and sectors. For example, excess supply conditions, coupled with changes to government policies have given rise to a broad decline in mainland China real estate conditions, which has affected the financial performance of corporates operating in this market. Similarly, the Hong Kong real estate market is suffering a downturn due to high interest rates, a strong U.S. dollar and a decline in purchases from PRC buyers. In addition, certain sectors in various countries may be targeted by material increases in trade tariffs, with industry wide implications;

- 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 2024, to address heightened policy uncertainty following the U.S. election and to overcome any lags in consensus forecasts, an adjustment factor based on more recent views of expected tariffs and other policy changes was modelled and then applied to each of the economic scenarios. The effect was to lower growth expectations in the Bank Group's major markets, while the impact on inflation and interest rates was varied. The Bank Group's Central scenario, which has the highest probability weighting, assumes that GDP growth in the Bank Group's key markets will be slower in 2025 relative to 2024. The slowdown is assumed to follow from the increase in global tariff rates, which impede trade flows, weaken consumption and deter investment. The scenario also assumes that central banks are expected to slow the pace of interest rate reductions in 2025 as a result as inflation converges towards central bank targets.

However, forecasts remain uncertain, and changing economic conditions and the materialisation of key risks could reduce the accuracy of the Central scenario. Forecasts in recent years have been sensitive to changing economic and financial policy, changing supply chain conditions, monetary policy expectations and the inflation outlook. There remains uncertainty regarding the adequacy of the Bank Group's models to reflect credit losses under emerging risks which are not captured under the historical loss experience of its models, or to adequately distinguish risks for specific sectors or 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);
- 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 credit 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 the Bank Group's operations and/or risks to the safety of the Bank Group's personnel and customers. Geopolitical tensions could have significant ramifications for the Bank Group and its customers. In particular:

- While globalisation appears to remain deeply embedded in the international system, it is increasingly challenged by protectionism, including trade tariffs, which could contribute to weaker global trade, potentially affecting the Bank Group's business. 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, 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;

- Uncertainty about the scope, duration and potential for escalation or resurgence of the conflict in the Middle East presents global economic and political implications. For further details, see the section headed "*Economic and market conditions and geopolitical developments may adversely affect the Bank Group's financial conditions and results*" under this risk factor;

- The U.S. and the United Kingdom ("**UK**") imposed additional sanctions on Iran in 2024 in response to Iran's activities and the increase in tensions between Israel and Iran. Further sanctions may be imposed and could increase the risk within the Bank Group's operations;

- The Russia-Ukraine war along with related financial sanctions, trade restrictions and Russian countermeasures, has had global economic and political implications;

- The sanctions and trade restrictions imposed by the U.S., the UK, and the European Union ("**EU**"), as well as other countries, as a result of the Russia-Ukraine war, remain complex, far reaching and evolving. The U.S. has expanded the reach of its secondary sanctions regime, which includes broad discretion to impose severe sanctions on non-U.S. banks that are knowingly or even unknowingly engaged in certain transactions or services directly or indirectly involving Russia's military-industrial base, including certain third-party activities that are difficult to detect or beyond the Bank Group's control. 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. In response to such sanctions and trade restrictions, as well as asset flight, Russia has implemented certain countermeasures, including the expropriation of foreign assets;

- To date, the U.S., the UK, the EU and other countries have imposed various sanctions and trade restrictions on PRC persons and companies, and there is a continued risk of additional sanctions and trade restrictions or tariffs being imposed by the U.S. and other governments in relation to among other things, alleged human rights abuses, advances in certain sensitive technologies, territorial conflicts, and the illicit trade of fentanyl and other synthetic opioids. Strategic competition with the PRC has the potential to impact the Bank Group's operations and global supply chains remain vulnerable to a deterioration in the relationship between the PRC and other countries. For example, the U.S. recently imposed a new programme restricting certain U.S. outbound investments in PRC's companies engaged in sensitive technology sectors, and the EU is considering a similar programme. In addition, during 2024 both the U.S. and the EU raised the rate at which they levy tariffs on a range of PRC's imports, including electric vehicles. These have been imposed on the basis of unfair competition, where the PRC Government is accused of providing unfair subsidies to industry;

- The PRC, in turn, imposed a number of its own sanctions and trade restrictions that target, or provide authority to target, foreign individuals or companies as well as certain goods such as rare earth minerals and metals, and technology and services. These, as well as certain law enforcement measures, have been and may continue to be imposed against certain countries, businesses and individuals;

- Diplomatic tensions between the PRC and the U.S., which may extend to and involve other countries, and developments in Hong Kong, Taiwan, and the surrounding maritime region may further adversely affect the Bank Group;

- Existing and additional sanctions, trade restrictions, counter sanctions and other retaliatory measures relating to the foregoing or other geopolitical tensions may adversely affect the Bank Group, its customers and the markets in which the Bank Group operates by creating regulatory, reputational and market risks including additional inflationary pressures, and a more complex operating environment; and

- Developing alternative payment mechanisms, along with increased use of domestic currencies for trade, have been persistent topics of discussion within the BRICS group (Brazil, Russia, India, the PRC, South Africa, Iran, Egypt, Ethiopia, the UAE and Indonesia). 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, technology and ideology are manifesting themselves in divergent regulatory standards and compliance regimes, creating a more complex operating environment for the Bank Group and its customers and presenting long-term strategic challenges for multinational businesses more generally. As the geopolitical landscape evolves, compliance by multinational corporations with their legal or regulatory obligations 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 risks and 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. In addition, the Bank Group has also identified net zero alignment risk and the risk of greenwashing as thematic risk issues related to climate risk.

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.

Net zero alignment risk may arise from the risk of the Bank Group failing to meet its net zero ambition or failing to meet external expectations related to net zero. The risk of greenwashing may arise from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to its stakeholders.

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

- credit risk for the Bank Group's corporate customers may increase if climate-related regulatory, legislative or technological developments impact customers' business models or if extreme weather events disrupt customers' operations, resulting in financial difficulty for customers and/or stranded assets. 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/wealth, or from reputational concerns relating to the progress the Bank Group's make towards its climate-related ambitions and targets;

- real estate may be affected by changes to the climate, the increase in the frequency and severity of extreme weather events and chronic shifts in weather patterns, which could impact both property values and the ability of borrowers to afford their mortgage payments and lead to 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 reporting standards, requiring implementation in short timeframes across multiple jurisdictions;

- conduct risks could develop 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 climate-related ambitions and targets; and

- model risk may arise from the uncertain and evolving impacts of climate change as well as data and methodology limitations present challenges to creating reliable and accurate model outputs.

The Bank Group also faces increased reputational, legal and regulatory risks as it makes progress towards the Bank Group's ESG-related ambitions and targets, with stakeholders likely to place greater focus on its actions, such as the development of climate and ESG-related policies, its disclosures and financing and investment decisions relating to its

ESG-related ambitions and targets. The Bank Group will face additional risks if it knowingly or unknowingly makes inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to its stakeholders.

The Bank Group may be exposed to climate and ESG-related litigation and regulatory enforcement risks, either directly if stakeholders think that it is not adequately managing climate and broader ESG risks, or indirectly if its clients and customers are themselves the subject of litigation, potentially resulting in the revaluation of client 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 of stakeholders in different markets regarding climate impacts and the nature of the appropriate responses to climate change. 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.

In addition, nature-related risks beyond climate change may have significant economic impacts. These risks arise when the provision of ecosystem services such as water availability, air quality, and soil quality is compromised, primarily by five key drivers of nature loss: changes in land/freshwater/sea-use; climate change; pollution of air, water and soil; over-exploitation of natural resources; and invasive alien species. They can manifest themselves in a variety of ways for the Bank Group and its customers, including through macroeconomic, market, credit, reputational, regulatory compliance and legal risks.

Regulation and disclosure requirements in relation to human rights are increasing. 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.

In respect of all ESG-related risks, the Bank Group also needs to ensure that its strategy and business model, including the products and services it provides to customers and risk management processes (including processes to measure and manage the various financial and non-financial risks the Bank Group faces as a result of ESG related matters), adapt to meet regulatory requirements and stakeholder and market expectations, which continue to evolve significantly and at pace. Achieving the Bank Group's strategy with respect to ESG matters, including any ESG-related ambitions and targets it may set, will depend on a number of different factors outside of the Bank Group's control, such as advancements in technologies and supportive public policies in the markets where the Bank Group operates. If these external factors and other changes do not occur, or do not occur on a timely basis, the Bank Group may fail to achieve its ESG related ambitions and targets.

In order to track and report on the Bank Group's progress against its ESG-related ambitions and targets, it relies on internal and, where appropriate and available, external data sources, guided by certain industry standards and the Bank Group's own ability to collect and process such data. While ESG-related reporting has improved over time, data remains of limited quality and consistency exposing the Bank Group to the risk of using incomplete and inaccurate data and models which could result in sub-optimal decision making. Methodologies, data, scenarios and industry standards that the Bank Group has used may evolve over time in line with market practice, regulation and developments in science, where applicable. Any such developments in methodologies and scenarios, and changes in the availability, accuracy and verifiability of data over time and the Bank Group's ability to collect and process such data, exposes the Bank Group to financial reporting risk in relation to the Bank Group's climate and ESG disclosures and could result in revisions to the Bank Group's internal measurement frameworks as well as reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on-year. This could also result in the Bank Group having to re-evaluate its progress towards its ESG-related ambitions and targets in the future and this could result 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 clients 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. Additionally, the Bank Group's products and services may not be accepted by its targeted clients. In many markets, there is increased competitive pressure to provide products and services at current or lower prices.

Consequently, the Bank Group's ability to reposition or re-price its products and services from time to time may be limited, and could be influenced significantly by the actions of its competitors who may or may not charge similar fees for their products and services. 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. The Bank Group also needs to ensure that new digital capabilities do not weaken its resilience. 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 section headed "*Economic and market conditions and geopolitical developments may adversely affect the Bank Group's financial condition and results*" under this risk factor regarding the impact of these on the interest rate environment.

Competitive pressures on fixed rates or product terms in existing customer products 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 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 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 Executive Order 13959 (as amended) 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 Executive Order 13959 (as amended).

(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.

(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. Also, as holder of our structured products you will not have the same rights (including voting rights and rights to dividends or other distributions and any other rights that a direct holder of the underlying securities would normally be entitled to) as if you were a direct holder of 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 CBBCs, 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 wishes 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

We and other financial institutions through which payments on the structured products are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after the second anniversary of the date on which final U.S. Treasury Regulations defining the term "foreign passthru payments" are published with the U.S. Federal Register in respect of (i) any structured products characterised as obligations for U.S. federal tax purposes that are issued after (or are materially modified after) the date that is six months after the date on which final U.S. Treasury Regulations defining the term "foreign passthru payments" are filed with the U.S. Federal Register and (ii) any structured products not characterised as obligations for U.S. federal tax purposes, whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code ("**FATCA**") or similar law implementing an intergovernmental approach to FATCA.

In addition, we and other financial institutions through which payments on the structured products are made may be required to withhold U.S. tax pursuant to FATCA at a rate of 30 per cent. on payments made in respect of any structured products characterised as obligations for U.S. federal tax purposes that are issued after (or are materially modified after) the date that is six months after the date on which such products are treated as giving rise to "dividend equivalent" payments as described under "Legislation Affecting Dividend Equivalent Payments" under the section headed "Taxation".

FATCA withholding tax may apply to an investor or to any non-U.S. financial institution through which payment on the structured products is made if the investor or non-U.S. financial institution does not fulfill its obligations under FATCA, including if (i) that investor (unless otherwise exempt from FATCA) does not provide information or consent to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer or (ii) that non-U.S. financial institution does not become a Participating Foreign Financial Institution (as defined by FATCA) by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise deemed FATCA compliant or exempt from FATCA withholding tax. Structured product holders therefore may receive less settlement amount than expected. We are not required to pay any additional amounts with respect to amounts so withheld.

Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products.

Further information on FATCA may be found at *https://www.irs.gov/corporations* under the section headed "Foreign Account Tax Compliance Act (FATCA)". Any information appearing on such website does not form part of this base listing document.

(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, however, 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;

(b) if there is a suspension of inter-counter transfer of such securities between different currency counters for any reason, such securities will only be able to be traded in the relevant currency counter on the stock exchange, which may affect the demand and supply of such securities and have an adverse effect on the price of our structured products; and

(c) 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 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 gives each Warrantholder, 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, 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 (as defined below) 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:

"**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:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

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

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

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 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 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 Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such 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 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:

$$\underset{\text{(rounded to the nearest 0.001)}}{\text{Adjusted Exercise Price}} = \text{Exercise Price} \div \text{Adjustment Factor}$$

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:

Adjusted Entitlement = Adjustment Factor x E

Where:

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:

Adjusted Exercise Price (rounded to the nearest 0.001) = Exercise Price ÷ 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:

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

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 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.

(g) *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 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 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. Warrantholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

10. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Instrument contains provisions for convening meetings of the Warrantholders 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 Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

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

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

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, 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 Warrantholders generally (without considering the circumstances of any individual Warrantholder 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 Warrantholders 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 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 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 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 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 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:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

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

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

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 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 Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such 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 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. Warrantholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

10. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Instrument contains provisions for convening meetings of the Warrantholders 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 Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

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

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

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, 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 Warrantholders generally (without considering the circumstances of any individual Warrantholder 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 Warrantholders 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 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 gives each Warrantholder, 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, 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 (as defined below) 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:

"**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:

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Average Price – Exercise Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

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

$$\text{Cash Settlement Amount per Board Lot} = \frac{\text{Entitlement x (Exercise Price – Average Price) x one Board Lot}}{\text{Number of Warrants per Entitlement}}$$

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 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 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 Warrantholder as soon as reasonably practicable after the original Settlement Date. The Issuer will not be liable to the Warrantholder for any interest in respect of the amount due or any loss or damage that such 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 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:

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

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:

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

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:

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:

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

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:

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

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 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.

(g) *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 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 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. Warrantholders will not be entitled to definitive certificates in respect of any Warrants issued or transferred to them.

10. Meetings of Warrantholders; Modification

(a) *Meetings of Warrantholders.* The Instrument contains provisions for convening meetings of the Warrantholders 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 Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

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

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

(b) *Modification.* The Issuer may, without the consent of the Warrantholders, 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 Warrantholders generally (without considering the circumstances of any individual Warrantholder 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 Warrantholders 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 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 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:

Adjusted Upper Strike Price (rounded to the nearest 0.001) = Upper Strike Price ÷ Adjustment Factor

Adjusted Lower Strike Price (rounded to the nearest 0.001) = Lower Strike Price ÷ 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:

Adjusted Upper Strike Price (rounded to the nearest 0.001)	=	Upper Strike Price ÷ Adjustment Factor
Adjusted Lower Strike Price (rounded to the nearest 0.001)	=	Lower Strike Price ÷ Adjustment Factor

Where:

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:

Adjusted Upper Strike Price (rounded to the nearest 0.001)	=	Upper Strike Price ÷ Adjustment Factor
Adjusted Lower Strike Price (rounded to the nearest 0.001)	=	Lower Strike Price ÷ 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 Warrantholders. 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 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 Inline Warrant held by such Inline 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 Inline Warrantholders 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 Warrantholders will not be entitled to definitive certificates in respect of any Inline Warrants issued or transferred to them.

10. Meetings of Inline Warrantholders; Modification

(a) *Meetings of Inline Warrantholders.* The Instrument contains provisions for convening meetings of the Inline Warrantholders 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 Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Inline Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

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

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

(b) *Modification.* The Issuer may, without the consent of the Inline Warrantholders, 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 Warrantholders generally (without considering the circumstances of any individual Inline Warrantholder 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 Warrantholders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to Inline 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 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 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 entitles each Inline Warrantholder, 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 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 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:

"**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 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 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 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 Inline Warrant held by such Inline 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 Inline Warrantholders 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 Warrantholders will not be entitled to definitive certificates in respect of any Inline Warrants issued or transferred to them.

10. Meetings of Inline Warrantholders; Modification

(a) *Meetings of Inline Warrantholders.* The Instrument contains provisions for convening meetings of the Inline Warrantholders 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 Warrantholders shall be decided by poll. Such a meeting may be convened by the Issuer or by Inline Warrantholders 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 Warrantholders 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 Warrantholders who, being entitled to do so, vote in person or by proxy.

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

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

(b) *Modification.* The Issuer may, without the consent of the Inline Warrantholders, 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 Warrantholders generally (without considering the circumstances of any individual Inline Warrantholder 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 Warrantholders and shall be notified to them by the Issuer as soon as practicable in accordance with Condition 11.

11. Notices

All notices to Inline 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 Inline Warrantholders, 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 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.

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:

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

(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:

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

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:

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

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

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

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:

$$\underset{\text{(rounded to the nearest 0.001)}}{\text{Adjusted Call Price}} = \text{Call Price} \div \text{Adjustment Factor}$$

$$\underset{\text{(rounded to the nearest 0.001)}}{\text{Adjusted Strike Price}} = \text{Strike Price} \div \text{Adjustment Factor}$$

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:

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:

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

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

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:

Adjusted Call Price (rounded to the nearest 0.001)	=	Call Price ÷ Adjustment Factor
Adjusted Strike Price (rounded to the nearest 0.001)	=	Strike Price ÷ 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:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Closing Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

(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:

$$\text{Cash Settlement Amount per Board Lot} = \frac{(\text{Strike Level} - \text{Closing Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

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:

$$\frac{(\text{Minimum Index Level} - \text{Strike Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

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

$$\frac{(\text{Strike Level} - \text{Maximum Index Level}) \text{ x one Board Lot x Index Currency Amount}}{\text{Divisor}}$$

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:

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

(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:

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

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:

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

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

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

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:

$$\underset{\text{(rounded to the nearest 0.001)}}{\text{Adjusted Call Price}} = \text{Call Price} \div \text{Adjustment Factor}$$

$$\underset{\text{(rounded to the nearest 0.001)}}{\text{Adjusted Strike Price}} = \text{Strike Price} \div \text{Adjustment Factor}$$

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:

Adjusted Entitlement = Adjustment Factor x E

Where:

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:

Adjusted Call Price (rounded to the nearest 0.001) = Call Price ÷ Adjustment Factor

Adjusted Strike Price (rounded to the nearest 0.001) = Strike Price ÷ 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:

Adjusted Call Price (rounded to the nearest 0.001)	=	Call Price ÷ Adjustment Factor
Adjusted Strike Price (rounded to the nearest 0.001)	=	Strike Price ÷ 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 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 ELDON*, 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*
Pam KAUR#
Rajnish KUMAR*
Beau Khoon Chen KUOK*
Irene Yun-lien LEE*
Annabelle Yu LONG*

** independent non-executive Director*
 # non-executive Director

Name of Secretary

Paul Stafford, FCG HKFCG

Main Subsidiaries

The main subsidiaries of the Bank as at 31 December 2024 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	63.12
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 0.06% 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.

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 2024:

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 2024 was HK$819,049 million comprising HK$180,181 million of share capital, HK$64,677 million of other equity instruments, HK$102,993 million of other reserves and HK$471,198 million of retained earnings.

Debt Securities in Issue

The debt securities in issue of the Bank Group measured at amortised cost as at 31 December 2024 were HK$64,362 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 U.S. Executive Order 13959, as amended by U.S. Executive Order 14032, or 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 include (i) securities whose purchase or sale by E.O. 13959 U.S. Persons is restricted under Executive Order 13959 (as amended) 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 Executive Order 13959 (as amended) restrictions applicable to those underlyings and investors should seek their own independent legal advice regarding compliance with Executive Order 13959 (as amended).

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 has 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 has 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:

(a) the expression "**retail investor**" means a person who is one (or more) of the following:

(i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 ("**EUWA**"); or

(ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (the "**FSMA**") and any rules or regulations made under the FSMA to implement Directive (EU) 2016/97, where that customer would not qualify as 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 EUWA; or

(iii) not a qualified investor as defined in Article 2 of Regulation (EU) 2017/1129 as it forms part of domestic law by virtue of the EUWA; and

(b) the expression an "**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 – 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 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 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 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 investors. 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

We and other financial institutions through which payments on the structured products are made may be required to withhold U.S. tax at a rate of 30 per cent. on all, or a portion of, payments made after the second anniversary of the date on which final U.S. Treasury Regulations defining the term "foreign passthru payments" are published with the U.S. Federal Register in respect of (i) any structured products characterised as obligations for U.S. federal tax purposes that are issued after (or are materially modified after) the date that is six months after the date on which final U.S. Treasury Regulations defining the term "foreign passthru payments" are filed with the U.S. Federal Register and (ii) any structured products not characterised as obligations for U.S. federal tax purposes, whenever issued, pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code ("**FATCA**") or similar law implementing an intergovernmental approach to FATCA.

In addition, we and other financial institutions through which payments on the structured products are made may be required to withhold U.S. tax pursuant to FATCA at a rate of 30 per cent. on payments made in respect of any structured products characterised as obligations for U.S. federal tax purposes that are issued after (or are materially modified after) the date that is six months after the date on which such products are treated as giving rise to "dividend equivalent" payments as described below under "Legislation Affecting Dividend Equivalent Payments".

FATCA withholding tax may apply to an investor or to any non-U.S. financial institution through which payment on the structured products is made if the Investor or non-U.S. financial institution does not fulfill its obligations under FATCA, including if (i) that investor (unless otherwise exempt from FATCA) does not provide information or consent to determine whether the investor is a U.S. person or should otherwise be treated as holding a "United States account" of the Issuer or (ii) that non-U.S. financial institution does not become a Participating Foreign Financial Institution (as defined by FATCA) by entering into an agreement with the U.S. Internal Revenue Service ("**IRS**") to provide the IRS with certain information in respect of its account holders and investors or is not otherwise deemed FATCA compliant or exempt from FATCA withholding tax. Structured product holders therefore may receive less settlement amount than expected. We are not required to pay any additional amounts with respect to amounts so withheld.

Each holder of structured products should consult its own tax advisor as to the application of FATCA to an investment in the structured products.

Further information on FATCA may be found at *https://www.irs.gov/corporations* under the section headed "Foreign Account Tax Compliance Act (FATCA)". Any information appearing on such website does not form part of this base listing document.

The following section on "Legislation Affecting Dividend Equivalent Payments" is applicable to structured products that are linked to U.S. equities and to all investors of such structured products.

Legislation Affecting Dividend Equivalent Payments

U.S. Treasury Regulations under Section 871(m) of the U.S. Internal Revenue Code require withholding of up to 30% (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 to the extent that such payments are contingent upon or determined by reference to U.S.-source dividends. These rules differentiate between "Delta-One" and "Non-Delta-One" transactions. This withholding should generally apply to structured products, but should not apply to Non-Delta-One structured products issued before 1 January 2027 (unless the Non-Delta-One structured products are "significantly modified" on or after 1 January 2027). Significant aspects of the application of these regulations to the structured products are uncertain. Payments on Delta-One structured products that are treated by the applicable Treasury regulations as being contingent upon, or determined by reference to, any U.S. source dividends are subject to this withholding.

Withholding in respect of dividend equivalents amounts will generally be required when the relevant payment is made on a structured product or upon the date of maturity, lapse or other disposition by a non-U.S. investor of the structured products. Structured products may be treated as paying dividend equivalent amounts to the extent U.S. source dividends are expected to be paid on the underlying equity securities, even if no corresponding payment on the structured product is explicitly linked to such dividends and even if, upon maturity, lapse or other disposition by the non-U.S. investor, the investor realizes a loss. The regulations provide exceptions to withholding, in particular for certain instruments linked to certain broad-based indices. In the event any withholding would be required pursuant to Section 871(m) with respect to payments on the structured products, no person will be required to pay additional amounts as a result of the withholding. Prospective investors should consult their tax advisers regarding the potential application of Section 871(m) and the applicable regulations to the structured products.

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 (negative 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?

Except as set out in Exhibit A and Exhibit B of this base listing document, there are no legal or arbitration proceedings (including any such proceedings which are pending or threatened of which we are aware) which may have, or have had in the previous 12 months, a significant effect on us and our subsidiaries.

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 2024.

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 Martin Mrosek, c/o The Hongkong and Shanghai Banking Corporation Limited, Level 18, HSBC Main Building, 1 Queen's Road Central, Hong Kong, and Queenie Lun, 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 2 April 2024 for the extract of the Annual Report and Accounts 2023 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 2023.

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 19 February 2025 on the consolidated financial statements of the Issuer as at and for the year ended 31 December 2024, 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 Wealth and Personal Banking Division for the period from 1 January 2025 to 31 December 2025 (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 Wealth and Personal Banking 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 2024

The information in this Exhibit A has been extracted from the Annual Report and Accounts 2024 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 2024. The extracts set out in this Exhibit A are not complete and reference should be made to the Annual Report and Accounts 2024 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 71 to 135, comprise:

- the consolidated balance sheet as at 31 December 2024;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes[1] on 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 2024, rather than in the notes on the consolidated financial statements. These are cross-referenced from the consolidated financial statements and marked 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 2024, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (‘HKFRSs’) 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’) 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’), and we have fulfilled our other ethical responsibilities in accordance with the Code.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Allowances for expected credit losses on loans and advances to customers
- Impairment assessment of investment in associate – Bank of Communications Co., Ltd (‘BoCom’)

Allowances for expected credit losses on loans and advances to customers

Nature of the Key Audit Matter

At 31 December 2024, the group recorded allowances for expected credit losses ('ECL') on loans and advances to customers of HK$35.7bn.

The determination of the ECL on non-credit-impaired loans and advances to customers requires the use of complex credit risk methodologies that are applied in models using the group's historic experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions.

The determination of the ECL on non-credit-impaired loans and advances to customers also requires the determination of assumptions which involve estimation uncertainty. The assumptions used for ECL that we focused on for non-credit-impaired loans and advances to customers included those with greater levels of management judgement and for which variations have the most significant impact on ECL on loans and advances to customers. Specifically, these included economic scenarios and their likelihood. Likewise, there is inherent uncertainty with the consensus economic forecast data from external economists. Significant assumptions also include customer risk ratings.

Impacts related to the mainland China commercial real estate sector, and uncertainty of current macroeconomic conditions affect the inherent risk and estimation uncertainty involved in determining the ECL on loans and advances to customers.

The above ongoing conditions continue to result in significant credit-impaired corporate exposures related to the unsecured offshore mainland China commercial real estate sector. The assumptions with the most significant impact here are those applied in estimating the recoverability of these exposures.

Matters discussed with the Audit Committee

We discussed the appropriateness of the methodologies, their application, significant assumptions and related disclosures with the Audit Committee, giving consideration to the current macroeconomic conditions. This included economic scenarios and their likelihood, management judgemental adjustments made to derive the ECL on loans and advances to customers, and future recoverability of certain significant credit-impaired wholesale exposures.

How our audit addressed the Key Audit Matter

We tested controls in place relating to the methodologies, their application, significant assumptions and data used to determine the ECL on loans and advances to customers. These included controls relating to:

– Model development, validation and monitoring;
– Approval of economic scenarios;
– Approval of the probability weightings assigned to economic scenarios;
– Assigning customer risk ratings; and
– Review of input and assumptions applied in estimating the recoverability of credit-impaired wholesale exposures.

We performed substantive audit procedures over the compliance of ECL methodologies with the requirements of HKFRS 9. We engaged professionals with experience in ECL modelling to assess the appropriateness of methodologies and related models.

We further performed the following to assess the significant assumptions and data:

– We challenged the appropriateness of the significant assumptions and obtained corroborating evidence;
– We involved our economic experts in assessing the reasonableness of the severity and likelihood of certain economic scenarios;
– We tested a sample of customer risk ratings assigned to wholesale exposures; and
– We tested a sample of critical data used to determine ECL.

For a sample of credit-impaired wholesale exposures, we challenged the appropriateness of these and assessed the ECL determined.

We further considered whether the judgements made in selecting the significant assumptions and credit-impaired wholesale exposures, would give rise to indicators of possible management bias.

We assessed the adequacy of the disclosures in relation to ECL on loans and advances to customers made in the consolidated financial statements in the context of the applicable financial reporting framework.

Based on our procedures performed, we found the allowances for ECL on loans and advances to customers to be reasonable.

Relevant references in the consolidated financial statements

Risk: Credit risk, as cross-referenced from the consolidated financial statements (only information identified as audited), page 25 to 48.

Note 1.2 (i) on the consolidated financial statements: Basis of preparation and material accounting policies – Summary of material accounting policies – Impairment of amortised cost and FVOCI financial assets, page 81 to 84.

Note 2 (e) on the consolidated financial statements: Operating profit – Change in expected credit losses and other credit impairment charges, page 89.

Note 10 on the consolidated financial statements: Loans and advances to customers, page 104 to 105.

Impairment assessment of investment in associate – Bank of Communications Co., Ltd ('BoCom')

Nature of the Key Audit Matter

2024 is the first annual reporting period after the group impaired its investment in BoCom, the carrying value of which amounted to HK$174.2bn at 31 December 2024. The estimation uncertainty related to the investment remained high in 2024 and further policy announcements were made in relation to fiscal stimulus packages by the government in China.

The carrying value is required to be assessed for indicators of potential further impairment and reversal of previous impairment. No indicators of further impairment or reversal of previous impairment in the investment in BoCom have been identified at 31 December 2024.

Management's assessment of impairment or reversal of previous impairment indicators is supported by an estimation of the recoverable amount using a value in use ('VIU') model. The VIU model estimates future cash flows expected to be derived from the investment in BoCom in its current condition and does not reflect the impact of future capital transactions. The VIU model continues to be a permissible method to estimate the recoverable amount.

The methodology applied in the VIU model is dependent on various assumptions, both short-to-medium term and long-term in nature. These assumptions, which are subject to estimation uncertainty, are derived from a combination of management's judgement, analysts' forecasts, market data or other relevant information.

The assumptions that we focused our audit on were those with greater levels of management judgement and subjectivity, and for which variations had the most significant impact on the VIU. Specifically, these significant assumptions included:

– The discount rate;
– Short-to-medium term assumptions for operating income growth rate, loans and advances to customers growth rate, cost-income ratio, and expected credit losses as a percentage of loans and advances to customers;
– Long-term assumptions for profit growth rate, asset growth rate, expected credit losses as a percentage of loans and effective tax rate; and
– Capital related assumptions for capital adequacy ratio, tier 1 capital adequacy ratio and risk-weighted assets as a percentage of total assets.

Matters discussed with the Audit Committee

We discussed the appropriateness of the methodology, the consistency of its application period over period and significant assumptions with the Audit Committee. This included management's approach to ongoing impairment monitoring including whether there are indicators of further impairment or reversal to previous impairment, the appropriateness of significant assumptions used in the VIU, and the disclosures made in relation to investment in BoCom, including the use of sensitivity analysis to explain estimation uncertainty.

How our audit addressed the Key Audit Matter

We tested controls in place relating to significant assumptions, the methodology and its application used in the impairment indicator assessment. In relation to the VIU we assessed the appropriateness of the methodology used and its application. In respect of the significant assumptions used in the VIU, we performed the following:

– Challenged the appropriateness of the significant assumptions and, where relevant, their interrelationships;
– Obtained corroborating evidence for data supporting significant assumptions which as relevant included past experience, external market information, third-party sources including analyst reports, information from BoCom management and historical publicly available BoCom financial information. Considered any inconsistencies between the corroborating evidence and the significant assumptions;
– Determined an independent reasonable range for the discount rate assumption, with the assistance of our valuation experts, and compared it to the discount rate used by management; and
– Assessed whether the judgements made in selecting the significant assumptions would give rise to indicators of possible management bias.

We observed meetings between management and BoCom management to identify facts and circumstances impacting significant assumptions relevant to the determination of the VIU.

Representations were obtained from the Bank that assumptions used were consistent with information currently available to the Bank.

We assessed the adequacy of the disclosures in relation to investment in BoCom made in the consolidated financial statements in the context of the applicable financial reporting framework.

Overall, we found management's approach to ongoing impairment monitoring and assessment of impairment is acceptable.

Relevant references in the consolidated financial statements

Note 1.2 (a) on the consolidated financial statements: Basis of preparation and material accounting policies – Summary of material accounting policies – Consolidation and related policies, page 78.

Note 14 on the consolidated financial statements: Interests in associates and joint ventures, page 107-110.

Other Information

The directors of the Bank are responsible for the other information. The other information comprises all of the information included in the Annual Report and Accounts 2024, Banking Disclosure Statement at 31 December 2024 and List of the directors of the Bank's subsidiary undertakings (during the period from 1 January 2024 to 19 February 2025) other than the consolidated financial statements and our auditor's report thereon. We have obtained some of the other information including Certain defined terms, Cautionary statement regarding forward-looking statements, Chinese translation, Financial Highlights, Report of the Directors, Task Force on Climate-related Financial Disclosures, Financial Review, Risk and Additional information sections of the Annual Report and Accounts 2024 prior to the date of this auditor's report. The remaining other information, including Banking Disclosure Statement at 31 December 2024 and List of the directors of the Bank's subsidiary undertakings (during the period from 1 January 2024 to 19 February 2025), is expected to be made available to us after that date. 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 and will not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the remaining other information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Audit Committee and take appropriate action considering our legal rights and obligations.

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 HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, in accordance with Section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement 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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Yip Siu Foon Linda.

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong, 19 February 2025

Consolidated Financial Statements

Consolidated income statement

for the year ended 31 December

	Notes	2024 HK$m	2023 HK$m
Net interest income	2a	**117,637**	130,780
– interest income		**315,868**	295,212
– interest expense		**(198,231)**	(164,432)
Net fee income	2b	**42,517**	38,043
– fee income		**56,219**	51,025
– fee expense		**(13,702)**	(12,982)
Net income from financial instruments held for trading or managed on a fair value basis	2c	**91,930**	74,435
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	2c	**36,024**	48,959
Insurance finance expense		**(35,663)**	(48,798)
Insurance service result	3	**8,131**	6,558
– Insurance revenue		**16,533**	13,007
– Insurance service expense		**(8,402)**	(6,449)
Other operating income/(expense)	2d	**5,119**	(298)
Net operating income before change in expected credit losses and other credit impairment charges		**265,695**	249,679
Change in expected credit losses and other credit impairment charges	2e	**(11,946)**	(12,843)
Net operating income		**253,749**	236,836
Employee compensation and benefits	4	**(40,028)**	(38,547)
General and administrative expenses	2f	**(57,967)**	(54,538)
Depreciation and impairment of property, plant and equipment	2g	**(10,925)**	(9,724)
Amortisation and impairment of intangible assets		**(8,672)**	(7,184)
Total operating expenses		**(117,592)**	(109,993)
Operating profit		**136,157**	126,843
Share of profit in associates and joint ventures	14	**17,775**	18,555
Impairment of interest in associate	14	**—**	(23,955)
Profit before tax		**153,932**	121,443
Tax expense	5	**(24,681)**	(23,916)
Profit for the year		**129,251**	97,527
Attributable to:			
– ordinary shareholders of the parent company		**118,787**	87,191
– other equity holders		**3,576**	3,556
– non-controlling interests		**6,888**	6,780
Profit for the year		**129,251**	97,527

Consolidated statement of comprehensive income

for the year ended 31 December

	2024 HK$m	2023 HK$m
Profit for the year	**129,251**	97,527
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	**(183)**	7,953
– fair value gains	**173**	6,256
– fair value (gains)/losses transferred to the income statement	**(52)**	3,799
– expected credit (recoveries)/losses recognised in the income statement	**49**	(372)
– income taxes	**(353)**	(1,730)
Cash flow hedges	**(1,156)**	3,605
– fair value gains	**15,398**	7,581
– fair value gains reclassified to the income statement	**(16,764)**	(3,282)
– income taxes	**210**	(694)
Share of other comprehensive income of associates and joint ventures	**2,978**	736
Exchange differences	**(18,086)**	(9,043)
Items that will not be reclassified subsequently to profit or loss:		
Property revaluation	**(203)**	4,496
– fair value gains/(losses)	**(271)**	5,330
– income taxes	**68**	(834)
Equity instruments designated at fair value through other comprehensive income	**790**	(899)
– fair value gains/(losses)	**974**	(895)
– income taxes	**(184)**	(4)
Changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	**(2,365)**	(5,410)
– before income taxes	**(2,831)**	(6,457)
– income taxes	**466**	1,047
Remeasurement of defined benefit asset/liability	**685**	21
– before income taxes	**812**	26
– income taxes	**(127)**	(5)
Other comprehensive income/(expense) for the year, net of tax	**(17,540)**	1,459
Total comprehensive income for the year	**111,711**	98,986
Attributable to:		
– ordinary shareholders of the parent company	**101,367**	88,289
– other equity holders	**3,576**	3,556
– non-controlling interests	**6,768**	7,141
Total comprehensive income for the year	**111,711**	98,986

Consolidated balance sheet

at 31 December

	Notes	31 Dec 2024 HK$m	31 Dec 2023 HK$m
Assets			
Cash and balances at central banks		**211,047**	232,987
Hong Kong Government certificates of indebtedness		**328,454**	328,304
Trading assets	7	**1,085,321**	941,250
Derivatives	8	**505,260**	409,253
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	9	**781,210**	707,573
Reverse repurchase agreements – non-trading		**816,102**	831,186
Loans and advances to banks		**480,740**	563,801
Loans and advances to customers	10	**3,494,298**	3,557,076
Financial investments	11	**2,337,844**	2,029,212
Amounts due from Group companies	31	**175,004**	158,592
Interests in associates and joint ventures	14	**178,330**	170,206
Goodwill and intangible assets	15	**41,308**	38,923
Property, plant and equipment	16	**120,774**	129,675
Deferred tax assets	5	**10,307**	9,315
Prepayments, accrued income and other assets[1]	17	**382,941**	393,040
Total assets		**10,948,940**	10,500,393
Liabilities			
Hong Kong currency notes in circulation		**328,454**	328,304
Repurchase agreements – non-trading		**624,784**	521,984
Deposits by banks		**183,612**	182,146
Customer accounts	18	**6,564,606**	6,261,051
Trading liabilities	19	**86,557**	103,050
Derivatives	8	**473,488**	450,216
Financial liabilities designated at fair value	20	**178,739**	170,728
Debt securities in issue	21	**64,362**	87,745
Retirement benefit liabilities	4	**805**	1,362
Amounts due to Group companies	31	**396,356**	465,476
Accruals and deferred income, other liabilities and provisions[1]	22	**339,713**	285,649
Insurance contract liabilities	3	**799,443**	730,829
Current tax liabilities		**7,096**	15,344
Deferred tax liabilities	5	**22,917**	23,923
Total liabilities		**10,070,932**	9,627,807
Equity			
Share capital	23	**180,181**	180,181
Other equity instruments	24	**64,677**	52,465
Other reserves		**102,993**	117,214
Retained earnings		**471,198**	462,866
Total shareholders' equity		**819,049**	812,726
Non-controlling interests		**58,959**	59,860
Total equity		**878,008**	872,586
Total liabilities and equity		**10,948,940**	10,500,393

1 In 2023 'Items in the course of collection from other banks' HK$22bn were presented on the face of the balance sheet but are now reported within 'Prepayments, accrued income and other assets' in the Annual Report and Accounts 2024. Similarly, 'Items in the course of transmission to other banks' HK$28bn are now presented within 'Accruals, deferred income and other liabilities'.

Consolidated statement of changes in equity

for the year ended 31 December

				Other reserves							
	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]	Total share-holders' equity	Non-controlling interests	Total equity
	HK$m	HK$m	HK$m	HK$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
– 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

Consolidated statement of changes in equity (continued)

for the year ended 31 December

				Other reserves							
	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]	Total share-holders' equity	Non-controlling interests	Total equity
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
At 1 Jan 2023	180,181	52,386	466,148	65,148	(11,186)	(1,487)	(38,470)	94,832	807,552	56,828	864,380
Profit for the year	—	—	90,747	—	—	—	—	—	90,747	6,780	97,527
Other comprehensive income/(expense) (net of tax)	—	—	(5,415)	4,186	7,840	3,342	(8,698)	(157)	1,098	361	1,459
– debt instruments at fair value through other comprehensive income	—	—	—	—	7,784	—	—	—	7,784	169	7,953
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	(689)	—	—	—	(689)	(210)	(899)
– cash flow hedges	—	—	—	—	—	3,334	—	—	3,334	271	3,605
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(5,413)	—	—	—	—	—	(5,413)	3	(5,410)
– property revaluation	—	—	—	4,186	—	—	—	—	4,186	310	4,496
– remeasurement of defined benefit asset/ liability	—	—	(7)	—	—	—	—	—	(7)	28	21
– share of other comprehensive income/ (expense) of associates and joint ventures	—	—	5	—	888	—	—	(157)	736	—	736
– exchange differences	—	—	—	—	(143)	8	(8,698)	—	(8,833)	(210)	(9,043)
Total comprehensive income/(expense) for the year	—	—	85,332	4,186	7,840	3,342	(8,698)	(157)	91,845	7,141	98,986
Other equity instruments issued[2]	—	7,850	—	—	—	—	—	—	7,850	—	7,850
Other equity instruments redeemed[3]	—	(7,771)	(406)	—	—	—	—	—	(8,177)	—	(8,177)
Dividends to shareholders[5]	—	—	(86,356)	—	—	—	—	—	(86,356)	(3,843)	(90,199)
Movement in respect of share-based payment arrangements	—	—	(99)	—	—	—	—	(208)	(307)	12	(295)
Transfers and other movements[6]	—	—	(1,753)	(4,055)	800	(4)	(731)	6,062	319	(278)	41
At 31 Dec 2023	180,181	52,465	462,866	65,279	(2,546)	1,851	(47,899)	100,529	812,726	59,860	872,586

1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years.
2 The Hongkong and Shanghai Banking Corporation Limited issued SG$1,500m additional tier 1 capital in June 2024 with an issuance cost of SG$15m, and a further US$2,500m additional tier 1 capital in September 2024 with an issuance cost of US$25m.
During 2023, an additional tier 1 capital instrument amounting to US$1,000m was issued for which there were no issuance costs.
3 During 2024, an additional tier 1 capital instrument was redeemed at par (US$2,000m).
During 2023, an additional tier 1 capital instrument was redeemed at fair value (US$1,041m).
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 retained earnings to other reserves in associates according to local regulatory requirements, and from the property revaluation reserve to retained earnings in relation to depreciation of revalued properties.

Consolidated statement of cash flows

for the year ended 31 December

	2024 HK$m	2023 HK$m
Profit before tax	**153,932**	121,443
Adjustments for non-cash items:		
Depreciation, amortisation and impairment	**19,597**	16,908
Net loss from investing activities	**1,022**	4,247
Share of profit in associates and joint ventures	**(17,775)**	(18,555)
Impairment of interest in associate	**—**	23,955
Gain on disposal of associate	**—**	(4)
Change in expected credit losses gross of recoveries and other credit impairment charges	**12,803**	13,707
Provisions	**584**	369
Share-based payment expense	**968**	976
Other non-cash items included in profit before tax	**(32,152)**	(26,335)
Elimination of exchange differences	**44,740**	(3,505)
Changes in operating assets and liabilities		
Change in net trading securities and derivatives	**(233,299)**	(288,737)
Change in loans and advances to banks and customers	**74,347**	76,084
Change in reverse repurchase agreements – non-trading	**(32,957)**	55,259
Change in financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**(77,256)**	(51,239)
Change in other assets	**(32,822)**	(77,121)
Change in deposits by banks and customer accounts	**302,457**	130,580
Change in repurchase agreements – non-trading	**102,800**	170,891
Change in debt securities in issue	**(23,383)**	(13,164)
Change in financial liabilities designated at fair value	**8,011**	2,985
Change in other liabilities	**62,226**	149,791
Dividends received from associates	**5,930**	5,878
Contributions paid to defined benefit plans	**(332)**	(628)
Tax paid	**(34,908)**	(15,725)
Net cash from operating activities	**304,533**	278,060
Purchase of financial investments	**(2,883,041)**	(3,563,846)
Proceeds from the sale and maturity of financial investments	**2,569,243**	3,270,020
Purchase of property, plant and equipment	**(2,077)**	(2,176)
Proceeds from sale of property, plant and equipment and assets held for sale	**37**	36
Proceeds from disposal of customer loan portfolios	**—**	967
Net investment in intangible assets	**(10,765)**	(9,641)
Net cash inflow from purchase of business and joint venture	**4,821**	—
Net cash (outflow)/inflow from disposal of businesses and associate	**(1,750)**	4,869
Net cash outflow on purchase of subsidiaries	**(345)**	—
Net cash from investing activities	**(323,877)**	(299,771)
Issue of other equity instruments	**27,873**	7,850
Redemption of other equity instruments	**(15,661)**	(8,177)
Net cash outflow from change in stake of subsidiary	**(3,006)**	(159)
Subordinated loan capital issued[1]	**4,398**	66,521
Subordinated loan capital repaid[1]	**(9,733)**	(74,277)
Dividends paid to shareholders of the parent company and non-controlling interests	**(114,620)**	(90,199)
Net cash from financing activities	**(110,749)**	(98,441)
Net increase/(decrease) in cash and cash equivalents	**(130,093)**	(120,152)
Cash and cash equivalents at 1 Jan	**996,638**	1,121,695
Exchange differences in respect of cash and cash equivalents	**(43,296)**	(4,905)
Cash and cash equivalents at 31 Dec[2]	**823,249**	996,638
Cash and cash equivalents comprise		
– cash and balances at central banks	**211,047**	232,987
– loans and advances to banks of one month or less	**295,345**	355,725
– net settlement accounts, cash collateral and items in course of collection from/transmission to other banks	**(3,901)**	49,566
– reverse repurchase agreements with banks of one month or less	**166,961**	223,563
– treasury bills, other bills and certificates of deposit less than three months	**153,797**	134,797
Cash and cash equivalents at 31 Dec[2]	**823,249**	996,638

Interest received was HK$323,758m (2023: HK$294,111m), interest paid was HK$211,163m (2023: HK$157,280m) and dividends received were HK$11,232m (2023: HK$8,261m).

1 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 gain of HK$2,466m in 2024 (2023: exchange gain of HK$216m) and fair value gain after hedging of HK$1,105m in 2024 (2023: HK$9,899m loss). These balances are presented under 'Amounts due to Group companies' in the consolidated balance sheet.

2 At 31 December 2024, HK$137,500m (2023: HK$150,537m) was not available for use by the group due to a range of restrictions, including currency exchange and other restrictions.

Notes on the Consolidated Financial Statements

1 Basis of preparation and material accounting policies

1.1 Basis of preparation

(a) Compliance with Hong Kong Financial Reporting 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 Hong Kong Financial Reporting 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 2024

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 HKFRSs

The HKICPA has published minor amendments to HKFRSs that are effective from 1 January 2025, including Lack of Exchangeability (Amendments to HKAS 21). 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 is undertaking an assessment of the potential impact.

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 may 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 assessing the impacts and data readiness before developing a more detailed implementation plan.

(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 included in other comprehensive income ('OCI') or in the income statement depending on where the gain or loss on the underlying item is recognised.

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' section on pages 25 to 55 and pages 61 to 65 as specified as 'Audited'.
- Capital disclosures are included in the 'Treasury Risk' section on pages 49 to 53 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.

(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 2024 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

Investments in subsidiaries

Where an entity is governed by voting rights, the group consolidates when it holds, directly or indirectly, the necessary voting rights to pass resolutions by the governing body. In all other cases, the assessment of control is more complex and requires judgement of other factors, including having exposure to variability of returns, power to direct relevant activities and whether power is held as agent or principal.

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.

The Bank's investments in subsidiaries are stated at cost less impairment losses.

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.

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 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 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
	– 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) Income and expense

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. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and the group's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

The group acts as principal in the majority of contracts with customers, with the exception of broking services. For 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.

Net income/(expense) from financial instruments measured 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.
- 'Changes in fair value of designated debt instruments and related derivatives': Interest paid on debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss': This includes interest on instruments that fail the solely payments of principal and interest ('SPPI') test. See (d) below.

The accounting policies for insurance service result and insurance finance income/(expense) are disclosed in Note 1.2(j).

(c) 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. 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
– 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).	– 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.

(d) 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 included in the impairment calculations set out below.

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.

(e) 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 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 within 'Other operating income' as 'Gains less losses from financial investments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in the income statement.

(f) 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.

(g) 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.
- The financial liability 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 in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss' or within 'Other operating income' as 'Changes in fair value of designated debts and related derivatives' 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.

(h) 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 within 'Net income from financial instruments held for trading or managed on a fair value basis'. 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.

Derivatives that do not qualify for hedge accounting

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting was not applied.

(i) 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.

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 unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost (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 forborne and classified as either performing or non-performing when the group modifies the contractual terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

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 26.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Loan modifications other than forborne loans

Loan modifications that are not identified as forborne are considered to be commercial 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. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly 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. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1– 4.2	4 notches
4.3 – 5.1	3 notches
5.2 – 7.1	2 notches
7.2 – 8.2	1 notch
8.3	0 notch

Further information about the 23-grade scale used for CRR can be found on page 26.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from internal models, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold therefore identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

Unimpaired and without significant increase in credit risk (stage 1)
ECL resulting from default events that are possible within the next 12 months ('12-month ECL') is recognised for financial instruments that remain in stage 1.

Purchased or originated credit-impaired ('POCI')
Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes new financial instruments recognised in most cases following the derecognition of forborne 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 forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL
The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money and considers other factors such as climate-related risks.

In general, the group calculates ECL using three main components, 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.

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	– 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 unlikeliness to pay (UTP) criteria in line with internal policy). – May be subject to a sovereign cap.	– 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	– Cannot be lower than current balance.	– Amortisation captured for term products. – Future drawdown captured for revolving products.
LGD	– 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.	– 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		– 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 a reasonable approximation of 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 for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL 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 31 to 36.

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
– 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 losses. – Making management adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements. – Selecting applicable recovery strategies for certain wholesale credit-impaired loans.	– The section 'Measurement uncertainty and sensitivity analysis of ECL estimates' marked as audited from pages 31 to 36, 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.

(j) 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 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. 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 60th percentile (2023: 60th percentile) based on an ultimate view of risk over all future years.

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:

a. the contractual terms specify that the policyholder participates in a share of a clearly identified pool of underlying items;
b. the group expects to pay to the policyholder a substantial share of the fair value returns on the underlying items. The group considers that a substantial share is a majority of returns; and
c. the group expects a substantial proportion of any change in the amounts to be paid to the policyholder to vary with the change in fair value of the underlying items. The group considers that a substantial proportion is a majority proportion of change on a present value probability-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, whereas these changes do not adjust the CSM under the GMM, but are recognised in profit or loss as they arise. However, under the risk mitigation option for VFA contracts, the changes in the fulfilment cash flows and the changes in the group's share in the fair value return on underlying items that the instruments mitigate are not adjusted in CSM but recognised in profit or loss. The risk mitigating instruments are primarily reinsurance contracts held.

The CSM is systematically recognised in insurance revenue to reflect the insurance contract services provided, based on the coverage units of the group of contracts. Coverage units are determined by the quantity of benefits and the expected coverage period of the contracts.

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.

Insurance service result
Insurance revenue reflects the consideration to which the group expects to be entitled in exchange for the provision of coverage and other insurance contract services (excluding any investment components). Insurance service expenses comprise the incurred claims and other incurred insurance service expenses (excluding any investment components), and losses on onerous groups of contracts and reversals of such losses.

Insurance finance income and expenses
Insurance finance income or expenses comprise the change in the carrying amount of the group of insurance contracts arising from the effects of the time value of money, financial risk and changes therein. For VFA contracts, changes in the fair value of underlying items (excluding additions and withdrawals) are recognised in insurance finance income or expenses.

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.	

(k) 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.

(l) 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.

(m) 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.

Current and deferred tax are calculated based on tax rates and laws enacted, or substantively enacted, by the balance sheet date.

(n) 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.

(o) Impairment of 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 in a similar manner as the group's operating segments.

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.

2 Operating profit

(a) Net interest income

Net interest income includes:

	2024	2023
	HK$m	HK$m
Interest income recognised on impaired financial assets	2,893	1,753
Interest income recognised on financial assets measured at amortised cost	253,022	247,908
Interest income recognised on financial assets measured at FVOCI	62,947	47,431
Interest expense on financial instruments, excluding interest on financial liabilities held for trading or designated or otherwise mandatorily measured at fair value[1]	(182,450)	(149,496)

1 Includes interest expenses on lease liabilities of HK$256m (2023: HK$272m).

(b) Net fee income

Net fee income by reportable segments

	Wealth and Personal Banking HK$m	Commercial Banking HK$m	Global Banking HK$m	Markets and Securities Services HK$m	Corporate Centre[1] HK$m	Other (GBM-other) HK$m	Total HK$m
Account services	**830**	**1,109**	**350**	**112**	**—**	**—**	**2,401**
Funds under management	**5,490**	**499**	**10**	**1,729**	**—**	**—**	**7,728**
Cards	**9,495**	**317**	**80**	**—**	**—**	**—**	**9,892**
Credit facilities	**183**	**1,335**	**1,017**	**34**	**—**	**—**	**2,569**
Broking income	**3,387**	**51**	**—**	**772**	**—**	**—**	**4,210**
Imports/exports	**—**	**2,271**	**973**	**—**	**—**	**—**	**3,244**
Unit trusts	**7,240**	**75**	**7**	**—**	**—**	**—**	**7,322**
Underwriting	**—**	**—**	**436**	**256**	**—**	**—**	**692**
Remittances	**291**	**2,062**	**805**	**4**	**—**	**—**	**3,162**
Global custody	**874**	**46**	**33**	**3,005**	**—**	**—**	**3,958**
Insurance agency commission	**1,836**	**116**	**—**	**—**	**—**	**—**	**1,952**
Other	**4,203**	**3,433**	**2,937**	**4,601**	**(5,247)**	**(838)**	**9,089**
Fee income	**33,829**	**11,314**	**6,648**	**10,513**	**(5,247)**	**(838)**	**56,219**
Fee expense	**(9,787)**	**(487)**	**(1,330)**	**(8,493)**	**5,565**	**830**	**(13,702)**
Year ended 31 Dec 2024	**24,042**	**10,827**	**5,318**	**2,020**	**318**	**(8)**	**42,517**
Account services	809	1,092	351	75	—	—	2,327
Funds under management	4,741	459	16	1,765	—	—	6,981
Cards	9,055	313	56	—	—	—	9,424
Credit facilities	310	1,360	1,173	24	—	—	2,867
Broking income	2,650	46	—	601	—	—	3,297
Imports/exports	—	2,326	790	2	—	—	3,118
Unit trusts	4,831	78	5	—	—	—	4,914
Underwriting	1	1	384	262	—	—	648
Remittances	265	1,959	755	4	—	—	2,983
Global custody	814	40	41	2,979	—	—	3,874
Insurance agency commission	1,510	117	—	—	—	—	1,627
Other	3,242	3,237	2,644	4,024	(3,601)	(581)	8,965
Fee income	28,228	11,028	6,215	9,736	(3,601)	(581)	51,025
Fee expense	(8,802)	(364)	(1,177)	(7,084)	3,871	574	(12,982)
Year ended 31 Dec 2023	19,426	10,664	5,038	2,652	270	(7)	38,043

1 Includes inter-segment elimination.

Net fee income includes:

	2024 HK$m	2023 HK$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)	**8,968**	9,110
– fee income	**16,353**	15,927
– fee expense	**(7,385)**	(6,817)
Fee earned on trust and other fiduciary activities	**9,207**	8,861
– fee income	**11,182**	10,374
– fee expense	**(1,975)**	(1,513)

(c) Net income from financial instruments measured at fair value through profit or loss[1]

	2024 HK$m	2023 HK$m
Net income/(expense) arising on:		
Net trading activities	**98,138**	80,700
Other instruments managed on a fair value basis	**(6,208)**	(6,265)
Net income from financial instruments held for trading or managed on a fair value basis	**91,930**	74,435
Financial assets held to meet liabilities under insurance and investment contracts	**37,476**	49,907
Liabilities to customers under investment contracts	**(1,452)**	(948)
Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss	**36,024**	48,959
Year ended 31 Dec	**127,954**	123,394

1 Excludes 'Changes in fair value of designated debt issued and related derivatives' of HK$117m loss (2023: HK$8m gain) and 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss' of HK$631m (2023: HK$252m) which are presented under note 2(d) Other operating income/(expense).

(d) Other operating income/(expense)

	2024 HK$m	2023 HK$m
Losses on investment properties	**(1,046)**	(35)
Changes in fair value of designated debt issued and related derivatives[1]	**(117)**	8
Losses on disposal of property, plant and equipment and assets held for sale	**(32)**	(421)
Gain on disposal of associate	**—**	4
Gains less losses from financial investments	**56**	(3,791)
Dividend income	**220**	283
Rental income from investment properties	**524**	502
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**631**	252
Other[2,3]	**4,883**	2,900
Year ended 31 Dec	**5,119**	(298)

1 Includes debt instruments which are issued for funding purposes and are designated under the fair value option to reduce an accounting mismatch.
2 Includes the gain on disposal of loans and receivables of HK$101m (2023: HK$40m).
3 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:

	2024 HK$m	2023 HK$m
Loans and advances to banks and customers	**12,019**	13,163
– new allowances net of allowance releases	**12,636**	14,021
– recoveries of amounts previously written off	**(857)**	(864)
– modification losses and other movements	**240**	6
Loan commitments and guarantees	**(138)**	9
Other financial assets	**65**	(329)
Year ended 31 Dec	**11,946**	12,843

Change in expected credit losses as a percentage of average gross customer advances was 0.34% for 2024 (2023: 0.36%).

(f) General and administrative expenses

	2024 HK$m	2023 HK$m
Premises and equipment	**2,416**	2,358
Marketing and advertising expenses	**2,367**	2,226
Other administrative expenses[1]	**53,184**	49,954
Year ended 31 Dec	**57,967**	54,538

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$67m (2023: HK$60m) 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$7m (2023: HK$8m).

(g) Depreciation and impairment of property, plant and equipment

	2024 HK$m	2023 HK$m
Owned property, plant and equipment	**8,174**	7,361
Other right-of-use assets	**2,751**	2,363
Year ended 31 Dec	**10,925**	9,724

(h) Auditors' remuneration

Auditors' remuneration amounted to HK$195m (2023: HK$199m).

3 Insurance business

Insurance service result

	Year ended 31 Dec 2024			Year ended 31 Dec 2023		
	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	**12,053**	**2,433**	**14,486**	10,167	1,669	11,836
– contractual service margin recognised for services provided	**8,102**	**612**	**8,714**	6,772	398	7,170
– change in risk adjustment for non-financial risk for risk expired	**271**	**79**	**350**	108	43	151
– expected incurred claims and other insurance service expenses	**3,674**	**1,742**	**5,416**	3,289	1,228	4,517
– other	**6**	**—**	**6**	(2)	—	(2)
Recovery of insurance acquisition cash flows	**1,493**	**554**	**2,047**	867	304	1,171
Total insurance revenue	**13,546**	**2,987**	**16,533**	11,034	1,973	13,007
Insurance service expenses						
Incurred claims and other insurance service expenses	**(3,353)**	**(2,222)**	**(5,575)**	(3,274)	(1,305)	(4,579)
Losses and reversal of losses on onerous contracts	**(395)**	**(498)**	**(893)**	(173)	(515)	(688)
Amortisation of insurance acquisition cash flows	**(1,493)**	**(554)**	**(2,047)**	(867)	(304)	(1,171)
Adjustments to liabilities for incurred claims	**(50)**	**163**	**113**	(8)	(3)	(11)
Total insurance service expenses	**(5,291)**	**(3,111)**	**(8,402)**	(4,322)	(2,127)	(6,449)
Total insurance service result	**8,255**	**(124)**	**8,131**	6,712	(154)	6,558

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 return[1]

	Year ended 31 Dec 2024			Year ended 31 Dec 2023		
	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 return[2]	**32,851**	**1,991**	**34,842**	46,474	1,318	47,792
Net finance expense						
Changes in fair value of underlying items of direct participating contracts	**(32,922)**	**—**	**(32,922)**	(46,491)	—	(46,491)
Effect of risk mitigation option	**451**	**—**	**451**	(271)	—	(271)
Interest accreted	**—**	**(812)**	**(812)**	—	(981)	(981)
Effect of changes in interest rates and other financial assumptions	**—**	**(2,363)**	**(2,363)**	(96)	(944)	(1,040)
Effect of measuring changes in estimates at current rates and adjusting the CSM at rates on initial recognition	**—**	**(17)**	**(17)**	—	(15)	(15)
Total net finance expense from insurance contracts	**(32,471)**	**(3,192)**	**(35,663)**	(46,858)	(1,940)	(48,798)
Total net investment return	**380**	**(1,201)**	**(821)**	(384)	(622)	(1,006)

1 All items are recognised in the income statement.
2 Investment returns of HK$34,842m gain (2023: $47,792m gain) on underlying assets supporting insurance liabilities are reported in 'Net income from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss'.

Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims

	Year ended 31 Dec 2024								
	Life direct participating and Investment DPF contracts				Life other contracts				
	Liabilities for remaining coverage:				Liabilities for remaining coverage:				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	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 2024	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 statement of 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 2024	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 2024	767,916	1,098	1,591	770,605	25,861	1,450	1,204	28,515	799,120

Movements in carrying amounts of insurance contracts - Analysis by remaining coverage and incurred claims (continued)

	Year ended 31 Dec 2023								
	Life direct participating and Investment DPF contracts				Life other contracts				
	Liabilities for remaining coverage:				Liabilities for remaining coverage:				
	Excluding loss component	Loss component	Incurred claims	Total	Excluding loss component	Loss component	Incurred claims	Total	Total
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
Opening assets	(35)	—	—	(35)	(480)	163	7	(310)	(345)
Opening liabilities	626,367	812	2,949	630,128	23,443	757	594	24,794	654,922
Net opening balance at 1 Jan 2023	626,332	812	2,949	630,093	22,963	920	601	24,484	654,577
Changes in the consolidated income statement and statement of comprehensive income[1]									
Insurance revenue									
Contracts under the fair value approach[2]	(3,105)	—	—	(3,105)	(369)	—	—	(369)	(3,474)
Other contracts[3]	(7,929)	—	—	(7,929)	(1,159)	—	—	(1,159)	(9,088)
Total insurance revenue	(11,034)	—	—	(11,034)	(1,528)	—	—	(1,528)	(12,562)
Insurance service expenses									
Incurred claims and other insurance service expenses	—	(43)	3,317	3,274	—	(178)	1,077	899	4,173
Amortisation of insurance acquisition cash flows	867	—	—	867	295	—	—	295	1,162
Losses and reversal of losses on onerous contracts	—	173	—	173	—	508	—	508	681
Adjustments to liabilities for incurred claims	—	—	8	8	—	—	3	3	11
Total insurance service expenses	867	130	3,325	4,322	295	330	1,080	1,705	6,027
Investment components	(44,797)	—	44,797	—	(5,824)	—	5,824	—	—
Insurance service result	(54,964)	130	48,122	(6,712)	(7,057)	330	6,904	177	(6,535)
Net finance expense from insurance contracts	46,858	—	—	46,858	1,917	23	—	1,940	48,798
Other movements recognised in the profit or loss	3,899	7	(610)	3,296	(18)	5	(88)	(101)	3,195
Effect of movements in exchange rates	948	—	(255)	693	(9)	(12)	5	(16)	677
Total changes in the consolidated income statement and statement of comprehensive income[1]	(3,259)	137	47,257	44,135	(5,167)	346	6,821	2,000	46,135
Cash flows									
Premiums received	82,050	—	—	82,050	6,188	—	—	6,188	88,238
Claims, other insurance service expenses paid and other cash flows	374	—	(47,087)	(46,713)	4	—	(6,891)	(6,887)	(53,600)
Insurance acquisition cash flows	(3,919)	—	—	(3,919)	(1,693)	—	—	(1,693)	(5,612)
Total cash flows	78,505	—	(47,087)	31,418	4,499	—	(6,891)	(2,392)	29,026
Other movements	96	(96)	—	—	60	(60)	—	—	—
Net closing balance at 31 Dec 2023	701,674	853	3,119	705,646	22,355	1,206	531	24,092	729,738
Closing assets	(109)	5	6	(98)	(874)	(159)	40	(993)	(1,091)
Closing liabilities	701,783	848	3,113	705,744	23,229	1,365	491	25,085	730,829
Net closing balance at 31 Dec 2023	701,674	853	3,119	705,646	22,355	1,206	531	24,092	729,738

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 incepted after transition.

Movements in carrying amounts of insurance contracts - Analysis by measurement component

	Year ended 31 Dec 2024								
	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			
		Contracts under the fair value approach[1]	Other contracts[2]	Total		Contracts under the fair value approach[1]	Other contracts[2]	Total	Total
	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 2024	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[3]									
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 contract	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[3]	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 2024	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 2024	678,675	34,880	57,050	770,605	24,879	1,699	1,937	28,515	799,120

Movements in carrying amounts of insurance contracts - Analysis by measurement component (continued)

	Year ended 31 Dec 2023								
	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			
		Contracts under the fair value approach[1]	Other contracts[2]	Total		Contracts under the fair value approach[1]	Other contracts[2]	Total	Total
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
Opening assets	(137)	26	76	(35)	(875)	413	152	(310)	(345)
Opening liabilities	569,705	33,138	27,285	630,128	22,631	1,429	734	24,794	654,922
Net opening balance at 1 Jan 2023	569,568	33,164	27,361	630,093	21,756	1,842	886	24,484	654,577
Changes in the consolidated income statement and statement of comprehensive income[3]									
Changes that relate to current services									
Contractual service margin recognised for services provided	—	(1,351)	(5,421)	(6,772)	—	(154)	(227)	(381)	(7,153)
Change in risk adjustment for non-financial risk expired	(108)	—	—	(108)	(28)	—	—	(28)	(136)
Experience adjustments	(15)	—	—	(15)	75	—	—	75	60
Other movements recognised in insurance service result	2	—	—	2	—	—	—	—	2
Changes that relate to future services									
Contracts initially recognised in the year	(11,966)	—	12,062	96	(638)	—	891	253	349
Changes in estimates that adjust contractual service margin	(7,206)	2,954	4,252	—	273	(1)	(272)	—	—
Changes in estimates that result in losses and reversal of losses on onerous contracts	77	—	—	77	256	—	—	256	333
Changes that relate to past services									
Adjustments to liabilities for incurred claims	8	—	—	8	2	—	—	2	10
Insurance service result	(19,208)	1,603	10,893	(6,712)	(60)	(155)	392	177	(6,535)
Net finance expense from insurance contracts	46,858	—	—	46,858	1,869	40	31	1,940	48,798
Other movements recognised in the statement of profit or loss	2,007	1,146	143	3,296	(164)	57	6	(101)	3,195
Effect of movements in exchange rates	433	67	193	693	(25)	10	(1)	(16)	677
Total changes in the consolidated income statement and statement of comprehensive income[3]	30,090	2,816	11,229	44,135	1,620	(48)	428	2,000	46,135
Cash flows									
Premiums received	82,050	—	—	82,050	6,188	—	—	6,188	88,238
Claims, other insurance service expenses paid and other cash flows	(46,713)	—	—	(46,713)	(6,887)	—	—	(6,887)	(53,600)
Insurance acquisition cash flows	(3,919)	—	—	(3,919)	(1,693)	—	—	(1,693)	(5,612)
Total cash flows	31,418	—	—	31,418	(2,392)	—	—	(2,392)	29,026
Other movements	—	—	—	—	—	(2)	2	—	—
Net closing balance at 31 Dec 2023	631,076	35,980	38,590	705,646	20,984	1,792	1,316	24,092	729,738
Closing assets	(233)	25	110	(98)	(924)	62	(131)	(993)	(1,091)
Closing liabilities	631,309	35,955	38,480	705,744	21,908	1,730	1,447	25,085	730,829
Net closing balance at 31 Dec 2023	631,076	35,980	38,590	705,646	20,984	1,792	1,316	24,092	729,738

1 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.
2 '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 incepted after transition.
3 'Changes in the consolidated income statement and statement of comprehensive income' do not include income and expenses with HSBC Group entities.

Effect of contracts initially recognised in the year

	Year ended 31 Dec 2024			Year ended 31 Dec 2023		
	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	**111,395**	**3,588**	**114,983**	82,899	1,532	84,431
– insurance acquisition cash flows	**6,146**	**297**	**6,443**	4,603	165	4,768
– claims and other insurance service expenses payable	**105,249**	**3,291**	**108,540**	78,296	1,367	79,663
Estimates of present value of cash inflows	**(129,901)**	**(3,484)**	**(133,385)**	(95,191)	(1,447)	(96,638)
Risk adjustment for non-financial risk	**294**	**14**	**308**	230	11	241
Contractual service margin	**18,212**	**—**	**18,212**	12,062	—	12,062
Losses recognised on initial recognition	**—**	**(118)**	**(118)**	—	(96)	(96)
Life other contracts						
Estimates of present value of cash outflows	**9,459**	**3,678**	**13,137**	6,392	3,529	9,921
– insurance acquisition cash flows	**737**	**509**	**1,246**	762	388	1,150
– claims and other insurance service expenses payable	**8,722**	**3,169**	**11,891**	5,630	3,141	8,771
Estimates of present value of cash inflows	**(10,659)**	**(3,552)**	**(14,211)**	(7,387)	(3,314)	(10,701)
Risk adjustment for non-financial risk	**129**	**21**	**150**	104	38	142
Contractual service margin	**1,071**	**—**	**1,071**	891	—	891
Losses recognised on initial recognition	**—**	**(147)**	**(147)**	—	(253)	(253)

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	**(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**
Insurance liability future cash flows									
Life direct participating and investment DPF contracts	(26,475)	(10,266)	11,783	12,531	20,017	70,271	181,383	368,698	627,942
Life other contracts	6,507	1,862	(420)	(387)	530	503	576	12,374	21,545
Insurance liability future cash flows at 31 Dec 2023	(19,968)	(8,404)	11,363	12,144	20,547	70,774	181,959	381,072	649,487
Remaining contractual service margin									
Life direct participating and investment DPF contracts	6,404	5,915	5,458	5,032	4,640	18,102	18,556	10,463	74,570
Life other contracts	706	406	289	274	234	400	503	296	3,108
Remaining contractual service margin at 31 Dec 2023	7,110	6,321	5,747	5,306	4,874	18,502	19,059	10,759	77,678

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(j) 'Summary of material accounting policies – Insurance contracts' on page 85. 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$	US$	HK$	US$
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**
At 31 Dec 2023				
10 year discount rate (%)	4.02	4.47	4.16	4.62
20 year discount rate (%)	4.21	4.91	4.34	5.06

4 Employee compensation and benefits

	2024	2023
	HK$m	HK$m
Wages and salaries[1]	**36,442**	35,021
Social security costs	**1,359**	1,352
Post-employment benefits	**2,227**	2,174
– defined contribution pension plans	**1,875**	1,748
– defined benefit pension plans	**352**	426
Year ended 31 Dec	**40,028**	38,547

1 'Wages and salaries' includes the effect of share-based payments arrangements of HK$1,110m (2023: HK$1,101m).

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	Present value of defined benefit obligations	Net defined benefit liability
	HK$m	HK$m	HK$m
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**
At 1 Jan 2023	8,266	(9,889)	(1,623)
Service cost	—	(362)	(362)
– current service cost	—	(360)	(360)
– past service cost and gains from settlements	—	(2)	(2)
Net interest income/(expense) on the net defined benefit asset/(liability)	292	(349)	(57)
Re-measurement effects recognised in other comprehensive income	243	(217)	26
– return on plan assets (excluding interest income)	243	—	243
– actuarial losses	—	(217)	(217)
Contributions by the group	628	—	628
Benefits paid	(1,053)	1,132	79
Exchange differences and other movements	(43)	43	—
At 31 Dec 2023	8,333	(9,642)	(1,309)
Retirement benefit liabilities recognised on the balance sheet			(1,362)
Retirement benefit assets recognised on the balance sheet (within 'Prepayments, accrued income and other assets')			53

Fair value of plan assets by asset classes

	At 31 Dec 2024			At 31 Dec 2023		
	Value	**Quoted market price in active market**	**Thereof HSBC**	Value	Quoted market price in active market	Thereof HSBC
	HK$m	**HK$m**	**HK$m**	HK$m	HK$m	HK$m
Fair value of plan assets	**8,412**	**8,412**	**101**	8,333	8,333	177
– equities	**1,302**	**1,302**	**—**	1,187	1,187	—
– bonds	**4,986**	**4,986**	**—**	4,458	4,458	—
– alternative investments	**1,762**	**1,762**	**—**	2,268	2,268	—
– other[1]	**362**	**362**	**101**	420	420	177

1 Other mainly consists of cash and cash deposits.

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 75% and Equity 25%. 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 2024	**3,491**	**(3,894)**	**(403)**	**3,039**	**(3,218)**	**(179)**
Service cost	**—**	**(125)**	**(125)**	**—**	**(104)**	**(104)**
– current service cost	**—**	**(125)**	**(125)**	**—**	**(104)**	**(104)**
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			**—**			**—**
At 1 Jan 2023	3,585	(3,902)	(317)	3,170	(3,265)	(95)
Service cost	—	(128)	(128)	—	(110)	(110)
– current service cost	—	(128)	(128)	—	(110)	(110)
Net interest income/(expense) on the net defined benefit asset/(liability)	118	(131)	(13)	110	(111)	(1)
Re-measurement effects recognised in other comprehensive income	50	(170)	(120)	41	(123)	(82)
– return on plan assets (excluding interest income)	50	—	50	41	—	41
– actuarial losses	—	(170)	(170)	—	(123)	(123)
Contributions	173	—	173	114	—	114
Benefits paid	(406)	406	—	(422)	422	—
Exchange differences and other movements	(29)	31	2	26	(31)	(5)
At 31 Dec 2023	3,491	(3,894)	(403)	3,039	(3,218)	(179)
Retirement benefit liabilities recognised on the balance sheet			(403)			(179)

The group expects to make HK$158m of contributions to the defined benefit scheme of the Principal Plan during 2025 (during 2024: HK$168m) and ServCo expects to make HK$96m contributions to the defined benefit scheme of the Principal Plan during 2025 (during 2024: HK$105m). 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.

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 Plan[1]

	Within one year	One to two years	Two to three years	Three to four years	Four to five years	Five to ten years
As at 31 December 2024 as reported by:	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**
– The group	**265**	**371**	**393**	**355**	**358**	**2,174**
– ServCo	**249**	**263**	**315**	**313**	**309**	**1,820**
As at 31 December 2023 as reported by:						
– The group	275	376	363	408	374	2,002
– ServCo	244	322	255	308	331	1,809

1 The duration of the defined benefit obligation is six years for the Principal Plan under the disclosed assumptions (2023: six years).

Fair value of plan assets of the defined benefit scheme of the Principal Plan by asset classes

	At 31 Dec 2024			At 31 Dec 2023		
	Value	**Quoted market price in active market**	**Thereof HSBC**	Value	Quoted market price in active market	Thereof HSBC
	HK$m	**HK$m**	**HK$m**	HK$m	HK$m	HK$m
Fair value of plan assets	**6,705**	**6,705**	**(87)**	6,530	6,530	59
– equities	**1,723**	**1,723**	**—**	1,691	1,691	—
– bonds	**3,668**	**3,668**	**—**	3,467	3,467	—
– alternative investments	**1,401**	**1,401**	**—**	1,313	1,313	—
– other	**(87)**	**(87)**	**(87)**	59	59	59

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 2024	**3.55**	**3.00**
At 31 Dec 2023	2.95	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	
	2024	2023	**2024**	2023
	HK$m	HK$m	**HK$m**	HK$m
Discount rate – increase/decrease of 0.25%	**(89)**	(106)	**91**	108
Rate of pay increase – increase/decrease of 0.25%	**92**	109	**(90)**	(107)

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$117m (2023: HK$115m). This comprises fees (which represent the aggregate emoluments paid to or receivable by directors in respect of their services as a director) of HK$38m (2023: HK$37m) and other emoluments of HK$79m (2023: HK$78m) which includes contributions to pension schemes of HK$3m (2023: 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.

5 Tax

The Bank and its subsidiaries in Hong Kong have provided for Hong Kong profits tax at the rate of 16.5% (2023: 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 2024. Deferred taxation is provided for in accordance with the group's accounting policy in Note 1.2(m) 'Summary of material accounting policies – Tax' on page 87.

Tax expense

	2024 HK$m	2023 HK$m
Current tax	**26,686**	25,764
– Hong Kong taxation – on current year profit	**12,444**	11,157
– Hong Kong taxation – adjustments in respect of prior years	**(75)**	(37)
– overseas taxation – on current year profit	**14,458**	14,596
– overseas taxation – adjustments in respect of prior years	**(141)**	48
Deferred tax	**(2,005)**	(1,848)
– origination and reversal of temporary differences	**(1,555)**	(1,631)
– adjustments in respect of prior years	**(450)**	(217)
Year ended 31 Dec	**24,681**	23,916

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

	2024 HK$m	2023 HK$m
Profit before tax	**153,932**	121,443
Notional tax on profit before tax, calculated at the rates applicable to profits in the countries concerned	**29,835**	24,403
Effects of profits in associates and joint ventures	**(2,923)**	(3,072)
Effects of impairment of interest in associate	**—**	3,953
Non-taxable income and gains	**(5,602)**	(5,059)
Local taxes and overseas withholding taxes	**2,935**	2,336
Permanent disallowables	**1,380**	836
Others	**(944)**	519
Year ended 31 Dec	**24,681**	23,916

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') under the Inclusive Framework on Base Erosion and Profit Shifting ('BEPS') and a Qualified Domestic Minimum top-up tax ('QDMTT'), with effect from 1 January 2024.

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.

In response to the OECD's Pillar Two model rules, many national governments have introduced or announced their intention to introduce QDMTT rules that are closely aligned to the OECD's Pillar Two model rules. Where such QDMTT rules are introduced, they may be expected to have the effect of increasing the local tax rate to a minimum of 15%.

In Asia-Pacific, tax legislation has been enacted to implement a QDMTT in Australia and Vietnam effective from 1 January 2024, and in Malaysia, Singapore and Thailand effective from 1 January 2025. In Mauritius, the main legislation to implement a QDMTT has been enacted, whilst the effective date remains to be confirmed by subsidiary legislation. Based on the financial results for the year ended 31 December 2024 and the Group's forecasts for the year ending 31 December 2025, no material top-up tax liability is expected to arise in these jurisdictions for 2024 or 2025.

The government of Hong Kong has issued draft Pillar Two legislations including a QDMTT on 27 December 2024 which shall be effective from 1 January 2025 if substantively enacted during 2025. In Hong Kong, a top-up tax liability is expected to arise due to the current effective tax rate, driven primarily by non-taxation of dividends and income on government bonds in Hong Kong.

The tax impact arising from the application of the Pillar Two global minimum tax rules and the introduction of QDMTT, if enacted, is dependent upon the ongoing evolution of rules and guidance in the relevant tax jurisdictions.

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	**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)**
Assets	112	4,059	1,192	3,289	—	1,004	9,656
Liabilities	(467)	(189)	(30)	—	(14,823)	(8,477)	(23,986)
At 1 Jan 2023	(355)	3,870	1,162	3,289	(14,823)	(7,473)	(14,330)
Exchange and other adjustments	1	111	(31)	(26)	38	(36)	57
Charge/(credit) to income statement	(22)	1,802	167	(519)	830	(410)	1,848
Charge/(credit) to other comprehensive income	—	—	—	133	(830)	(1,486)	(2,183)
At 31 Dec 2023	(376)	5,783	1,298	2,877	(14,785)	(9,405)	(14,608)
Assets[1]	115	5,783	1,329	2,877	—	2,880	12,984
Liabilities[1]	(491)	—	(31)	—	(14,785)	(12,285)	(27,592)

1 After netting off balances within countries, the balances as disclosed in the consolidated financial statements are as follows: deferred tax assets HK$10,307m (2023: HK$9,315m); and deferred tax liabilities HK$22,917m (2023: HK$23,923m).
2 Other includes deferred tax liability of HK$6,874m (2023: HK$6,402m) provided in respect of distributable reserves or post-acquisition reserves of associates that, on distribution, would attract withholding tax.

The amount of unused tax losses for which no deferred tax asset is recognised in the balance sheet is HK$6,275m (2023: HK$4,898m). Of this amount, HK$3,091m (2023: HK$1,906m) has no expiry date and the remaining will expire within 10 years.

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

	2024		2023	
	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**	**20,300**	0.27	13,500
In respect of current year:				
– first interim dividend paid	**0.43**	**21,200**	0.44	22,000
– first special dividend paid	**0.16**	**7,800**	0.16	7,800
– second interim dividend paid	**0.41**	**20,500**	0.43	21,500
– third interim dividend paid	**0.42**	**20,800**	0.36	18,000
– second special dividend paid	**0.31**	**15,600**	—	—
Total	**2.14**	**106,200**	1.66	82,800
Distributions on other equity instruments		**3,576**		3,556
Dividends to shareholders		**109,776**		86,356

On 11 February 2025, the Directors declared a fourth interim dividend in respect of the financial year ended 31 December 2024 of HK$0.411 per ordinary share (HK$20,400m) (2023: HK$0.409 per ordinary share (HK$20,300m)) and a third special dividend for 2024 of HK$0.16 per ordinary share (HK$7,800m).

Total coupons on other equity instruments

	2024 HK$m	2023 HK$m
US$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.510%)	**455**	459
US$900m Fixed rate perpetual subordinated loan (interest rate fixed at 6.030%)[1]	**423**	425
US$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 6.090%)	**475**	478
US$1,200m Fixed rate perpetual subordinated loan (interest rate fixed at 6.172%)	**578**	581
US$600m Fixed rate perpetual subordinated loan (interest rate fixed at 5.910%)	**277**	277
US$1,100m Fixed rate perpetual subordinated loan (interest rate fixed at 6.000%)[2]	**515**	516
US$1,000m Floating rate perpetual subordinated loan (Interest rate at compounded SOFR plus 5.090%)[3]	**—**	545
US$1,000m Fixed rate perpetual subordinated loan (interest rate fixed at 8.000%)	**625**	275
SG$1,500m Fixed rate perpetual subordinated loan (interest rate fixed at 5.250%)[4]	**228**	—
Total	**3,576**	3,556

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 early repaid in the first half of 2023 and no distributions in 2024.
4 This subordinated loan was issued in June 2024.

7 Trading assets

	2024 HK$m	2023 HK$m
Treasury and other eligible bills	**183,248**	132,659
Debt securities	**372,617**	351,734
Equity securities	**458,599**	375,590
Reverse repurchase agreements and other similar secured lending	**53,408**	62,710
Other[1]	**17,449**	18,557
At 31 Dec	**1,085,321**	941,250

1 'Other' includes term lending and other accounts with customers and banks.

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	**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**
Foreign Exchange	20,216,483	166,680	201,790	6,640	208,430	218,927	1,382	220,309
Interest rate	32,976,189	452,160	401,534	12,898	414,432	438,882	4,160	443,042
Equity	879,049	—	16,464	—	16,464	15,246	—	15,246
Credit	446,998	—	2,277	—	2,277	2,889	—	2,889
Commodity and other	179,417	—	3,011	—	3,011	4,091	—	4,091
Gross total	54,698,136	618,840	625,076	19,538	644,614	680,035	5,542	685,577
Offset					(235,361)			(235,361)
At 31 Dec 2023					409,253			450,216

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.

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).

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

	Hedging instrument				
		Carrying amount			
Hedged risk	Notional amount[1,3] HK$m	Assets HK$m	Liabilities HK$m	Balance sheet presentation	Change in fair value[2] HK$m
Interest rate	**257,251**	**9,490**	**5,983**	**Derivatives**	**(593)**
At 31 Dec 2024	**257,251**	**9,490**	**5,983**		**(593)**
Interest rate	240,001	9,293	3,700	Derivatives	(3,259)
At 31 Dec 2023	240,001	9,293	3,700		(3,259)

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$4,500m (2023: US$4,500m), of which the weighted-average maturity date is December 2030 and the weighted-average swap rate is 2.67% (2023: 2.67%).

HSBC hedged item by hedged risk

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]					
Hedged risk	Assets HK$m	Liabilities HK$m	Assets HK$m	Liabilities HK$m	Balance sheet presentation	Change in fair value[1] HK$m	Recognised in profit and loss HK$m	Profit and loss presentation
Interest rate	**210,022**		**(4,274)**		**Financial investments**	**(223)**	**(98)**	**Net income from financial instruments held for trading or managed on a fair value basis**
	—		**—**		**Loans and advances to customers**	**220**		
		31,954		**(2,381)**	**Subordinated liabilities[3]**	**498**		
At 31 Dec 2024	**210,022**	**31,954**	**(4,274)**	**(2,381)**		**495**	**(98)**	

HSBC hedged item by hedged risk (continued)

	Hedged item						Ineffectiveness	
	Carrying amount		Accumulated fair value hedge adjustments included in carrying amount[2]			Change in fair value[1]	Recognised in profit and loss	Profit and loss presentation
	Assets	Liabilities	Assets	Liabilities	Balance sheet presentation			
Hedged risk	HK$m	HK$m	HK$m	HK$m		HK$m	HK$m	
Interest rate	190,469		(4,791)		Financial investments	3,135	(245)	Net income from financial instruments held for trading or managed on a fair value basis
	6,449		(210)		Loans and advances to customers	242		
		32,484		(1,898)	Subordinated liabilities[3]	(363)		
At 31 Dec 2023	196,918	32,484	(5,001)	(1,898)		3,014	(245)	

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$502m (2023: liabilities of HK$396m) for FVOCI assets, and assets of HK$882m (2023: HK$1,067m) 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.

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

	Hedging instrument				Hedged item	Ineffectiveness	
	Carrying amount						
	Notional amount[1]	Derivative assets	Derivative liabilities	Change in fair value[2]	Change in fair value[3]	Recognised in profit and loss	Profit and loss presentation
Hedged risk	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	**HK$m**	
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**	
Foreign currency	166,680	6,640	1,382	5,422	5,422	—	Net income from financial instruments held for trading or managed on a fair value basis
Interest rate	212,159	3,605	460	1,834	1,803	31	
At 31 Dec 2023	378,839	10,245	1,842	7,256	7,225	31	

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 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)**
Cash flow hedging reserve at 1 Jan 2023	(338)	(1,149)
Fair value gains	1,803	5,422
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]	856	(4,107)
Income taxes	(423)	(217)
Others	—	5
Cash flow hedging reserve at 31 Dec 2023	1,898	(46)

1 Hedged items that have affected profit or loss are primarily recorded within interest income.

9 Financial assets designated and otherwise mandatorily measured at fair value through profit or loss

	2024			2023		
	Designated at fair value HK$m	**Mandatorily measured at fair value HK$m**	**Total HK$m**	Designated at fair value HK$m	Mandatorily measured at fair value HK$m	Total HK$m
Treasury and other eligible bills	**—**	**2,884**	**2,884**	2	5,565	5,567
Debt securities	**12,110**	**458,420**	**470,530**	12,128	444,653	456,781
Equity securities	**—**	**274,699**	**274,699**	—	222,980	222,980
Reverse repurchase agreements and other similar secured lending	**—**	**193**	**193**	—	514	514
Other[1]	**7,022**	**25,882**	**32,904**	2,900	18,831	21,731
At 31 Dec	**19,132**	**762,078**	**781,210**	15,030	692,543	707,573

1 'Other' includes term lending to customers and banks, and default fund contribution.

10 Loans and advances to customers

	2024 HK$m	2023 HK$m
Gross loans and advances to customers	**3,529,958**	3,595,929
Expected credit loss allowances	**(35,660)**	(38,853)
At 31 Dec	**3,494,298**	3,557,076

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

	2024	2023
	HK$m	HK$m
Residential mortgages	1,196,883	1,224,325
Credit card advances	105,808	101,257
Other personal	237,360	237,440
Total personal	1,540,051	1,563,022
Real estate & Construction	470,730	537,393
Wholesale and retail trade	349,187	350,492
Manufacturing	354,947	359,914
Transportation and storage	104,502	96,789
Other	408,029	396,760
Total corporate and commercial	1,687,395	1,741,348
Non-bank financial institutions	302,512	291,559
At 31 Dec	3,529,958	3,595,929
By geography[1]		
Hong Kong	2,140,455	2,211,592
Mainland China	348,169	349,116
Australia	295,298	294,502
Singapore	245,040	238,537
India	169,409	143,657
Taiwan	85,894	90,396
Malaysia	81,545	81,898
Indonesia	29,949	30,141
Other	134,199	156,090

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

	2024			2023		
	Total future minimum payments	Unearned finance income	Present value	Total future minimum payments	Unearned finance income	Present value
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
Amounts receivable						
– within one year	2,300	(849)	1,451	2,395	(963)	1,432
– one to two years	2,346	(778)	1,568	2,310	(876)	1,434
– two to three years	2,266	(714)	1,552	2,360	(828)	1,532
– three to four years	2,061	(648)	1,413	2,285	(782)	1,503
– four to five years	1,971	(599)	1,372	2,134	(736)	1,398
– after five years	23,738	(4,623)	19,115	25,740	(5,725)	20,015
	34,682	(8,211)	26,471	37,224	(9,910)	27,314
Expected credit loss allowances			(610)			(274)
At 31 Dec			25,861			27,040

11 Financial investments

	2024	2023
	HK$m	HK$m
Financial investments measured at fair value through other comprehensive income	1,705,104	1,410,271
– treasury and other eligible bills	763,269	700,863
– debt securities	935,105	703,459
– equity securities	6,730	5,949
Debt instruments measured at amortised cost	632,740	618,941
– treasury and other eligible bills	68,964	52,758
– debt securities	563,776	566,183
At 31 Dec	2,337,844	2,029,212

Equity instruments measured at fair value through other comprehensive income

	2024		2023	
	Fair value	**Dividends recognised**	Fair value	Dividends recognised
Type of equity instruments	**HK$m**	**HK$m**	HK$m	HK$m
Business facilitation	**6,184**	**217**	5,435	267
Investments required by central institutions	**434**	**3**	400	5
Others	**112**	**—**	114	—
At 31 Dec	**6,730**	**220**	5,949	272

12 Assets pledged, assets transferred and collateral received

Assets pledged

Financial assets pledged to secure liabilities

	2024	2023
	HK$m	HK$m
Treasury bills and other eligible securities	**101,305**	119,861
Loans and advances to banks	**3,360**	3,019
Loans and advances to customers	**16,218**	17,710
Debt securities	**443,823**	343,226
Equity securities	**48,227**	78,246
Cash collateral included in other assets	**124,112**	118,633
Assets pledged at 31 Dec	**737,045**	680,695
Amount of liabilities secured	**561,033**	514,795

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$434,537m (2023: HK$373,138m).

Assets transferred

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	2024		2023	
	Carrying amount of:		Carrying amount of:	
	Transferred assets	**Associated liabilities**	Transferred assets	Associated liabilities
	HK$m	**HK$m**	HK$m	HK$m
Repurchase agreements	**433,533**	**394,880**	364,502	330,073
Securities lending agreements	**67,823**	**273**	87,227	1,187
	501,356	**395,153**	451,729	331,260

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.

Fair value of collateral accepted as security for assets

	2024	2023
	HK$m	HK$m
Fair value of collateral permitted to sell or repledge in the absence of default	**1,242,421**	1,307,234
Fair value of collateral actually sold or repledged	**510,336**	482,415

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 2024
Hang Seng Bank Limited[1,2]	Hong Kong	Banking	63.12%
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%

1 In addition to the strategic holding disclosed above, the group held 0.06% (2023: 0.09%) shareholding as part of its trading books.
2 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.
3 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

	2024 HK$m	2023 HK$m
Hang Seng Bank Limited		
Proportion of ownership interests and voting rights held by non-controlling interests (%)[1]	**36.88**	37.86
Profit attributable to non-controlling interests	**6,831**	6,730
Accumulated non-controlling interests of the subsidiary	**58,203**	59,115
Dividends paid to non-controlling interests	**4,836**	3,836
Summarised financial information (before intra-group eliminations):		
– total assets	**1,795,196**	1,692,094
– total liabilities	**1,625,632**	1,523,910
– net operating income before change in expected credit losses and other credit impairment charges	**40,955**	40,789
– profit for the year	**18,369**	17,838
– other comprehensive income/(expense) for the year, net of tax	**(225)**	1,215
– total comprehensive income for the year	**18,144**	19,053

1 This includes the group's shareholding held under trading books 0.06% (2023: 0.09%).

14 Interests in associates and joint ventures

Associates and joint ventures

	2024 HK$m	2023 HK$m
Interests in associates	**178,304**	170,196
Interests in joint ventures	**26**	10
Interests in associates and joint ventures	**178,330**	170,206

Principal associate

	Place of incorporation	The group's interest in issued share capital
Bank of Communications Co., Ltd	Mainland China	19.03%

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$90,327m at 31 December 2024 (2023: HK$68,841m).

Bank of Communications Co., Ltd. ('BoCom')

The group maintains a 19.03% interest in Bank of Communications Co., Limited ('BoCom'). The group's investment in BoCom is classified as an associate. Significant influence in BoCom was established with consideration of all relevant factors, including 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.

At 31 December 2023, the group performed an impairment test on the carrying amount, which resulted in an impairment of HK$24.0bn, as the recoverable amount as determined by a value in use ('VIU') calculation was lower than the carrying amount. No further impairment 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.

On 24 September 2024, the People's Bank of China, National Financial Regulatory Administration and China Securities Regulatory Commission announced several policies aimed at promoting growth and economic development. These included monetary stimulus, property market support and capital market strengthening measures, as well as measures to recapitalise the largest commercial banks. In the absence of further details on how the recapitalisation of the largest commercial banks may be enacted, there is no change to the impairment test result at 31 December 2024. As further details become available, the impairment test will be updated to reflect their impact and may result in a change to the carrying value of our investment in BoCom. These developments have the potential to impact on the group's reported profits, but are unlikely to have an impact on the group's capital or capital ratios.

We remain supportive of our relationship with BoCom and will consider any broader implications on the carrying value of our investment as further details become available.

Impairment testing

At 31 December 2024, the carrying amount of the investment was HK$174.2bn (2023: HK$166.2bn) with fair value of HK$90.3bn (2023: HK$68.8bn). The group concluded there is no indication of further impairment (or indication that an impairment may no longer exist or may have decreased) since 31 December 2023. As part of this assessment, the group updated the VIU calculation which supported that there was no significant change to the 31 December 2023 impairment position. As a result, no additional impairment to the carrying amount (or reversal of impairment) was made at 31 December 2024.

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% (2023: 3.00%) for periods after 2028, 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% (2023: 3.00%) for periods after 2028, which is the rate that assets are expected to grow to achieve long-term profit growth of 3.00%. The increase of long-term asset growth rate was supported by historical data, which is expected to continue.
- Discount rate: 8.53% (2023: 9.00%), 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 8.8% (2023: 7.9% to 9.7%) indicated by the CAPM, and decreased as a consequence of a market-driven reduction in the risk-free rate.
- Expected credit losses ('ECL') as a percentage of loans and advances to customers: ranges from 0.74% to 0.93% (2023: 0.80% to 0.97%) in the short to medium term, reflecting reported credit experience in mainland China. For periods after 2028, the ratio is 0.97% (2023: 0.97%), which is higher than BoCom's average ECL as a percentage of loans and advances to customers in recent years prior to the Covid-19 pandemic.
- Risk-weighted assets as a percentage of total assets: ranges from 62.0% to 62.5% (2023: 62.0% to 63.7%) 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 2028, the ratio is 62.0% (2023: 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 9.5% (2023: 9.0% to 10.0%) in the short to medium term, which is similar to BoCom's actual results in recent years. Changes in the forecast growth rate of loans and advances to customers are likewise reflected in the forecast ECL.
- Operating income growth rate: ranges from 0.1% to 9.9% (2023: -0.4% to 9.7%) in the short to medium term, which is similar to BoCom's actual results in recent years, and is impacted by projections of net interest income in the short term as a consequence of recent macroeconomic, policy and industry factors in mainland China.

– Cost-income ratio: ranges from 34.6% to 39.8% (2023: 35.5% 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% (2023: 15.0%) for periods after 2028, 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% (2023: 12.5%) and tier 1 capital adequacy ratio of 9.5% (2023: 9.5%), based on BoCom's capital risk appetite and capital requirements respectively.

The changes in VIU would impact the carrying amount if there is an indication of further impairment (or indication that an impairment may no longer exist or may have decreased, to the extent of impairment loss previously recognised). 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	
		Reversal of impairment / VIU headroom		Impairment
	bps	HK$bn	bps	HK$bn
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	**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)**
At 31 Dec 2023				
Long-term profit growth rate	58	25.2	(79)	(27.3)
Long-term asset growth rate	(79)	34.9	58	(31.7)
Discount rate	(110)	34.5	280	(48.4)
Expected credit losses as a percentage of loans and advances to customers	2023 to 2027: 78 2028 onwards: 91	22.1	2023 to 2027: 120 2028 onwards: 104	(34.8)
Risk-weighted assets as a percentage of total assets	(150)	6.2	216	(12.8)
Loans and advances to customers growth rate	(213)	24.6	207	(23.4)
Operating income growth rate	57	19.7	(81)	(20.7)
Cost-income ratio	(212)	5.3	99	(23.4)
Long-term effective tax rate	(426)	12.0	1,000	(28.1)
Capital requirements – capital adequacy ratio	—	—	215	(59.5)
Capital requirements – tier 1 capital adequacy ratio	—	—	248	(29.2)

Considering the interrelationship of the changes set out in the table above, management estimates that the reasonably possible range of VIU is HK$105.2bn to HK$239.4bn (2023: HK$102.3bn to HK$225.2bn), acknowledging that the fair value of the group's investment has ranged from HK$52.6bn to HK$90.3bn 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 earnings 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.

Selected financial information of BoCom

The statutory accounting reference date of BoCom is 31 December. For the year ended 31 December 2024, the group included the associate's results on the basis of financial statements made up for the 12 months to 30 September 2024, but taking into account the financial effect of known significant transactions or events in the period from 1 October 2024 to 31 December 2024.

Selected balance sheet information of BoCom

	At 30 Sep 2024	At 30 Sep 2023
	HK$m	HK$m
Cash and balances with central banks	**773,999**	881,237
Due from and placements with banks and other financial institutions	**952,187**	784,860
Loans and advances to customers	**8,764,901**	8,496,811
Other financial assets	**4,564,329**	4,593,262
Other assets	**477,215**	465,521
Total assets	**15,532,631**	15,221,691
Due to and placements from banks and other financial institutions	**2,537,529**	2,281,718
Deposits from customers	**9,285,130**	9,504,593
Other financial liabilities	**2,197,000**	1,962,818
Other liabilities	**295,752**	287,310
Total liabilities	**14,315,411**	14,036,439
Total equity	**1,217,220**	1,185,252
Equity attributable to Shareholders	**1,204,616**	1,172,516

Reconciliation of BoCom's net assets to carrying amount in the group's consolidated financial statements

	At 30 Sep	
	2024	2023
	HK$m	HK$m
Equity attributable to Shareholders	**1,204,616**	1,172,516
Other equity Instruments	**(185,975)**	(192,311)
Equity attributable to Shareholders less other equity instruments	**1,018,641**	980,205
The Group's Share of equity[1]	**197,402**	190,204
Impairment[2]	**(23,165)**	(23,955)
Carrying amount	**174,237**	166,249

1 This balance includes goodwill originally arising on acquisition.
2 This balance includes the impact of foreign exchange movements on the HK$23,955m impairment booked at in the financial year ended 31 December 2023.

Selected income statement information of BoCom

	For the 12 months ended 30 Sep	
	2024	2023
	HK$m	HK$m
Net interest income	**180,865**	183,444
Net fee and commission income	**41,468**	48,702
Credit and impairment losses	**(57,816)**	(63,404)
Depreciation and amortisation	**(20,204)**	(20,038)
Tax expense	**(6,516)**	(7,883)
– profit for the year	**100,828**	103,427
– other comprehensive income/(expense)	**10,621**	5,368
Total comprehensive income	**111,449**	108,795
Dividends received from BoCom	**5,812**	5,762

Using the latest period for which BoCom has disclosed this information (at 30 June 2024), the group's share of associate's contingent liabilities was HK$469,744m (2023: HK$463,564m).

15 Goodwill and intangible assets

Goodwill and intangible assets include goodwill arising on business combinations and other intangible assets.

	2024	2023
	HK$m	HK$m
Goodwill	**7,026**	6,817
Other intangible assets[1]	**34,282**	32,106
At 31 Dec	**41,308**	38,923

1 Included within other intangible assets is internally generated software with a net carrying value of HK$31,388m (2023: HK$29,370m). During the year, capitalisation of internally generated software was HK$10,693m (2023: HK$9,391m), the amortisation charge was HK$8,270m (2023: HK$6,922m) and the impairment charge was HK$255m (2023: HK$122m).

16 Property, plant and equipment

	2024 HK$m	2023 HK$m
Owned property, plant and equipment[1]	**115,143**	123,301
Other right-of-use assets	**5,631**	6,374
At 31 Dec	**120,774**	129,675

1 Included leasehold land and buildings of HK$104,140m (2023: HK$112,308m) 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

	2024				2023			
	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	**101,271**	**16,211**	**17,215**	**134,697**	101,427	16,199	16,659	134,285
Exchange and other adjustments	**(483)**	**(13)**	**(290)**	**(786)**	(326)	(13)	(52)	(391)
Additions	**86**	**15**	**1,976**	**2,077**	674	57	1,705	2,436
Disposals	**(1)**	**—**	**(646)**	**(647)**	(22)	—	(1,087)	(1,109)
Elimination of accumulated depreciation on revalued land and buildings	**(5,897)**	**—**	**—**	**(5,897)**	(5,723)	—	—	(5,723)
Surplus/(deficit) on revaluation	**(271)**	**(1,046)**	**—**	**(1,317)**	5,330	(35)	—	5,295
Reclassifications	**(141)**	**76**	**(1)**	**(66)**	(89)	3	(10)	(96)
At 31 Dec	**94,564**	**15,243**	**18,254**	**128,061**	101,271	16,211	17,215	134,697
Accumulated depreciation								
At 1 Jan	**233**	**—**	**11,163**	**11,396**	91	—	10,703	10,794
Exchange and other adjustments	**(29)**	**—**	**(151)**	**(180)**	(5)	—	(29)	(34)
Charge for the year	**6,656**	**—**	**1,518**	**8,174**	5,876	—	1,485	7,361
Disposals	**(1)**	**—**	**(574)**	**(575)**	(6)	—	(996)	(1,002)
Elimination of accumulated depreciation on revalued land and buildings	**(5,897)**	**—**	**—**	**(5,897)**	(5,723)	—	—	(5,723)
At 31 Dec	**962**	**—**	**11,956**	**12,918**	233	—	11,163	11,396
Net book value at 31 Dec	**93,602**	**15,243**	**6,298**	**115,143**	101,038	16,211	6,052	123,301

The carrying amount of land and buildings, had they been stated at cost less accumulated depreciation, would have been as follows:

	2024 HK$m	2023 HK$m
Cost less accumulated depreciation	**16,808**	18,297

Valuation of land and buildings and investment properties

The group's land and buildings and investment properties were revalued as at 31 December 2024. 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 20% and plus 20%. 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$6,919m (2023: HK$7,253m) in respect of properties which were valued using the depreciated replacement cost method.

Valuation of land and buildings and investment properties in Hong Kong, Macau and mainland China were largely carried out 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 92% by value of the group's properties subject to valuation. Other properties were valued by different independent professionally qualified valuers.

17 Prepayments, accrued income and other assets

	2024 HK$m	2023 HK$m
Prepayments and accrued income	**44,779**	42,613
Bullion	**71,712**	52,544
Acceptances and endorsements	**54,048**	53,389
Insurance contract assets	**323**	1,092
Reinsurance contract assets	**36,626**	36,214
Current tax assets	**2,414**	2,145
Settlement accounts and items in course of collection from other banks	**53,874**	76,805
Cash collateral and margin receivables	**82,698**	78,194
Other assets	**36,467**	50,044
At 31 Dec	**382,941**	393,040

Prepayments, accrued income and other assets included HK$268,556m (2023: HK$297,966m) of financial assets, the majority of which were measured at amortised cost.

18 Customer accounts

Customer accounts by country/territory

	2024 HK$m	2023 HK$m
Hong Kong	**4,466,634**	4,246,041
Singapore	**595,951**	574,574
Mainland China	**490,579**	437,542
Australia	**248,137**	250,550
India	**211,234**	190,439
Malaysia	**131,999**	123,487
Taiwan	**132,544**	132,410
Indonesia	**43,162**	43,744
Other	**244,366**	262,264
At 31 Dec	**6,564,606**	6,261,051

19 Trading liabilities

	2024 HK$m	2023 HK$m
Net short positions in securities	**63,586**	70,592
Repurchase agreements and other similar secured lending	**22,875**	32,360
Customer accounts	**96**	98
At 31 Dec	**86,557**	103,050

20 Financial liabilities designated at fair value

	2024 HK$m	2023 HK$m
Deposits by banks and customer accounts	**98,609**	89,604
Debt securities in issue	**50,787**	51,239
Liabilities to customers under investment contracts	**29,343**	29,885
At 31 Dec	**178,739**	170,728

The carrying amount of financial liabilities designated at fair value was HK$393m higher than the contractual amount at maturity (2023: HK$456m higher). The cumulative gain in fair value attributable to changes in credit risk was HK$20m (2023: HK$45m gain).

21 Debt securities in issue

	2024 HK$m	2023 HK$m
Bonds and medium-term notes	**89,049**	83,903
Other debt securities in issue	**26,100**	55,081
Total debt securities in issue	**115,149**	138,984
Included within:		
– financial liabilities designated at fair value (Note 20)	**(50,787)**	(51,239)
At 31 Dec	**64,362**	87,745

22 Accruals and deferred income, other liabilities and provisions

	2024 HK$m	2023 HK$m
Accruals and deferred income	**46,512**	49,176
Acceptances and endorsements	**54,106**	53,441
Settlement accounts and items in course of transmission to other banks	**95,662**	60,487
Cash collateral and margin payables	**74,830**	50,461
Reinsurance contract liabilities	**5,098**	6,079
Share-based payment liability to HSBC Holdings plc	**2,220**	1,883
Lease liabilities	**5,938**	6,830
Other liabilities[1]	**52,502**	55,259
Provisions for liabilities and charges	**2,845**	2,033
At 31 Dec	**339,713**	285,649

1 Principally includes marginal deposit on letter of credit and credit card settlement account.

Accruals and deferred income, other liabilities and provisions included HK$321,344m (2023: HK$267,315m) of financial liabilities which were measured at amortised cost.

Movement in provisions

Provisions (excluding contractual commitments)	**Restructuring costs HK$m**	**Other HK$m**	**Total HK$m**
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**
At 31 Dec 2022	271	481	752
Additions	204	298	502
Amounts utilised	(188)	(148)	(336)
Unused amounts reversed	(102)	(31)	(133)
Exchange and other movements	1	(2)	(1)
At 31 Dec 2023	186	598	784
Contractual commitments[1]			
At 31 Dec 2022			1,159
Net change in expected credit loss provision and other movements			90
At 31 Dec 2023			1,249
Total Provisions at 31 Dec 2023			2,033

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

	2024 HK$m	2023 HK$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

	2024		2023	
	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 2024 (2023: 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.

24 Other equity instruments

Other equity instruments comprise additional tier 1 capital instruments in issue which are accounted for as equity.

		2024	2023
		HK$m	HK$m
US$1,000m	Fixed rate perpetual subordinated loan, callable from Mar 2025[1]	7,834	7,834
US$900m	Fixed rate perpetual subordinated loan, callable from Sep 2026[2]	7,063	7,063
US$700m	Fixed rate perpetual subordinated loan, callable from Mar 2025[3]	5,467	5,467
US$500m	Fixed rate perpetual subordinated loan, callable from Mar 2025[3]	3,905	3,905
US$600m	Fixed rate perpetual subordinated loan, callable from May 2027[4]	4,685	4,685
US$1,100m	Fixed rate perpetual subordinated loan, callable from Jun 2024[5]	—	8,617
US$900m	Fixed rate perpetual subordinated loan, callable from Sep 2024[6]	—	7,044
US$1,000m	Fixed rate perpetual subordinated loan, callable from Mar 2028[7]	7,850	7,850
SG$1,500m	Fixed rate perpetual subordinated loan, callable from Jun 2029[8]	8,574	—
US$1,350m	Fixed rate perpetual subordinated loan, callable from Sep 2029[9]	10,421	—
US$1,150m	Fixed rate perpetual subordinated loan, callable from Mar 2034[10]	8,878	—
At 31 Dec		**64,677**	52,465

1 Interest rate fixed at 6.090%.
2 Interest rate fixed at 6.510%.
3 Interest rate fixed at 6.172%.
4 Interest rate fixed at 5.910%.
5 This subordinated loan was repaid in the first half of 2024.
6 This subordinated loan was repaid in the second half of 2024.
7 Interest rate fixed at 8.000%.
8 Interest rate fixed at 5.250%.
9 Interest rate fixed at 6.875%.
10 Interest rate fixed at 6.950%.

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 95.

Maturity analysis of assets and liabilities

	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	—	—	—	—	—	—	—	477,881	477,881
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	—	—	—	—	—	—	—	848,819	848,819
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

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	232,987	—	—	—	—	—	—	—	232,987
Hong Kong Government certificates of indebtedness	328,304	—	—	—	—	—	—	—	328,304
Trading assets	936,087	4,606	246	311	—	—	—	—	941,250
Derivatives	401,888	995	1,030	528	243	2,135	1,592	842	409,253
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	10,922	4,784	4,567	3,532	3,942	34,442	90,413	554,971	707,573
Reverse repurchase agreements – non-trading	535,819	160,830	76,520	23,052	9,977	24,755	233	—	831,186
Loans and advances to banks	326,805	135,883	33,392	19,308	20,237	19,192	8,984	—	563,801
Loans and advances to customers	532,822	334,021	279,076	212,426	160,823	389,969	540,929	1,107,010	3,557,076
Financial investments	252,730	411,275	278,073	87,712	91,225	236,575	488,372	183,250	2,029,212
Amounts due from Group companies	68,894	35,486	6,440	3,395	3,674	25,877	2,350	1	146,117
Accrued income and other financial assets	225,412	39,520	23,853	2,990	3,119	709	918	1,445	297,966
Financial assets at 31 Dec 2023	3,852,670	1,127,400	703,197	353,254	293,240	733,654	1,133,791	1,847,519	10,044,725
Non-financial assets	—	—	—	—	—	—	—	455,668	455,668
Total assets at 31 Dec 2023	3,852,670	1,127,400	703,197	353,254	293,240	733,654	1,133,791	2,303,187	10,500,393
Financial liabilities									
Hong Kong currency notes in circulation	328,304	—	—	—	—	—	—	—	328,304
Repurchase agreements – non-trading	494,630	18,078	5,392	2,344	1,540	—	—	—	521,984
Deposits by banks	165,535	954	14,988	537	132	—	—	—	182,146
Customer accounts	4,768,955	805,337	467,986	92,664	59,839	37,514	28,749	7	6,261,051
Trading liabilities	100,324	2,726	—	—	—	—	—	—	103,050
Derivatives	448,517	60	50	66	278	267	488	490	450,216
Financial liabilities designated at fair value	47,717	30,532	20,425	8,748	7,702	16,845	8,781	29,978	170,728
Debt securities in issue	5,244	4,824	19,662	11,492	5,897	16,443	20,668	3,515	87,745
Amounts due to Group companies	186,851	17,171	1,653	77	174	9,666	117,754	131,907	465,253
Accruals and other financial liabilities	167,735	50,862	28,258	5,046	4,256	3,924	5,475	1,759	267,315
Financial liabilities at 31 Dec 2023	6,713,812	930,544	558,414	120,974	79,818	84,659	181,915	167,656	8,837,792
Non-financial liabilities	—	—	—	—	—	—	—	790,015	790,015
Total liabilities at 31 Dec 2023	6,713,812	930,544	558,414	120,974	79,818	84,659	181,915	957,671	9,627,807

26 Analysis of cash flows payable under financial liabilities by remaining contractual maturities

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
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%**	
At 31 Dec 2023						
Hong Kong currency notes in circulation	328,304	—	—	—	—	328,304
Repurchase agreements – non-trading	495,424	18,281	9,496	—	—	523,201
Deposits by banks	166,594	955	15,681	—	—	183,230
Customer accounts	4,782,131	817,944	635,862	72,290	48	6,308,275
Trading liabilities	103,050	—	—	—	—	103,050
Derivatives	448,542	46	37	705	530	449,860
Financial liabilities designated at fair value	48,616	31,052	37,555	27,007	30,013	174,243
Debt securities in issue	5,285	5,541	38,620	40,717	3,813	93,976
Amounts due to Group companies	187,263	20,553	10,424	174,035	182,676	574,951
Other financial liabilities	159,827	42,012	30,108	7,581	1,729	241,257
	6,725,036	936,384	777,783	322,335	218,809	8,980,347
Loan and other credit-related commitments	3,411,371	—	545	—	—	3,411,916
Financial guarantees	53,483	—	—	—	—	53,483
	10,189,890	936,384	778,328	322,335	218,809	12,445,746
Proportion of cash flows payable in period	81%	8%	6%	3%	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

	2024 HK$m	2023 HK$m
Guarantees and contingent liabilities:		
– financial guarantees[1]	**59,153**	53,483
– performance and other guarantees[2]	**382,039**	380,953
– other contingent liabilities	**1,680**	1,161
At 31 Dec	**442,872**	435,597
Commitments[3]:		
– documentary credits and short-term trade-related transactions	**24,731**	26,908
– forward asset purchases and forward forward deposits placed	**107,464**	71,708
– undrawn formal standby facilities, credit lines and other commitments to lend	**3,345,644**	3,313,300
At 31 Dec	**3,477,839**	3,411,916

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$2,027,320m of commitments at 31 December 2024 (2023: HK$1,978,328m) to which the impairment requirements in HKFRS 9 are applied where the group has become party to an irrevocable commitment.

The above table discloses the nominal principal amounts of commitments (excluding 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 2024 included amounts in relation to legal and regulatory matters as set out in Note 37.

28 Other commitments

Capital commitments

At 31 December 2024, capital commitments, mainly related to the commitment for purchase of properties, were HK$3,578m (2023: HK$3,907m).

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.

Offsetting of financial assets and financial liabilities

	Amounts subject to enforceable netting arrangements							
				Amounts not offset in the balance sheet				
	Gross amounts	Amounts offset	Net amounts reported in the balance sheet	Financial instruments, including non-cash collateral	Cash collateral	Net amount	Amounts not subject to enforceable netting arrangements[1]	Balance sheet total
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
At 31 Dec 2024								
Financial assets[2]								
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 liabilities[3]								
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**
At 31 Dec 2023								
Financial assets[2]								
Derivatives	620,134	(235,361)	384,773	(332,456)	(28,217)	24,100	24,480	409,253
Reverse repos, stock borrowing and similar agreements classified as:								
– trading assets	66,865	—	66,865	(64,526)	(2,323)	16	10,824	77,689
– third party	51,886	—	51,886	(51,620)	(266)	—	10,824	62,710
– amounts due from Group companies	14,979	—	14,979	(12,906)	(2,057)	16	—	14,979
– reverse repurchase agreements – non-trading	887,389	(48,798)	838,591	(838,533)	(6)	52	42,442	881,033
– third party	835,167	(46,423)	788,744	(788,688)	(6)	50	42,442	831,186
– amounts due from Group companies	52,222	(2,375)	49,847	(49,845)	—	2	—	49,847
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss								
– third party	514	—	514	(514)	—	—	—	514
	1,574,902	(284,159)	1,290,743	(1,236,029)	(30,546)	24,168	77,746	1,368,489
Financial liabilities[3]								
Derivatives	658,545	(235,361)	423,184	(331,004)	(52,842)	39,338	27,032	450,216
Repos, stock lending and similar agreements classified as:								
– trading liabilities	32,429	—	32,429	(31,959)	—	470	—	32,429
– third party	32,360	—	32,360	(31,890)	—	470	—	32,360
– amounts due to Group companies	69	—	69	(69)	—	—	—	69
– repurchase agreements – non-trading	630,963	(48,798)	582,165	(581,584)	(10)	571	73,350	655,515
– third party	495,057	(46,423)	448,634	(448,071)	(10)	553	73,350	521,984
– amounts due to Group companies	135,906	(2,375)	133,531	(133,513)	—	18	—	133,531
	1,321,937	(284,159)	1,037,778	(944,547)	(52,852)	40,379	100,382	1,138,160

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$212,803m (2023:HK$202,680m).
3 Include balances due to Group companies of HK$230,228m (2023:HK$275,775m).

30 Segmental analysis

The Executive Committee ('EXCO') is considered the Chief Operating Decision Maker ('CODM') for the purpose of identifying the group's operating segments. Operating segment results are assessed by the CODM on the basis of performance measured in accordance with HKFRSs. Although the CODM reviews information on a number of bases, business performance is assessed and capital resources are allocated by operating segments, and the segmental analysis is presented based on reportable 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 expenses. These allocations include the costs of certain support services and global functions to the extent that they can be meaningfully attributed to operational business lines and geographical regions. While such allocations have been made on a systematic and consistent basis, they necessarily involve a degree of subjectivity. Costs which are not allocated to other operating segments are included in the 'Corporate Centre'.

Where relevant, income and expense amounts presented include the results of inter-segment funding along with inter-company and inter-business line transactions. All such transactions are undertaken on arm's length terms. The intra-group elimination items for the operating segments are presented in the Corporate Centre.

Our global businesses and reportable segments

The group provides a comprehensive range of banking and related financial services to our customers in our global businesses: Wealth and Personal Banking ('WPB'), Commercial Banking ('CMB') and Global Banking and Markets ('GBM'). The products and services offered to customers are organised by these global businesses.

- WPB provides a full range of retail banking and wealth products to our customers from personal banking to ultra high net worth individuals. Typically, customer offerings include retail banking products, such as current and savings accounts, mortgages and personal loans, credit cards, debit cards and local and international payment services. We also provide wealth management services, including insurance and investment products, global asset management services, investment management and Private Wealth Solutions for customers with more sophisticated and international requirements.
- CMB offers a broad range of products and services to serve the needs of our commercial customers, including small and medium-sized enterprises, mid-market enterprises and corporates. These include credit and lending, international trade and receivables finance, treasury management and liquidity solutions (payments and cash management and commercial cards) and investments. CMB also offers its customers access to products and services offered by other global businesses, such as GBM, which include foreign exchange products, raising capital on debt and equity markets and advisory services.
- GBM comprises of two separate reportable segments: Global Banking ('GB') and Markets and Securities Services ('MSS'). GB provides tailored financial solutions to major government, corporate and institutional clients and private investors worldwide. The client-focused business lines deliver a full range of banking capabilities including financing, advisory and transaction services. MSS provides services in credit, rates, foreign exchange, equities, money markets and securities services, and principal investment activities.
- Corporate Centre includes strategic investments such as our investment in BoCom, Central Treasury revenue, and costs which are not allocated to global businesses, mainly in relation to investments in technology.
- Other (GBM-other) mainly comprises other business activities which are jointly managed by GB and MSS.

Performance by reportable segments is presented in the 'Financial Review' on page 15 as specified as 'Audited'.

Information by geographical region

	Hong Kong	Rest of Asia-Pacific	Intra-segment elimination	Total
	HK$m	HK$m	HK$m	HK$m
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**
For the year ended 31 Dec 2023				
Net operating income before change in expected credit losses and other credit impairment charges	156,171	93,546	(38)	249,679
Profit before tax	78,765	42,678	—	121,443
At 31 Dec 2023				
Total assets	7,485,995	3,977,785	(963,387)	10,500,393
Total liabilities	7,059,770	3,531,424	(963,387)	9,627,807
Credit commitments and contingent liabilities (contract amounts)	1,977,725	1,869,788	—	3,847,513

Information by country/territory

	Revenue[1]		Non-current assets[2]	
	For the year ended 31 Dec		At 31 Dec	
	2024	2023	**2024**	2023
	HK$m	HK$m	**HK$m**	HK$m
Hong Kong	**165,696**	156,171	**134,806**	140,646
Mainland China	**19,538**	19,934	**187,451**	180,166
Australia	**9,582**	8,886	**1,459**	1,659
India	**15,981**	13,773	**2,844**	2,711
Indonesia	**3,487**	3,609	**3,042**	3,253
Malaysia	**7,206**	6,708	**1,802**	1,833
Singapore	**21,721**	18,275	**4,214**	3,331
Taiwan	**5,583**	5,038	**2,328**	2,429
Other	**16,901**	17,285	**2,466**	2,775
Total	**265,695**	249,679	**340,412**	338,803

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.

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:

	2024						2023					
	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	**4**	**3**	**3,327**	**1,589**	**445,895**	**325,889**	22	5	4,051	2,655	426,392	293,786
– trading assets[1,5]	**—**	**—**	**234**	**107**	**28,961**	**28,544**	—	—	64	48	14,998	14,995
– derivative assets	**—**	**—**	**58**	**58**	**154,231**	**152,419**	—	—	33	2	171,528	137,852
– other assets[1,4,6]	**4**	**3**	**3,035**	**1,424**	**262,703**	**144,926**	22	5	3,954	2,605	239,866	140,939
Liabilities[9]	**273,762**	**253,124**	**4,435**	**2,180**	**457,073**	**302,559**	312,292	262,111	5,557	2,772	464,666	342,768
– trading liabilities[1,7]	**—**	**—**	**143**	**7**	**169**	**168**	—	—	58	36	27,868	72
– financial liabilities designated at fair value[1,2]	**233,825**	**215,816**	**—**	**—**	**10**	**—**	236,178	224,073	—	—	7	6
– derivative liabilities	**—**	**—**	**3,682**	**1,820**	**159,687**	**159,687**	—	—	4,399	2,609	160,443	139,566
– other liabilities[1,4,8]	**4,177**	**2,722**	**610**	**353**	**297,033**	**142,619**	4,436	2,811	1,034	127	276,169	203,022
– insurance contract liabilities[1]	**—**	**—**	**—**	**—**	**174**	**85**	—	—	—	—	179	102
– subordinated liabilities[1,3,4]	**35,760**	**34,586**	**—**	**—**	**—**	**—**	71,678	35,227	66	—	—	—
Guarantees	**—**	**—**	**—**	**—**	**28,121**	**24,382**	—	—	—	—	28,427	27,997
Commitments	**—**	**—**	**—**	**—**	**5,394**	**875**	—	—	—	—	2,387	925

1 These balances are presented under 'Amounts due from/to Group companies' in the consolidated balance sheet.
2 The balance at 31 December 2024 included capital and loss-absorbing capacity ('LAC') instruments of HK$215,816m (2023: HK$224,073m). During the year, there were repayment of HK$9,725m (2023: HK$36,128m) and issuance of HK$4,398m (2023: HK$66,521m). The carrying amount of financial liabilities designated at fair value was HK$2,790m lower than the contractual amount at maturity (2023: HK$3,121m lower). The cumulative loss in fair value attributable to changes in credit risk was HK$5,723m (2023: HK$2,917m loss). The balances are under Level 2.
3 The balance at 31 December 2024 included subordinated liabilities of HK$34,586m to meet TLAC requirements (2023: HK$35,227m). During the year, there were no repayments (2023: HK$34,962m) and no issuances (2023: 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$28,540m (2023: HK$14,979m).
6 Includes non-trading reverse repo agreements and other similar secured lending of HK$31,787m (2023: HK$49,847m).
7 Includes trading repurchase agreements and other similar secured lending of HK$166m (2023: HK$69m).
8 Includes non-trading repurchase agreements and other similar secured lending of HK$68,556m (2023: HK$133,531m).
9 HK$98,515m (2023: HK$98,052m) of the group's non-capital LAC instruments reference to legacy Ibors (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 Ibor.

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 2024 amounted to HK$2,839m and HK$2,220m respectively (2023: HK$3,091m and HK$1,883m respectively).

(c) Post-employment benefit plans

At 31 December 2024, HK$8.8bn (2023: HK$7.4bn) of the group's post-employment plan assets were under management by group companies, earning management fees of HK$63m in 2024 (2023: HK$58m). At 31 December 2024, the group's post-employment benefit plans had placed deposits of HK$818m (2023: HK$736m) with its banking subsidiaries, earning interest payable to the schemes of HK$10.3m (2023: HK$8.8m). 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

	2024		2023	
	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	**61,980**	**38,466**	61,769	46,173
Amounts due to associates	**20,503**	**12,530**	23,450	13,033
Amounts due to joint ventures	**18**	**8**	42	14
Fair value of derivative assets with associates	**7,000**	**5,792**	11,826	6,212
Fair value of derivative liabilities with associates	**28,634**	**20,314**	34,281	23,142
Guarantees and Commitments	**374**	**276**	1,569	377

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

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the Bank and the group. It includes members of the Board of Directors and Executive Committee of the Bank and the Board of Directors and Group Executive Committee members of HSBC Holdings plc.

Compensation of Key Management Personnel

	2024	2023
	HK$m	HK$m
Salaries and other short-term benefits	**364**	362
Post employment benefits	**12**	11
Termination benefits	**2**	—
Share-based payments	**135**	126
Total	**513**	499

Transactions, arrangements and agreements involving Key Management Personnel

	2024	2023
	HK$m	HK$m
During the year		
Highest average assets[1]	**50,407**	78,447
Highest average liabilities[1]	**20,512**	74,273
Contribution to group's profit before tax	**2,075**	3,372
At the year end		
Guarantees	**4,079**	3,842
Commitments	**10,115**	9,147

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 (2023: insignificant).

(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	
	2024	2023	**2024**	2023
	HK$m	HK$m	**HK$m**	HK$m
By the Bank	**197**	2,530	**303**	2,631
By subsidiaries	**1**	1	**1**	13
	198	2,531	**304**	2,644

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.

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.

Financial instruments carried at fair value and bases of valuation

	Fair Value Hierarchy					
	Level 1	Level 2	Level 3	Third-party total	Inter-company[2]	Total
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
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**
At 31 Dec 2023						
Assets						
Trading assets[1]	637,806	294,184	9,260	941,250	—	941,250
Derivatives	938	268,318	2,143	271,399	137,854	409,253
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	182,874	402,113	122,586	707,573	—	707,573
Financial investments	1,077,040	329,689	3,542	1,410,271	—	1,410,271
Liabilities						
Trading liabilities[1]	66,685	36,363	2	103,050	—	103,050
Derivatives	2,048	303,584	2,409	308,041	142,175	450,216
Financial liabilities designated at fair value[1]	—	142,071	28,657	170,728	—	170,728

1 These balances exclude HK$28,651m Level 2 assets (2023: HK$15,043m) and HK$215,991m Level 2 liabilities (2023: HK$224,187m) held with HSBC Group entities.
2 Derivatives balances with HSBC Group entities are largely under 'Level 2'.

Transfers between Level 1 and Level 2 fair values

	Assets				Liabilities		
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value	Derivatives	Trading liabilities	Designated at fair value	Derivatives
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
1 Jan to 31 Dec 2024							
Transfers from Level 1 to Level 2	**102,536**	**68,616**	**11,996**	**—**	**656**	**—**	**—**
Transfers from Level 2 to Level 1	**77,553**	**41,295**	**23,687**	**—**	**506**	**—**	**—**
1 Jan to 31 Dec 2023							
Transfers from Level 1 to Level 2	94,475	60,546	13,386	—	296	—	—
Transfers from Level 2 to Level 1	69,552	40,626	19,403	—	1,591	—	—

Transfers between levels of the fair value hierarchy are deemed to occur at the end of each quarter. Transfers into and out of levels of the fair value hierarchy are primarily attributable to changes in observability of valuation inputs and price transparency.

Fair value adjustments

We adopt the use of fair value adjustments when we take into consideration additional factors not incorporated within the valuation model that would otherwise be considered by a market participant. We classify fair value adjustments as either 'risk-related' or 'model-related'. The majority of these adjustments relate to MSS. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

Bid-offer

HKFRS 13 requires use of the price within the bid-offer spread that is most representative of fair value. Valuation models will typically generate mid-market values. The bid-offer adjustment reflects the extent to which bid-offer costs would be incurred if substantially all residual net portfolio market risks were closed using available hedging instruments or by disposing of, or unwinding the position.

Uncertainty

Certain model inputs may be less readily determinable from market data, and/or the choice of model itself may be more subjective. In these circumstances, an adjustment may be necessary to reflect the likelihood that market participants would adopt more conservative values for uncertain parameters and/or model assumptions, than those used in the group's valuation model.

Credit valuation adjustment ('CVA') and debit valuation adjustment ('DVA')

The CVA is an adjustment to the valuation of over-the-counter ('OTC') derivative contracts to reflect the possibility that the counterparty may default and the group may not receive the full market value of the transactions.

The DVA is an adjustment to the valuation of OTC derivative contracts to reflect the possibility that the group may default, and that the group may not pay the full market value of the transactions.

The group calculates a separate CVA and DVA for each legal entity, and for each counterparty to which the entity has exposure. With the exception of central clearing parties, all third-party counterparties are included in the CVA and DVA calculations, and these adjustments are not netted across group entities.

The group calculates the CVA by applying the probability of default ('PD') of the counterparty, conditional on the non-default of the group, to the group's expected positive exposure to the counterparty and multiplying the result by the loss expected in the event of default. Conversely, the group calculates the DVA by applying the PD of the group, conditional on the non-default of the counterparty, to the expected positive exposure of the counterparty to the group and multiplying the result by the loss expected in the event of default. Both calculations are performed over the life of the potential exposure.

For most products the group uses a simulation methodology, which incorporates a range of potential exposures over the life of the portfolio, to calculate the expected positive exposure to a counterparty. The simulation methodology includes credit mitigants, such as counterparty netting agreements and collateral agreements with the counterparty.

The methodologies do not, in general, account for 'wrong-way risk'. Wrong-way risk is an adverse correlation between the counterparty's probability of default and the mark-to-market value of the underlying transaction. The risk can either be general, perhaps related to the currency of the issuer country, or specific to the transaction concerned. When there is significant wrong-way risk, a trade-specific approach is applied to reflect this risk in the valuation.

Funding fair value adjustment ('FFVA')

The FFVA is calculated by applying future market funding spreads to the expected future funding exposure of any uncollateralised component of the OTC derivative portfolio. The expected future funding exposure is calculated by a simulation methodology, where available and is adjusted for events that may terminate the exposure, such as the default of the group or the counterparty. The FFVA and DVA are calculated independently.

Model limitation

Models used for portfolio valuation purposes may be based upon a simplifying set of assumptions that do not capture all current and future material market characteristics. In these circumstances, model limitation adjustments are adopted.

Inception profit (Day 1 profit or loss reserves)

Inception profit adjustments are adopted when the fair value estimated by a valuation model is based on one or more significant unobservable inputs.

Fair value valuation bases

Financial instruments measured at fair value using a valuation technique with significant unobservable inputs – Level 3

	Assets					Liabilities			
	Financial investments	Trading assets	Designated and otherwise mandatorily measured at fair value through profit or loss	Derivatives	Total	Trading liabilities	Designated at fair value	Derivatives	Total
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
Private equity and related investments	**3,017**	**—**	**127,014**	**—**	**130,031**	**—**	**—**	**—**	**—**
Structured notes	**—**	**—**	**25**	**—**	**25**	**—**	**22,960**	**—**	**22,960**
Others	**—**	**13,552**	**15,619**	**1,254**	**30,425**	**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	2,886	48	108,278	—	111,212	1	—	—	1
Structured notes	—	—	23	—	23	—	28,657	—	28,657
Others	656	9,212	14,285	2,143	26,296	1	—	2,409	2,410
At 31 Dec 2023	3,542	9,260	122,586	2,143	137,531	2	28,657	2,409	31,068

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.

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.

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]	Derivatives
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
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**
– changes in fair value of financial instruments mandatorily measured at fair value through profit or loss[2]	**—**	**—**	**6,783**	**—**	**—**	**—**	**—**
Total gains or losses recognised in other comprehensive income ('OCI')	**(64)**	**(216)**	**(229)**	**(21)**	**—**	**(102)**	**(29)**
– financial investments: fair value gains or losses	**(97)**	**—**	**—**	**—**	**—**	**(1)**	**—**
– exchange differences	**33**	**(216)**	**(229)**	**(21)**	**—**	**(101)**	**(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)**
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	**—**	**—**	**(139)**	**—**	**—**	**(26)**	**—**

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
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
At 1 Jan 2023	4,308	9,283	101,819	3,301	6	34,734	1,712
Total gains or losses recognised in profit or loss	—	(441)	7,105	(1,411)	(9)	(218)	488
– net income or losses from financial instruments held for trading or managed on a fair value basis	—	(441)	—	(1,411)	(9)	(218)	488
– changes in fair value of financial instruments mandatorily measured at fair value through profit or loss[2]	—	—	7,105	—	—	—	—
Total gains or losses recognised in other comprehensive income ('OCI')	(664)	(90)	120	14	—	(154)	(7)
– financial investments: fair value gains or losses	(618)	—	—	—	—	11	—
– exchange differences	(46)	(90)	120	14	—	(165)	(7)
Purchases	2,112	6,169	24,749	—	—	—	—
New issuances	—	—	—	—	—	6,360	—
Sales	(212)	(2,278)	(4,249)	—	—	—	—
Settlements	(2,004)	(5,501)	(10,657)	10	1	(5,249)	(322)
Transfers out	(696)	(1,505)	—	(370)	(6)	(8,367)	(266)
Transfers in	698	3,623	3,699	599	10	1,551	804
At 31 Dec 2023	3,542	9,260	122,586	2,143	2	28,657	2,409
Unrealised gains or losses recognised in profit or loss relating to assets and liabilities held at 31 Dec 2023	—	(1,183)	1,428	837	—	(21)	(591)
– net income or losses from financial instruments held for trading or managed on a fair value basis	—	(1,183)	—	837	—	—	(591)
– changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss	—	—	1,428	—	—	(21)	—

1 Includes structured deposits where the settlement balance represents the net of matured and new deposits.
2 Includes net income/(expense) from assets and liabilities of insurance businesses, including related derivatives, measured at fair value through profit or loss of HK$5,674m (2023: HK$6,780m).

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

	2024				2023			
	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]	**451**	**(448)**	**—**	**—**	284	(345)	—	—
Financial assets and liabilities designated and otherwise mandatorily measured at fair value through profit or loss	**7,760**	**(7,503)**	**—**	**—**	6,163	(6,163)	—	—
Financial investments	**—**	**—**	**184**	**(184)**	—	—	170	(170)
At 31 Dec	**8,211**	**(7,951)**	**184**	**(184)**	6,447	(6,508)	170	(170)

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 2024.

Quantitative information about significant unobservable inputs in Level 3 valuations

	Fair value				2024		2023	
	Assets	Liabilities	Key valuation techniques	Key unobservable inputs	Full range of inputs		Full range of inputs	
	HK$m	HK$m			Lower	Higher	Lower	Higher
Private equity and related investments	**130,031**	**—**	**See below**	**See below**				
Structured notes	**25**	**22,960**						
– equity-linked notes	**25**	**3,488**	**Model – Option model**	**Equity volatility**	**7%**	**70%**	6%	71%
			Model – Option model	**Equity correlation**	**26%**	**94%**	34%	98%
– FX-linked notes	**—**	**14,073**	**Model – Option model**	**FX volatility**	**4%**	**35%**	3%	34%
– other	**—**	**5,399**						
Others[1]	**30,425**	**1,221**						
At 31 Dec 2024	**160,481**	**24,181**						

1 'Others' includes a range of smaller asset holdings.

Private equity and related investments

Given the bespoke nature of the analysis in respect of each holding, it is not practical to quote a range of key unobservable inputs. The key unobservable inputs would be price and correlation. The valuation approach includes using a range of inputs that include company specific financials, traded comparable companies multiples, published net asset values and qualitative assumptions, which are not directly comparable or quantifiable.

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

	Carrying amount	Fair Value Hierarchy: Quoted market price Level 1	Observable inputs Level 2	Significant unobservable inputs Level 3	Total
	HK$m	HK$m	HK$m	HK$m	HK$m
At 31 Dec 2024					
Assets[1]					
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**
Liabilities[1]					
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**
At 31 Dec 2023					
Assets[1]					
Reverse repurchase agreements – non-trading	831,186	—	831,199	—	831,199
Loans and advances to banks	563,801	—	554,613	9,093	563,706
Loans and advances to customers	3,557,076	—	96,749	3,410,874	3,507,623
Financial investments – at amortised cost	618,941	523,921	87,610	—	611,531
Liabilities[1]					
Repurchase agreements – non-trading	521,984	—	521,850	—	521,850
Deposits by banks	182,146	—	182,135	—	182,135
Customer accounts	6,261,051	—	6,261,771	—	6,261,771
Debt securities in issue	87,745	—	88,050	—	88,050

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.

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$bn)	**Securitisations**	**HSBC managed funds**	**Non-HSBC managed funds**	**Other**	**Total**
0–4	**138**	**112**	**259**	**34**	**543**
4–15	**2**	**35**	**187**	**—**	**224**
15–39	**—**	**16**	**89**	**—**	**105**
39–196	**—**	**5**	**82**	**—**	**87**
196+	**—**	**1**	**14**	**—**	**15**
Number of entities at 31 Dec 2024	**140**	**169**	**631**	**34**	**974**
	HK$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**

Total asset values of the entities (HK$bn)	Securitisations	HSBC managed funds	Non-HSBC managed funds	Other	Total
0–4	91	106	244	28	469
4–15	3	41	200	—	244
15–39	—	12	101	—	113
39–196	—	3	71	—	74
196+	—	1	3	—	4
Number of entities at 31 Dec 2023	94	163	619	28	904
	HK$m	HK$m	HK$m	HK$m	HK$m
Total assets in relation to the group's interests in the unconsolidated structured entities	23,907	44,309	121,399	7,868	197,483
– trading assets	—	3,970	—	7	3,977
– financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	40,339	121,399	—	161,738
– derivatives	—	—	—	1	1
– loans and advances to customers	23,907	—	—	7,785	31,692
– other assets	—	—	—	75	75
Total liabilities in relation to the group's interests in the unconsolidated structured entities	—	—	—	274	274
– derivatives	—	—	—	274	274
Other off balance sheet commitments	22	14,969	33,263	6,888	55,142
The group's maximum exposure at 31 Dec 2023	23,929	59,278	154,662	14,482	252,351

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 2024 and 2023 were not significant.

35 Bank balance sheet and statement of changes in equity

Bank balance sheet at 31 December 2024

	2024 HK$m	2023 HK$m
Assets		
Cash and balances at central banks	**168,333**	186,468
Hong Kong Government certificates of indebtedness	**328,454**	328,304
Trading assets	**942,643**	797,026
Derivatives	**484,858**	394,366
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	**16,920**	4,184
Reverse repurchase agreements – non-trading	**509,377**	480,579
Loans and advances to banks	**308,322**	368,246
Loans and advances to customers	**1,920,185**	1,903,294
Financial investments	**1,351,402**	1,229,117
Amounts due from Group companies	**453,517**	528,903
Investments in subsidiaries	**112,938**	112,544
Interests in associates and joint ventures	**39,830**	39,830
Goodwill and intangible assets	**26,579**	25,288
Property, plant and equipment	**66,380**	71,465
Deferred tax assets	**451**	1,019
Prepayments, accrued income and other assets[1]	**234,852**	246,217
Total assets	**6,965,041**	6,716,850
Liabilities		
Hong Kong currency notes in circulation	**328,454**	328,304
Repurchase agreements – non-trading	**554,756**	433,902
Deposits by banks	**144,991**	127,980
Customer accounts	**4,114,014**	3,942,813
Trading liabilities	**67,546**	66,851
Derivatives	**462,127**	432,976
Financial liabilities designated at fair value	**65,259**	52,120
Debt securities in issue	**25,999**	33,434
Retirement benefit liabilities	**595**	993
Amounts due to Group companies	**510,035**	632,493
Accruals and deferred income, other liabilities and provisions[1]	**196,604**	168,834
Current tax liabilities	**3,456**	10,368
Deferred tax liabilities	**9,120**	10,700
Total liabilities	**6,482,956**	6,241,768
Equity		
Share capital	**180,181**	180,181
Other equity instruments	**64,677**	52,465
Other reserves	**3,281**	12,578
Retained earnings	**233,946**	229,858
Total equity	**482,085**	475,082
Total equity and liabilities	**6,965,041**	6,716,850

1 In 2023 'Items in the course of collection from other banks' HK$18bn were presented on the face of the balance sheet but are now reported within 'Prepayments, accrued income and other assets' in the Annual Report and Accounts 2024. Similarly, 'Items in the course of transmission to other banks' HK$22bn are now presented within 'Accruals, deferred income and other liabilities'.

Bank statement of changes in equity for the year ended 31 December 2024

				Other reserves					
	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]	Total equity
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
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**
– 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**
At 1 Jan 2023	180,181	52,386	232,784	37,768	(9,303)	(930)	(20,368)	(4,024)	468,494
Profit for the year	—	—	86,734	—	—	—	—	—	86,734
Other comprehensive income/(expense) (net of tax)	—	—	(5,421)	3,766	6,388	2,913	(811)	—	6,835
– debt instruments at fair value through other comprehensive income	—	—	—	—	6,860	—	—	—	6,860
– equity instruments designated at fair value through other comprehensive income	—	—	—	—	(346)	—	—	—	(346)
– cash flow hedges	—	—	—	—	—	2,904	—	—	2,904
– changes in fair value of financial liabilities designated at fair value upon initial recognition arising from changes in own credit risk	—	—	(5,354)	—	—	—	—	—	(5,354)
– property revaluation	—	—	—	3,766	—	—	—	—	3,766
– remeasurement of defined benefit asset/liability	—	—	(67)	—	—	—	—	—	(67)
– exchange differences	—	—	—	—	(126)	9	(811)	—	(928)
Total comprehensive income/(expense) for the year	—	—	81,313	3,766	6,388	2,913	(811)	—	93,569
Other equity instruments issued[2]	—	7,850	—	—	—	—	—	—	7,850
Other equity instruments redeemed[3]	—	(7,771)	(406)	—	—	—	—	—	(8,177)
Dividends to shareholders[5]	—	—	(86,356)	—	—	—	—	—	(86,356)
Movement in respect of share-based payment arrangements	—	—	(105)	—	—	—	—	(157)	(262)
Transfers and other movements[6]	—	—	2,628	(2,665)	404	2	(405)	—	(36)
At 31 Dec 2023	180,181	52,465	229,858	38,869	(2,511)	1,985	(21,584)	(4,181)	475,082

1 Ordinary share capital includes preference shares which have been redeemed or bought back via payments out of distributable profits in previous years.
2 The Hongkong and Shanghai Banking Corporation Limited issued SG$1,500m additional tier 1 capital in June 2024 with an issuance cost of SG$15m, and a further US$2,500m additional tier 1 capital in September 2024 with an issuance cost of US$25m.
During 2023, an additional tier 1 capital instrument amounting to US$1,000m was issued for which there were no issuance costs.
3 During 2024, an additional tier 1 capital instrument was redeemed at par (US$2,000m).
During 2023, an additional tier 1 capital instrument was redeemed at fair value US$(1,041)m.
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 acquisitions and disposal

In October 2023, HSBC Global Asset Management Singapore Limited, a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, entered into an agreement to acquire 100% of the shares of Silkroad Property Partners Pte Ltd ('Silkroad'). Silkroad is a Singapore headquartered Asia-Pacific-focused, real estate investment manager. The acquisition was completed on 31 January 2024.

In October 2023, HSBC Bank (China) Company Limited, a wholly-owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, entered into an agreement to acquire Citibank China's retail wealth management portfolio in mainland China. The portfolio comprises assets under management and deposits, and the associated wealth customers. The acquisition was completed on 7 June 2024.

On 6 July 2024, the Hongkong and Shanghai Banking Corporation Limited (acting through its Mauritius branch) completed its sale of its Wealth and Personal Banking business in Mauritius to Absa Bank (Mauritius) Limited, a wholly-owned subsidiary of Absa Group Limited. The financial impact of the sale was not significant for the group.

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(n) of the Annual Report and Accounts 2024. 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 2024. 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 February 2025, the Korean court acquitted the Bank of all charges. The Korean Prosecutors' Office has the right to appeal this decision. Proceedings against the individual defendants have been suspended.

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

There have been no events after the balance sheet date that would require disclosure in the consolidated financial statements.

40 Approval of financial statements

The consolidated financial statements were approved and authorised for issue by the Board of Directors on 19 February 2025.

Financial Review

Results for 2024

(Unaudited)

Profit before tax for 2024 reported by The Hongkong and Shanghai Banking Corporation Limited ('the Bank') and its subsidiaries (together 'the group') increased by HK$32,489m, or 27%, to HK$153,932m.

Consolidated income statement by reportable segments

(Audited)

	Wealth and Personal Banking HK$m	Commercial Banking HK$m	Global Banking HK$m	Markets and Securities Services HK$m	Corporate Centre[1] HK$m	Other (GBM-other)[2] HK$m	Total HK$m
Year ended 31 Dec 2024							
Net interest income/(expense)	80,480	59,528	24,408	6,352	(55,004)	1,873	117,637
Net fee income/(expense)	24,042	10,827	5,318	2,020	318	(8)	42,517
Net income from financial instruments measured at fair value through profit or loss	42,243	4,240	187	28,010	53,110	164	127,954
Insurance finance income/(expense)	(35,684)	—	—	—	21	—	(35,663)
Insurance service result	8,142	—	—	—	(11)	—	8,131
Other operating income/(expense)	2,439	501	429	1,505	504	(259)	5,119
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	121,662	75,096	30,342	37,887	(1,062)	1,770	265,695
– of which: external	63,994	75,783	41,673	77,604	(18,256)	24,897	265,695
inter-segment	57,668	(687)	(11,331)	(39,717)	17,194	(23,127)	—
Change in expected credit losses and other credit impairment charges	(2,770)	(6,863)	(2,142)	—	(165)	(6)	(11,946)
Net operating income/(expense)	118,892	68,233	28,200	37,887	(1,227)	1,764	253,749
Operating expenses	(54,524)	(23,647)	(11,601)	(16,338)	(9,297)	(2,185)	(117,592)
Operating profit/(loss)	64,368	44,586	16,599	21,549	(10,524)	(421)	136,157
Share of profit in associates and joint ventures	261	—	—	—	17,514	—	17,775
Profit/(loss) before tax	64,629	44,586	16,599	21,549	6,990	(421)	153,932
Balance sheet data at 31 Dec 2024							
Loans and advances to customers (net)	1,541,986	1,134,555	782,831	31,096	972	2,858	3,494,298
Customer accounts	3,812,451	1,754,192	759,249	224,938	14	13,762	6,564,606
Year ended 31 Dec 2023							
Net interest income/(expense)	79,737	60,964	24,299	6,411	(42,064)	1,433	130,780
Net fee income/(expense)	19,426	10,664	5,038	2,652	270	(7)	38,043
Net income from financial instruments measured at fair value through profit or loss	53,950	4,247	47	23,606	41,223	321	123,394
Insurance finance expense	(48,798)	—	—	—	—	—	(48,798)
Insurance service result	6,589	—	—	—	(31)	—	6,558
Other operating income/(expense)	(1,212)	(638)	584	1,975	575	(1,582)	(298)
Net operating income/(expense) before change in expected credit losses and other credit impairment charges	109,692	75,237	29,968	34,644	(27)	165	249,679
– of which: external	60,744	80,293	40,051	66,318	(19,895)	22,168	249,679
inter-segment	48,948	(5,056)	(10,083)	(31,674)	19,868	(22,003)	—
Change in expected credit losses and other credit impairment charges	(2,113)	(9,378)	(1,360)	(26)	2	32	(12,843)
Net operating income/(expense)	107,579	65,859	28,608	34,618	(25)	197	236,836
Operating expenses	(50,664)	(22,205)	(10,825)	(15,653)	(8,382)	(2,264)	(109,993)
Operating profit/(loss)	56,915	43,654	17,783	18,965	(8,407)	(2,067)	126,843
Share of profit in associates and joint ventures	390	—	—	—	18,165	—	18,555
Impairment of interest in associate	—	—	—	—	(23,955)	—	(23,955)
Profit/(loss) before tax	57,305	43,654	17,783	18,965	(14,197)	(2,067)	121,443
Balance sheet data at 31 Dec 2023							
Loans and advances to customers (net)	1,567,893	1,154,648	791,061	37,366	1,178	4,930	3,557,076
Customer accounts	3,618,894	1,685,876	740,881	209,511	30	5,859	6,261,051

1 Includes inter-segment elimination.
2 Mainly comprises other business activities which are jointly managed by GB and Markets and Securities Services ('MSS').

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 2024 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 2024. The extracts set out in this Exhibit B are not complete and reference should be made to the Annual Report and Accounts 2024 which is available on our website which is presently at *https://www.hsbc.com/investors/results-and-announcements*.

Risk

Our approach to risk

(Unaudited)

Our risk appetite

Our risk appetite defines the level and types of risk that we are willing to take, while informing the financial planning process and guiding strategic decision making. Our risk appetite is defined as the aggregate level of risk that the bank is comfortable to take to achieve its strategic objectives. Risk appetite also provides a mechanism for non-executive directors and executive directors to collectively establish the bank's willingness to engage in certain activities and assess these activities.

Enterprise-wide application

Our risk appetite is expressed holistically through various risk management mechanisms and activities, in both quantitative and qualitative terms.

The Board reviews and approves the group's risk appetite regularly to make sure it remains fit for purpose. The group's risk appetite is considered, developed and enhanced through the following principles:

- 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.

We formally articulate our risk appetite through our risk appetite statement ('RAS'), which is approved by the Board on the recommendation of the group Risk Committee ('RC'). Setting out our risk appetite helps ensure that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

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

Coverage of subsidiaries and material banking entities is monitored through a RAS, which helps ensure they remain aligned with the group's RAS. Each RAS and business activity is guided and underpinned by qualitative principles and/or quantitative metrics.

Risk management

We recognise that the primary role of risk management is to help protect our customers, business, colleagues, shareholders and the communities that we serve, while ensuring we are able to support our strategy and provide sustainable growth. This is supported through our three lines of defence model described on page 21.

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 implement change initiatives, we actively manage execution risks. We also perform periodic risk assessments, including against strategies, to help ensure retention of key personnel for our continued effective operation.

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

The framework fosters continual monitoring, promotes risk awareness and a positive risk culture. It encourages a sound operational and strategic decision making and escalation process. It also supports a consistent approach to identifying, assessing, managing and reporting the risks we accept and incur in our activities, with clear accountabilities. We actively review and enhance our risk management framework and our approach to managing risk.

Group Risk and Compliance is independent from the global businesses, including our sales and trading functions. It provides challenge, oversight and appropriate balance in risk/return decisions.

Our risk management framework

The following diagram and descriptions summarise key aspects of the risk management framework, including governance, structure, risk management tools and our culture, which together help align employee behaviour with risk appetite.

Key components of our risk management framework

HSBC values and risk culture

Risk governance	Non-executive risk governance	The Board approves the group's risk appetite, plans and performance targets. It sets the 'tone from the top' and is advised by the group's Risk Committee.
	Executive risk governance	Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the group.
Roles and responsibilities	Three lines of defence model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Risk and Compliance function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite	The group has processes in place to identify, assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
	Enterprise-wide risk management tools	
	Active risk management: identification/assessment, monitoring, management and reporting	
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	The group has systems and processes that support the identification, capture and exchange of information to support risk management activities.

Risk governance

The Board has ultimate supervisory responsibility for the effective management of risk and approves our risk appetite. It is advised on risk-related matters by the RC. The RC 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 RC meetings, the 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 Officer, supported by members of the RMM, holds executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework.

The management of regulatory compliance risk and financial crime risk resides with the group's Chief Compliance Officer. Oversight is maintained by the group's Chief Risk Officer, in line with his enterprise-wide risk oversight responsibilities, through the RMM.

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

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

Governance structure for the management of risk

Authority	Membership	Responsibilities include:
Risk Management Meeting of the group	group Chief Risk Officer group General Counsel group Co-Chief Executive Officers group Chief Financial Officer group Chief Compliance Officer group Head of Internal Audit Chief Executive Officer of Hang Seng Bank Limited All other group Executive Committee members	– Supporting the group Chief Risk Officer 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 Chief Risk and Compliance Officers/Market Chief Risk Officers Global business/Market Chief Executive Officers Global business/Market Chief Financial Officers Global business/Market heads of global functions[1]	– Supporting the group Chief Risk Officer 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 This category includes Global business/Market Chief Compliance Officers, where applicable.

The Board committees with responsibility for oversight of risk-related matters are set out on page 6.

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, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice, guidance and assurance of the first line of defence to ensure it is managing risk effectively.
- The third line of defence is our Global Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

Risk and Compliance function

The group's Risk sub-function, headed by the group's Chief Risk Officer, is responsible for the group's risk management framework. This responsibility includes establishing and monitoring of risk profiles, and identifying and managing forward-looking risk. The group's Risk sub-function is made up of sub-functions covering all risks to our business. Forming part of the second line of defence, the group's Risk sub-function is independent from the global businesses, including sales and trading functions. It provides challenge, appropriate oversight and balance in risk/return decisions.

Responsibility for minimising both financial and non-financial risk, including regulatory compliance and financial crime, 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 Officers at markets and global businesses.

We have continued to strengthen the control environment and our approach to the management of risks, as set out in our risk management framework. Our ongoing focus is on helping to ensure more effective oversight and better end-to-end identification and management of financial and non-financial risks. This is overseen by the Enterprise Risk sub-function, headed by the group Head of Enterprise Risk Management.

Stress testing and recovery planning

Our stress testing programme assesses our capital and liquidity strength through a rigorous examination of our resilience to external shocks, which forms part of our risk management and capital and liquidity planning. As well as undertaking regulatory-driven stress tests, we conduct our own internal stress tests in order to understand the nature and level of all material risks, quantify the impact of such risks and develop plausible mitigating actions. The outcome of a stress testing provides management with key insights into the impact of severely adverse events on the group, and provides confidence to regulators on the group's financial stability.

Internal stress tests

Our internal capital assessment uses a range of stress scenarios that explore risks identified by management. They include potential adverse macroeconomic, geopolitical, climate and operational risk events, as well as other potential events that are specific to the group.

The selection of stress scenarios is based upon the output of our identified top and emerging risks and our risk appetite. Stress testing analysis helps management understand the nature and extent of vulnerabilities to which the group is exposed. Using this information, management decides whether risks can or should be mitigated through management actions or, if they were to crystallise, be absorbed through capital and liquidity. This in turn informs decisions about preferred capital and liquidity levels and allocations.

During 2024, we completed a Group-wide Internal Stress Test alongside testing of the bank's strategy, otherwise known as the corporate plan to test and inform our strategy and assumptions. The stress scenario explored the potential impact of two contrasting scenarios depicting severe macroeconomic conditions over a five-year period. These scenarios reflected the uncertain inflation and interest rate environment, heightened geopolitical tensions, banking sector challenges, and global economic stress.

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, as required, in the regulatory stress testing programmes of the locations in which they operate, such as stress tests required by the Monetary Authority of Singapore, the Australian Prudential Regulation Authority and those required by the HKMA.

We also conduct reverse stress tests each year at a group level and, where required, at 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 RMM and RC.

Recovery and resolution plans

Recovery and resolution plans form part of the integral framework safeguarding the group's financial stability under severe stress. The group's recovery plan, together with stress testing, helps us to generate business insights to identify credible recovery options that can be implemented under a range of idiosyncratic and market-wide stress scenarios. The aim is to mitigate the potential shortfall in capital and liquidity pressures.

Key developments in 2024

In 2024, we have 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 also retained our focus on risk transformation and financial crime and continued to assess the group's operational resilience capability whilst prioritising the most significant enterprise risks. We continue to develop capabilities to address key risks.

More specifically, we sought to enhance our risk management in the following areas:

- We made progress on our comprehensive regulatory reporting programme, which seeks to strengthen our processes, enhance consistency and improve controls across regulatory reports. This programme remains a top priority and continues to enhance data, transform the reporting systems and uplift the control environment over the report production process.
- We continued to embed our Regulatory management systems focused on regulatory horizon scanning, regulation mapping, and regulatory content for our inventory.
- We continue to maintain a focus on our technology and cybersecurity controls to improve the resilience and security of our technology services in response to the heightened external threat environment.
- We have improved the quality of our strategic change investment cases and control monitoring, and are transitioning to value streams and an integrated future state architecture to enhance our delivery of complex transformation portfolios and initiatives.

- We continue to enhance our model risk framework in response to changes in regulation and external factors. AI and machine learning models remain a key focus. Progress has been made in enhancing governance activity in this area with particular focus on generative AI due to the pace of technological change and regulatory and wider interest in adoption and usage.
- We enhanced our processes, framework and controls to improve the oversight of our material third parties with respect to financial stability to better manage our supply chain and operational resilience. We will continue to assess and manage our operational resilience.
- Through our climate risk programme, we made progress on embedding climate considerations throughout the organisation, including through risk policy updates. We also developed risk metrics to monitor and manage exposures, and further enhanced our internal climate scenario analysis. We will continue with our climate risk programme to complete our annual materiality assessment and make changes to our policies, processes and capabilities to better embed climate considerations throughout the organisation.
- We deployed industry-leading technology and advanced analytics capabilities into more of the markets we operate in 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 enhance our frameworks, policies and governance processes to embed Consumer Protection requirements.

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 the execution of our strategy or operations over the medium to long term. Top risks are those that have the potential to have a material adverse impact on the financial results, reputation or business model of the group. We actively manage and take actions to mitigate our top risks. Emerging risks are those that, while they could have a material impact on our risk profile were they to occur, are not considered immediate and are not under active management.

We proactively assess the internal and external risk environment, as well as review the themes identified across our region and global businesses, for any risks that may require global escalation. Our suite of top and emerging risks is subject to regular review by senior governance forums and are updated as necessary. We continue to monitor closely the identified risks and ensure management actions are in place, as required.

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. We are also subject to cyclical and idiosyncratic macroeconomic risks which can be significant, although at year-end 2024, global growth was supported by increasing monetary and fiscal policy support by governments in various jurisdictions. Following elections in the US and other markets in 2024, a recalibration of economic and trade policies is underway and uncertainty has increased, widening the distribution of economic risk.
Technology and cybersecurity risk	▲	There is a risk of service disruption or loss of data resulting from technology failures or malicious activities from internal or external threats. We continue to monitor changes to the threat landscape, including those arising from ongoing geopolitical and macroeconomic events and the impact this may have on third-party 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 owing to the pace and volume of regulatory developments globally, signs of diverging national agendas, increasing frequency of severe weather events, which require careful monitoring, and may impact financial and non-financial risks due to stakeholders placing more emphasis on financial institutions' actions and investment decisions in respect of ESG matters. Failure to meet these evolving expectations may result in financial and non-financial risks, including reputational, legal and regulatory compliance risks.
Financial crime risk	▲	We are exposed to financial crime risk from our customers, staff and third parties engaging in criminal activity. The financial crime risk environment is heightened due to increasingly complex geopolitical challenges, the macroeconomic outlook, the complex and dynamic nature of sanctions compliance, evolving financial crime regulations, rapid technological developments, an increasing number of national data privacy requirements and the increasing sophistication of fraud. As a result, we will continue to face the possibility of regulatory enforcement and reputational risk.
Digitalisation and technological advances	▲	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 environment remains complex. There continues to be an intense regulatory focus on ESG matters, including on 'green' products. Regulatory scrutiny of financial institutions following recent banking failures may result in new or additional regulatory requirements, impacting the group in the short to medium term.

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 are driving material changes to the way model risk is managed across the banking industry, with a particular focus on capital models. New technologies, including AI and generative AI, are driving a need for enhanced model risk controls.
Change execution risk	▶	Delivering change effectively enables us to meet rapidly evolving customer and stakeholder needs, and helps us achieve our strategy. We understand the risks associated with change execution, and deliver complex change in line with established risk management processes, prioritising sustainable outcomes, and understanding the associated risks. We focus on meeting industry and regulatory expectations and fulfilling our obligations to customers and the marketplace we operate in.
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, changing skills requirements of our workforce, and compliance with employment laws and regulations. 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 2024 ▶ Risk remained at the same level as full year 2023 ▼ Risk decreased during 2024

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
Credit risk Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and derivatives.	Credit risk is: – 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.
Treasury risk Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural and transactional foreign exchange exposures and changes in market interest rates, together with pension and insurance risk.	Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions, or the external environment.	Treasury risk is: – measured through risk appetite and more granular limits, set to provide an early warning of increasing risk, minimum ratios of relevant regulatory metrics, and metrics to monitor the key risk drivers impacting treasury resources; – monitored and projected against appetites and by using operating plans based on strategic objectives together with stress and scenario testing; and – managed through control of resources in conjunction with risk profiles, strategic objectives and cash flows.
Market risk Market risk is the risk of an adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads.	Market risk arises from both trading portfolios and non-trading portfolios. Market risk for non-trading portfolios is discussed in the Treasury risk section on page 49. Market risk exposures arising from our insurance operations are discussed on page 61.	Market risk is: – measured using sensitivities, value at risk ('VaR') and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; – monitored using VaR, stress testing and other measures; and – managed using risk limits approved by the Board for the group and the various global businesses.

Description of risks – banking operations

Risks	Arising from	Measurement, monitoring and management of risk
Climate risk		
Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy.	Climate risk is likely to materialise through: – physical risk, which arises from the increased frequency and severity of weather events; – transition risk, which arises from the process of moving to a low-carbon economy; – net zero alignment risk, which arises from failing to meet the Group's net zero commitments or to meet external expectations related to net zero because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in the external environment; and – greenwashing risk, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to stakeholders.	Climate risk is: – measured using risk metrics and stress testing; – monitored against risk appetite statements; and – managed through adherence to risk appetite thresholds, through specific policies, and through enhancements to processes and development of tools including the development of product market controls to manage the risk of greenwashing and the development of portfolio steering capabilities to manage our net zero targets.
Resilience risk		
Resilience risk is the risk of sustained and significant business disruption from execution, delivery or physical security or safety events, causing the inability to provide critical services to our customers, affiliates and counterparties.	Resilience risk arises from failures or inadequacies in processes, people, systems or external events.	Resilience risk is: – measured through a range of metrics and against our agreed risk appetite; – monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and – managed by continual monitoring and thematic reviews.
Regulatory compliance risk		
Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards.	Regulatory compliance risk arises from the failure to observe the relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.	Regulatory compliance risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Financial crime risk		
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, sanctions and export control violations, money laundering, terrorist financing and proliferation financing.	Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.	Financial crime risk is: – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
Model risk		
Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.	Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.	Model risk is: – measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; – monitored against model risk appetite statements, insight from the independent validations completed by the model risk management team, feedback from internal and external audits, and regulatory reviews; and – managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to ensure operational effectiveness.

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 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: – 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: – measured (i) for credit risk, in terms of economic capital and the amount that could be lost if a counterparty fails to make repayments; (ii) for market risk, in terms of economic capital, internal metrics and fluctuations in key financial variables; and (iii) 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: – measured in terms of life insurance liabilities and economic capital allocated to insurance underwriting risk; – monitored through a framework of approved limits and delegated authorities; and – managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance. This includes using product design, underwriting, reinsurance and claims-handling procedures.

Credit risk

Overview

(Audited)

Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products, such as guarantees and credit derivatives.

Credit risk management

Key developments in 2024

(Unaudited)

There were no material changes to the policies and practices for the management of credit risk in 2024. We continued to apply the requirements of HKFRS 9 'Financial Instruments' within the Credit Risk sub-function.

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 22.

Governance and structure

(Unaudited)

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

Credit risk sub-function

(Audited)

Credit approval authorities are delegated by the Board to the Co-Chief Executives together with the authority to sub-delegate them. 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.

The principal objectives of our credit risk management are:

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

Key risk management processes

HKFRS 9 'Financial Instruments' process

(Unaudited)

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

Modelling, data and forward economic guidance

(Unaudited)

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

We have a centralised process for generating unbiased and independent global economic scenarios. Scenarios are subject to a process of review and challenge by a dedicated central team and individually for each region. Each quarter, the scenarios and probability weights are reviewed and checked for consistency with the economic conjuncture and current economic and financial risks. These are subject to final review and approval by senior management in a Forward Economic Guidance Global Business Impairment Committee.

Implementation

(Unaudited)

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

Governance

(Unaudited)

Management review forums are established in key sites and group level in order to review and approve the impairment results.

Management review forums have representatives from Credit Risk and Finance. The key site and group level approvals at the group Impairment Committee are reported up to the relevant global business impairment committee for final approval of the Group's ECL for the period. Required members of the group Impairment Committee are the group's Chief Risk Officer, Wholesale Chief Credit Officer, Wealth and Personal Banking Chief Risk Officer, as well as the group's Chief Financial Officer and Financial Controller.

Concentration of exposure

(Audited)

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

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 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.

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(i) 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(i) 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 forbearance measures may not result in the loan 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.

Impairment assessment

(Audited)

For details of our impairment policies on loans and advances and financial investments, see Note 1.2(i) 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)

	2024		2023	
	Gross carrying/ nominal amount	**Allowance for ECL[1]**	Gross carrying/ nominal amount	Allowance for ECL[1]
At 31 Dec	**HK$m**	**HK$m**	HK$m	HK$m
Loans and advances to customers at amortised cost	**3,529,958**	**(35,660)**	3,595,929	(38,853)
Loans and advances to banks	**480,779**	**(39)**	563,852	(51)
Other financial assets measured at amortised cost	**2,257,430**	**(392)**	2,309,109	(393)
– cash and balances at central banks	**211,047**	**—**	232,988	(1)
– Hong Kong Government certificates of indebtedness	**328,454**	**—**	328,304	—
– reverse repurchase agreements – non-trading	**816,102**	**—**	831,186	—
– financial investments	**632,781**	**(40)**	618,995	(57)
– prepayments, accrued income and other assets[2]	**269,046**	**(352)**	297,636	(335)
Amounts due from Group companies	**133,576**	**—**	131,071	—
Total gross carrying amount on-balance sheet	**6,401,743**	**(36,091)**	6,599,961	(39,297)
Loans and other credit related commitments	**2,027,320**	**(700)**	1,978,328	(841)
Financial guarantee	**52,988**	**(62)**	46,325	(54)
Total nominal amount off-balance sheet[3]	**2,080,308**	**(762)**	2,024,653	(895)
	8,482,051	**(36,853)**	8,624,614	(40,192)

	Fair value	**Allowance for ECL**	Fair value	Allowance for ECL
At 31 Dec	**HK$m**	**HK$m**	HK$m	HK$m
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')[4]	**1,698,374**	**(103)**	1,404,323	(93)

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 73, comprises both financial and non-financial assets, including cash collateral and settlement accounts, It also includes 'Items in the course of collection from other banks' which was presented separately in 2023.
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.

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

- Stage 1: These financial assets are unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced on these financial assets since initial recognition for which a lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised.
- POCI: Financial assets that are purchased or originated at a deep discount are seen to reflect the incurred credit losses on which a lifetime ECL is recognised.

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	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.

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	of which: 30 and > DPD
	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.

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	3,180,483	352,477	62,679	290	3,595,929	(2,681)	(8,575)	(27,433)	(164)	(38,853)	0.1	2.4	43.8	56.6	1.1
– personal	1,495,142	60,473	7,406	—	1,563,021	(1,285)	(3,142)	(1,265)	—	(5,692)	0.1	5.2	17.1	—	0.4
– corporate[2]	1,405,747	280,699	54,613	290	1,741,349	(1,187)	(5,396)	(25,839)	(164)	(32,586)	0.1	1.9	47.3	56.6	1.9
– financial institutions[3]	279,594	11,305	660	—	291,559	(209)	(37)	(329)	—	(575)	0.1	0.3	49.8	—	0.2
Loans and advances to banks	563,647	205	—	—	563,852	(50)	(1)	—	—	(51)	—	0.5	—	—	—
Other financial assets	2,296,216	12,497	396	—	2,309,109	(277)	(11)	(105)	—	(393)	—	0.1	26.5	—	—
Loans and other credit-related commitments	1,929,040	47,175	2,113	—	1,978,328	(455)	(285)	(101)	—	(841)	—	0.6	4.8	—	—
– personal	1,416,939	19,362	1,742	—	1,438,043	(25)	(1)	—	—	(26)	—	—	—	—	—
– corporate[2]	381,803	25,661	371	—	407,835	(399)	(273)	(101)	—	(773)	0.1	1.1	27.2	—	0.2
– financial institutions[3]	130,298	2,152	—	—	132,450	(31)	(11)	—	—	(42)	—	0.5	—	—	—
Financial guarantee	42,828	3,244	253	—	46,325	(20)	(10)	(24)	—	(54)	—	0.3	9.5	—	0.1
– personal	4,654	6	—	—	4,660	—	—	—	—	—	—	—	—	—	—
– corporate[2]	33,169	3,131	253	—	36,553	(19)	(10)	(24)	—	(53)	0.1	0.3	9.5	—	0.1
– financial institutions[3]	5,005	107	—	—	5,112	(1)	—	—	—	(1)	—	—	—	—	—
At 31 Dec 2023	8,012,214	415,598	65,441	290	8,493,543	(3,483)	(8,882)	(27,663)	(164)	(40,192)	—	2.1	42.3	56.6	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.

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	of which: 30 and > DPD
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	%	%	%	%
At 31 Dec 2023												
Loans and advances to customers at amortised cost	352,477	341,171	7,436	3,870	(8,575)	(7,844)	(299)	(432)	2.4	2.3	4.0	11.2
– personal	60,473	50,725	6,289	3,459	(3,142)	(2,507)	(220)	(415)	5.2	4.9	3.5	12.0
– corporate and commercial	280,699	279,144	1,146	409	(5,396)	(5,300)	(79)	(17)	1.9	1.9	6.9	4.2
– non-bank financial institutions	11,305	11,302	1	2	(37)	(37)	—	—	0.3	0.3	—	—

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 the maximum exposure to credit risk associated with balance sheet items 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 45-48.

Maximum exposure to credit risk before collateral held or other credit enhancements

	2024	2023
	HK$m	HK$m
Cash and balances at central banks	211,047	232,987
Hong Kong Government certificates of indebtedness	328,454	328,304
Trading assets	626,722	565,660
Derivatives	505,260	409,253
Financial assets designated at fair value	506,512	484,593
Reverse repurchase agreements – non-trading	816,102	831,186
Loans and advances to banks	480,740	563,801
Loans and advances to customers	3,494,298	3,557,076
Financial investments	2,331,114	2,023,263
Amounts due from Group companies	175,004	158,592
Other assets	268,556	297,966
Total on-balance sheet exposure to credit risk	**9,743,809**	9,452,681
Total off-balance sheet	**3,917,953**	3,845,103
Financial guarantees and other similar contracts	440,814	434,030
Loan and other credit-related exposure	3,477,139	3,411,073
At 31 Dec	**13,661,762**	13,297,784

Total exposure to credit risk remained broadly unchanged in 2024 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(i) 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 economic scenarios, apply these forecasts to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

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

The Central scenario is constructed to reflect the latest macroeconomic expectations. Outer scenarios incorporate the crystallisation of economic and geopolitical risks.

In the fourth quarter of 2024, the four economic scenarios were modified to reflect heightened policy uncertainty following the US election and to overcome any lags in consensus forecasts. An adjustment factor based on more recent views of expected tariffs and other policy changes was modelled and then applied to each of the economic scenarios. The effect was to lower growth expectations in our major markets, while the impact on inflation and interest rates was varied.

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.

At 31 December 2024, there was an overall reduction in management judgemental adjustments compared with 31 December 2023, as modelled outcomes better reflected the key risks at 31 December 2024.

Methodology

At 31 December 2024, four scenarios were used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and distributional estimates every quarter.

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

The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting. It is created using consensus forecasts, which is the average of a panel of external forecasts.

The outer scenarios represent the tails of the distribution and are less likely to occur. The Consensus Upside and Downside scenarios are created with reference to forecast probability distributions for select markets that capture economists' views of the entire range of economic outcomes. In the later years of those scenarios, projections revert to long-term consensus trend expectations. Reversion to trend expectations is done with reference to historically observed quarterly changes in the values of macroeconomic variables.

The fourth scenario, the Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent, narrative-driven scenario that 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.

The consensus Downside and the consensus Upside scenarios are each calibrated to be consistent with a 10% probability. The Downside 2 is calibrated to a 5% probability. The Central scenario is assigned the remaining 75% probability. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. 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.

For the fourth quarter of 2024, we assessed that consensus forecasts and distributional estimates did not adequately reflect the consequences of the US election on the global economic outlook. Forecasts lag and there is increased uncertainty as to how economic policy will change and how tariffs will be implemented. Scenarios were constructed using the standard methodology, as described, before an adjustment to account for policy changes was subsequently applied. The adjustment is based on a modelled update to the Central scenario and incorporated a detailed narrative of US economic policy proposals, including specific tariff rates. The modelled results were then layered onto the Central Scenario. To quantify the impact, the adjustment reduces GDP growth in our key markets by between 30bps and 50bps in the first two years of the Central scenario forecast. Outer scenarios have been shifted in parallel.

The scenario adjustment entailed no change in scenario probability weights, which remained in-line with the Forward Economic Guidance ('FEG') framework. Uncertainty relating to the policy outlook have been addressed in the scenarios directly. Measures of dispersion and uncertainty have remained low but may reflect lags in the consensus economic forecasting process.

Scenarios produced to calculate ECL are aligned to HSBC's top and emerging risks.

Description of economic scenarios

The economic assumptions presented in this section have been formed by HSBC with reference to external forecasts and estimates, specifically 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.

In our key markets, the Central scenario incorporates potential impacts from anticipated changes to US economic and trade policy, including higher tariffs. The overall effect of the adjustment in our key markets is to lower GDP and raise inflation and unemployment estimates, relative to the consensus. Consequently, GDP growth and unemployment forecasts have deteriorated in the fourth quarter of 2024, compared with the fourth quarter of 2023. With regard to monetary policy, the expected path for interest rates in our many of our market are based on market futures.

At the end of 2024, risks to the economic outlook included a number of significant geopolitical issues. Within our downside scenarios, the economic consequences from the crystallisation of those risks are captured by higher commodity and goods prices, the re-acceleration of inflation, a further rise in interest rates and a global recession.

The scenarios used to calculate ECL in the Annual Report and Accounts 2024 are described below.

The consensus Central scenario

HSBC's Central scenario reflects expectations for slower growth and high inflation and unemployment across our key markets.

Expectations of lower GDP growth in many markets in 2025 are driven by the assumed effects of higher tariffs, which impede trade flows and deter investment. In the scenario, the US applies tariffs on key trading partners, focusing on mainland China at the outset of the new administration's term, before moving attention to other trading partners. Countries are expected to respond in-kind. As a direct consequence of tariffs, trade growth is reduced, which in turn weighs on GDP growth. Mainland China and Hong Kong experience the greatest negative consequences given the interlinkages with the US economy. Indirect consequences from tariffs dampen growth elsewhere. Tariffs, or the threat of them, increases uncertainty, leading to lower confidence and reduced investment.

Global GDP is expected to grow by 2.6% in 2025 in the Central scenario, and the average rate of global GDP growth is forecast to be 2.6% over the five-year forecast period. This is below the average growth rate over the five-year period prior to the onset of the pandemic of 2.9%.

The key features of our Central scenario are:

- GDP growth rates in our key markets are expected to slow in 2025 and 2026, due to the implementation of higher tariffs as well as underlying structural weaknesses in some economies. The most significant slowdowns in activity are expected to occur in the markets with the highest trade dependence with the US. Elevated interest rates and higher price levels are also expected to continue to weigh on some consumer and corporate segments.
- In most markets, unemployment is forecast to rise moderately as economic activity slows, although it remains low by historical standards.
- In Hong Kong and mainland China, inflation is expected to remain subdued, despite higher tariffs, due to weak domestic demand.
- Price weakness in housing markets is expected to persist in Hong Kong and mainland China. High inventory levels remains the biggest drag on Hong Kong and mainland China residential property and is expected to lead to another year of price declines in 2025, before recovering gradually from 2026.
- 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 2025. 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 USD69 per barrel over the projection period.

The Central scenario was created with forecasts available in late November, and reviewed continually until end-December 2024. In accordance with HSBC's scenario framework, a probability weight of 75% has been assigned to the Central scenario across all major markets.

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

Central scenario 2025-2029 (as at 4Q24)

	Hong Kong %	Mainland China %
GDP growth (annual average rate)		
2025	**1.7**	**4.0**
2026	**1.8**	**3.7**
2027	**3.5**	**4.3**
2028	**3.1**	**3.9**
2029	**2.7**	**3.7**
5 year average[1]	**2.6**	**3.9**
Unemployment rate		
2025	**3.3**	**5.2**
2026	**3.7**	**5.4**
2027	**3.3**	**5.2**
2028	**3.0**	**5.0**
2029	**2.9**	**5.0**
5 year average[1]	**3.2**	**5.2**
House price growth (annual average rate)		
2025	**(0.5)**	**(5.9)**
2026	**2.4**	**(0.7)**
2027	**3.0**	**3.2**
2028	**2.7**	**4.1**
2029	**2.7**	**2.9**
5 year average[1]	**2.1**	**0.7**
Inflation rate (annual average growth rate)		
2025	**1.4**	**0.3**
2026	**1.9**	**1.0**
2027	**2.2**	**1.5**
2028	**2.2**	**1.7**
2029	**2.3**	**1.6**
5 year average[1]	**2.0**	**1.2**
Central bank policy rate (annual average, %)[2]		
2025	**4.5**	**2.9**
2026	**4.1**	**2.9**
2027	**4.0**	**3.0**
2028	**4.0**	**3.2**
2029	**4.0**	**3.3**
5 year average[1]	**4.1**	**3.1**

1 The five-year average is calculated over a projected period of 20 quarters from 1Q25 to 4Q29.
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 a faster fall in the rate of inflation than incorporated in the Central scenario.

The scenario is consistent with a number of key upside risk themes. These include only limited increases in tariffs, a faster fall in the rate of inflation that allows central banks to reduce interest rates more quickly. The Upside scenario would also be consistent with a de-escalation in geopolitical tensions, where the Russia-Ukraine war moves quickly towards a conclusion, tensions in the Middle East subside and US-China relations are more cordial.

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

Consensus Upside scenario 2025-2029 (as at 4Q24)

	Hong Kong %	Mainland China %
GDP level (%, start-to-peak)[1]	**21.4 (4Q29)**	**27.5 (4Q29)**
Unemployment rate (%, min)[2]	**2.9 (4Q29)**	**4.9 (4Q26)**
House price index (%, start-to-peak)[1]	**25.3 (4Q29)**	**9.8 (4Q29)**
Inflation rate (YoY % change, min)[3]	**(0.1) (4Q25)**	**(1.0) (4Q25)**
Central bank policy rate (%, Min)[2]	**4.0 (1Q29)**	**2.7 (1Q26)**

1 Cumulative change to the highest level of the series during the 20-quarter projection.
2 The lowest projected unemployment or policy rate in the scenario. For mainland China, Central bank policy rate shown is the Loan Prime Rate.
3 The lowest projected year-on-year percentage change in inflation in the scenario.

Downside scenarios

Downside scenarios explore the intensification and crystallisation of a number of key economic and financial risks. These include a more material escalation of tariff policies and geopolitical tensions, which disrupt key commodity and goods markets, causing inflation and interest rates to rise, and creating a global recession.

As the geopolitical environment remains volatile and complex, risks include:

- an increase in protectionist policies, as countries increasingly impose retaliatory tariffs. This lowers investment, complicates international supply chains, and impedes trade flows;
- a broader and more prolonged conflict in the Middle East and between Russia and Ukraine, which further disrupts energy, fertiliser and food supplies; and
- continued differences between the US and China, which could affect economic confidence, the global goods trade and supply chains for critical technologies.

High inflation and higher interest rates also remain key risks. Should tariffs increase significantly and geopolitical tensions escalate, energy and food prices could rise and increase pressure on household budgets and firms' costs.

Higher inflation and labour supply shortages could also trigger a wage-price spiral and put sustained pressure on household incomes and corporate margins. In turn, it raises the risk that central banks react more forcefully, leading to higher defaults and a deep economic recession.

The consensus Downside scenario

In the consensus Downside scenario, economic activity is weaker compared with the Central scenario. In this scenario, GDP declines, unemployment rates rise, and asset prices fall. The scenario features an increase in tariffs over and above those assumed in the Central scenario and an escalation of geopolitical tensions, which causes a rise in inflation, as supply chain constraints intensify and energy prices rise. The scenario also features a temporary increase in interest rates above the Central scenario, before the effects of weaker consumption demand begin to dominate and commodity prices and inflation fall again.

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

Consensus Downside scenario 2025-2029 (as at 4Q24)

	Hong Kong %	Mainland China %
GDP level (%, start-to-trough)[1]	**(4.5) (4Q25)**	**(2.5) (3Q25)**
Unemployment rate (%, max)[2]	**5.1 (2Q26)**	**6.9 (4Q26)**
House price index (%, start-to-trough)[1]	**(1.9) (2Q26)**	**(12.8) (3Q26)**
Inflation rate (YoY % change, max)[3]	**3.1 (1Q26)**	**2.0 (1Q26)**
Central bank policy rate (%, Max)[2]	**5.2 (1Q25)**	**3.0 (1Q25)**

1 Cumulative change to the lowest level of the series during the 20-quarter projection.
2 The highest projected unemployment or policy rate in the scenario. For mainland China, Central bank policy rate shown is the Loan Prime Rate.
3 The highest projected year-on-year percentage change in inflation in the scenario.

Downside 2 scenario

The Downside 2 scenario features a deep global recession and reflects management's view of the tail of the economic distribution. It incorporates the crystallisation of a number of risks simultaneously, including significant increases in tariffs globally, where the US imposes tariffs of 60% on imports from mainland China, and a further escalation of geopolitical crises, which creates severe supply disruptions to goods and energy markets. In the scenario, as inflation surges and central banks tighten monetary policy further, consumer confidence evaporates. However, this impulse is expected to prove short-lived, as recession takes hold, causing a sharp fall in demand, leading commodity prices to correct sharply and global price inflation to fall.

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

Downside 2 scenario 2025-2029 (as at 4Q24)

	Hong Kong %	Mainland China %
GDP level (%, start-to-trough)[1]	**(10.1) (4Q25)**	**(8.7) (4Q25)**
Unemployment rate (%, max)[2]	**7.1 (1Q26)**	**7.1 (4Q26)**
House price index (%, start-to-trough)[1]	**(34.4) (3Q27)**	**(30.5) (4Q26)**
Inflation rate (YoY % change, max)[3]	**3.6 (1Q26)**	**3.8 (4Q25)**
Central bank policy rate (%, Max)[2]	**5.9 (1Q25)**	**3.5 (3Q25)**

1 Cumulative change to the lowest level of the series during the 20-quarter projection.
2 The highest projected unemployment/policy rate in the scenario. For mainland China, Central bank policy rate shown is the Loan Prime Rate.
3 The highest projected year-on-year percentage change in inflation in the scenario.

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 weights takes into consideration the relationship of the consensus scenarios to both internal and external assessments of risk.

In assessing the economic environment and the level of risk and uncertainty, management has considered both global and country-specific factors.

In the fourth quarter of 2024, key considerations around uncertainty focused on:

- US import tariffs and bilateral tariff escalations globally, and the impact on trade and manufacturing supply chains;
- the extent to which authorities in mainland China can support economic growth and the real estate market;
- prospects for recovery in the Hong Kong residential property market;
- the impacts of ongoing volatility in interest rate expectations on household finances and businesses, and the implications of changes to monetary policy expectations on growth and employment; and
- risks of an asset price correction given already elevated valuations across different asset classes.

Although these factors are significant, management assessed that the adjusted Central scenario reflected their most likely future outcome and that outer scenarios were sufficiently well calibrated to address the crystallisation of more severe risks.

This led management to assign scenario probabilities that are aligned to the standard scenario probability calibration framework. The 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 support of the decision, it was noted that the effect of higher tariffs would be most negative in mainland China and Hong Kong, as it would restrict trade growth (a significant growth driver in 2024) substantially and lead to weaker domestic demand. The adjustment to the Central scenario reflected this assumption.

The following table describes the probabilities assigned in each scenario.

Scenario weightings, %

	Standard weights	Hong Kong	Mainland China
4Q24			
Upside	10.0	10.0	10.0
Central	75.0	75.0	75.0
Downside	10.0	10.0	10.0
Downside 2	5.0	5.0	5.0

At 31 December 2024, the consensus Upside and Central scenarios for all markets had a combined weighting of 85%, unchanged as at 31 December 2023. Weightings assigned to the Downside scenarios also remained unchanged.

Critical estimates and judgements

The calculation of ECL under HKFRS 9 involved significant judgements, assumptions and estimates at 31 December 2024. These included:

- the selection and configuration of economic scenarios, given the constant change in economic conditions and distribution of economic risks; and
- estimating the economic effects of those scenarios on ECL, where similar observable historical conditions cannot be captured by the credit risk models.

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2024, and management judgemental adjustments were still required to support modelled outcomes.

We have developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. These standard approaches are described below, followed by the management judgemental adjustments made, including those to reflect the circumstances experienced in 2024.

For our wholesale portfolios, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations we consider the correlation of forward economic guidance to 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 derived based on discounted cash flow ('DCF') calculations for internal forward-looking scenarios specific to individual borrower circumstances [see page 84]. Probability-weighted outcomes are applied, and depending on materiality and 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 proxy and modelled 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 underlying assets.

For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value profiles for the remaining maturity of the asset, using market level house price index 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 macroeconomic dependent stressed LGD applied to the Alternative downside scenario.

Management judgemental adjustments

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

This includes refining model inputs and outputs and using adjustments to ECL based on management judgement and quantitative analysis for impacts that are difficult to model.

The effects of management judgmental adjustments are considered for both balances and allowance for ECL when determining whether or not a significant increase in credit risk has occurred and is allocated to a stage where appropriate. This is in accordance with the internal adjustments framework.

Management judgmental adjustments are reviewed under the governance process for HKFRS 9 (as detailed in the section 'Credit risk management' on page 25). Review and challenge focuses on the rationale and quantum of the adjustments with a further review carried out by the second line of defence where significant. For some management judgemental adjustments, internal frameworks establish the conditions under which these adjustments should no longer be required and as such are considered as part of the governance process. This internal governance process allows management judgemental adjustments to be reviewed regularly and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

The drivers of management judgemental adjustments continue to evolve with the economic environment, and as 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.

Management judgemental adjustments and other adjustments constitute the total value of adjustments to modelled allowance for ECL. For the wholesale portfolio, defaulted exposures are assessed individually and management judgemental adjustments are made only to the performing portfolio.

At 31 December 2024, management judgement adjustments reduced by HK$0.6bn compared with 31 December 2023.

Management judgemental adjustments made in estimating the scenario-weighted reported allowance for ECL at 31 December 2024 are set out in the following table.

Management judgemental adjustments to ECL as at 31 December 2024[1]

	Retail	**Wholesale[2]**	**Total**
	HK$bn	**HK$bn**	**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 to ECL as at 31 December 2023[1]

	Retail	Wholesale[2]	Total
	HK$bn	HK$bn	HK$bn
Modelled ECL (A)[3]	4.9	7.7	12.6
Corporate lending adjustments	—	0.3	0.3
Other credit judgements	0.8	—	0.8
Total management judgemental adjustments (B)[4]	0.8	0.3	1.1
Other adjustments (C)[5]	—	(0.1)	(0.1)
Final ECL (A + B + C)[6]	5.7	7.9	13.6

1 Management judgemental adjustments presented in the table reflect increases or (decreases) to ECL, respectively.
2 The wholesale portfolio corresponds to adjustments to the performing portfolio (stage 1 and stage 2).
3 Modelled ECL (A) refers to probability-weighted allowance for ECL before any adjustments are applied.
4 Total management judgemental adjustments (B) refers to adjustments that are applied where management believes allowance for ECL does not sufficiently reflect the credit risk/ expected credit losses of any given portfolio at the reporting date. These can relate to risks or uncertainties that are not reflected in the model and/ or to any late breaking events.
5 Other adjustments (C) refers to adjustments to allowance for ECL made to address process limitations and data/model deficiencies and can also include where appropriate, the impact of new models where governance has sufficiently progressed to allow an accurate estimate of ECL allowance to be incorporated into the total reported ECL.
6 As presented within our internal credit risk governance (see page 26).

At 31 December 2024, wholesale management judgemental adjustments were an increase to allowance for ECL of HK$0.5bn. These were mainly to corporate exposures to reflect heightened uncertainty in the real estate sector in Hong Kong and China.

At 31 December 2024, retail management judgemental adjustments decreased by HK$0.8bn. The reduction in adjustments compared with 31 December 2023 is driven by decrease in Other credit judgements due to reductions in economic uncertainty and model redevelopments which captured macroeconomic risks more effectively.

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 conditions[1]

	Hong Kong	**Mainland China**
ECL coverage of financial instruments subject to significant measurement uncertainty at 31 Dec 2024[2]	**HK$m**	**HK$m**
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**

HKFRS 9 ECL sensitivity to future economic conditions[1]

	Hong Kong	Mainland China
ECL coverage of financial instruments subject to significant measurement uncertainty at 31 Dec 2023[2]	HK$m	HK$m
Reported ECL	4,758	2,018
Consensus scenarios ECL		
Central scenario	4,422	1,697
Upside scenario	3,378	1,106
Downside scenario	6,304	3,237
Alternative (Downside 2) scenario ECL	10,881	7,384

1 Excludes ECL and financial instruments relating to defaulted obligors.
2 Includes off-balance sheet financial instruments that are subject to significant measurement uncertainty.

Compared with 31 December 2023, the Downside 2 ECL impact was higher in Hong Kong reflecting increasing uncertainty on real estate sector.

Retail analysis

HKFRS 9 ECL sensitivity to future economic conditions[1]

	At 31 December 2024[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	**3,137**	**2,963**	**2,895**	**3,192**	**7,991**

HKFRS 9 ECL sensitivity to future economic conditions[1]

	At 31 December 2023[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	3,115	2,658	2,370	4,079	8,973

1 ECL sensitivities exclude portfolios using less complex modelling approaches.
2 ECL sensitivity includes only on-balance sheet financial instruments to which HKFRS 9 impairment requirements are applied.

At 31 December 2024, the most significant level of ECL sensitivity was observed in Hong Kong driven by the relative size of the portfolio in retail.

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 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)

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 2024		Year ended 31 Dec 2024
	Gross carrying/ nominal amount	**Allowance for ECL**	**ECL charge**
	HK$m	**HK$m**	**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)**

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 2023	5,574,139	(3,212)	533,242	(11,605)	68,585	(25,881)	623	(191)	6,176,589	(40,889)
Transfers of financial instruments:	(64,485)	(1,974)	38,388	6,944	26,097	(4,970)	—	—	—	—
– transfers from stage 1 to stage 2	(422,711)	888	422,711	(888)	—	—	—	—	—	—
– transfers from stage 2 to stage 1	361,014	(2,808)	(361,014)	2,808	—	—	—	—	—	—
– transfers to stage 3	(4,009)	85	(24,460)	5,289	28,469	(5,374)	—	—	—	—
– transfers from stage 3	1,221	(139)	1,151	(265)	(2,372)	404	—	—	—	—
Net remeasurement of ECL arising from transfer of stage	—	1,147	—	(1,175)	—	(218)	—	—	—	(246)
Net new and further lending/ repayments	213,347	(222)	(166,049)	2,286	(15,378)	3,604	(332)	15	31,588	5,683
Changes in risk parameters – credit quality	—	1,143	—	(5,451)	—	(14,174)	—	208	—	(18,274)
Changes to model used for ECL calculation	—	(121)	—	109	—	43	—	—	—	31
Assets written off	—	—	—	—	(13,856)	13,856	(2)	2	(13,858)	13,858
Credit-related modifications that resulted in derecognition	—	—	—	—	—	—	—	—	—	—
Foreign exchange	(4,522)	21	(2,366)	12	(341)	173	—	—	(7,229)	206
Others	(5,800)	10	(116)	9	(57)	10	—	(197)	(5,973)	(168)
At 31 Dec 2023	5,712,679	(3,208)	403,099	(8,871)	65,050	(27,557)	289	(163)	6,181,117	(39,799)
ECL income statement charge for the year										(12,806)
Recoveries										864
Modification losses on contractual cash flows that did not result in derecognition										(6)
Others										(1,118)
Total ECL income statement charge for the year										(13,066)

	At 31 Dec 2023		Year ended 31 Dec 2023
	Gross carrying/ nominal amount	Allowance for ECL	ECL charge
	HK$m	HK$m	HK$m
As above	6,181,117	(39,799)	(13,066)
Other financial assets measured at amortised cost	2,309,109	(393)	(44)
Non-trading reverse repurchase agreement commitments	3,317	—	—
Performance and other guarantees not considered for HKFRS 9	N/A	N/A	(106)
Amounts due from Group companies	131,071	—	—
Summary of financial instruments to which the impairment requirements in HKFRS 9 are applied/Summary consolidated income statement	8,624,614	(40,192)	(13,216)
Debt instruments measured at FVOCI	1,404,323	(93)	373
Total allowance for ECL/total income statement ECL charge for the year	N/A	(40,285)	(12,843)

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 26.

Distribution of financial instruments by credit quality at 31 December 2024

(Audited)

	Gross carrying/notional amount							
	Strong HK$m	Good HK$m	Satisfactory HK$m	Sub-standard HK$m	Credit impaired HK$m	Total HK$m	Allowance for ECL HK$m	Net HK$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.

Distribution of financial instruments by credit quality at 31 December 2023 (continued)

(Audited)

	Gross carrying/notional amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
In-scope for HKFRS 9 impairment								
Loans and advances to customers held at amortised cost	2,074,847	688,167	698,123	71,823	62,969	3,595,929	(38,853)	3,557,076
– personal	1,336,990	128,108	85,097	5,420	7,406	1,563,021	(5,692)	1,557,329
– corporate and commercial	571,741	499,109	549,653	65,943	54,903	1,741,349	(32,586)	1,708,763
– non-bank financial institutions	166,116	60,950	63,373	460	660	291,559	(575)	290,984
Loans and advances to banks	553,184	7,768	758	2,142	—	563,852	(51)	563,801
Cash and balances at central banks	227,259	5,607	122	—	—	232,988	(1)	232,987
Hong Kong Government certificates of indebtedness	328,304	—	—	—	—	328,304	—	328,304
Reverse repurchase agreements – non-trading	478,404	138,719	214,004	59	—	831,186	—	831,186
Financial investments held at amortised cost	586,404	29,796	2,792	3	—	618,995	(57)	618,938
Prepayments, accrued income and other assets	191,152	65,365	39,610	1,113	396	297,636	(335)	297,301
Debt instruments measured at fair value through other comprehensive income[1]	1,317,382	69,918	26,535	462	39	1,414,336	(93)	1,414,243
Out-of-scope for HKFRS 9 impairment						—		—
Trading assets	464,264	69,240	30,605	529	1,022	565,660	—	565,660
Other financial assets designated and otherwise mandatorily measured at fair value through profit or loss	385,170	79,763	14,346	39	49	479,367	—	479,367
Derivatives	247,409	38,615	9,865	358	—	296,247	—	296,247
Total gross carrying amount on-balance sheet	6,853,779	1,192,958	1,036,760	76,528	64,475	9,224,500	(39,390)	9,185,110
Percentage of total credit quality	74%	13%	11%	1%	1%	100%		
Loans and other credit related commitments	2,059,689	793,540	525,376	29,092	3,295	3,410,992	(841)	3,410,151
Financial guarantee and similar contracts	186,629	142,828	72,758	3,339	883	406,437	(405)	406,032
Total nominal off-balance sheet amount	2,246,318	936,368	598,134	32,431	4,178	3,817,429	(1,246)	3,816,183

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.

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							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$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.

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							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
Loans and advances to banks	553,184	7,768	758	2,142	—	563,852	(51)	563,801
– stage 1	553,088	7,737	758	2,064	—	563,647	(50)	563,597
– stage 2	96	31	—	78	—	205	(1)	204
– stage 3	—	—	—	—	—	—	—	—
– POCI	—	—	—	—	—	—	—	—
Loans and advances to customers at amortised cost	2,074,847	688,167	698,123	71,823	62,969	3,595,929	(38,853)	3,557,076
– stage 1	2,051,644	624,138	498,644	6,057	—	3,180,483	(2,681)	3,177,802
– stage 2	23,203	64,029	199,479	65,766	—	352,477	(8,575)	343,902
– stage 3	—	—	—	—	62,679	62,679	(27,433)	35,246
– POCI	—	—	—	—	290	290	(164)	126
Other financial assets measured at amortised cost	1,811,523	239,487	256,528	1,175	396	2,309,109	(393)	2,308,716
– stage 1	1,810,577	233,634	251,694	311	—	2,296,216	(277)	2,295,939
– stage 2	946	5,853	4,834	864	—	12,497	(11)	12,486
– stage 3	—	—	—	—	396	396	(105)	291
– POCI	—	—	—	—	—	—	—	—
Loans and other credit-related commitments	1,498,322	320,777	150,205	6,911	2,113	1,978,328	(841)	1,977,487
– stage 1	1,495,419	303,188	126,282	4,151	—	1,929,040	(455)	1,928,585
– stage 2	2,903	17,589	23,923	2,760	—	47,175	(285)	46,890
– stage 3	—	—	—	—	2,113	2,113	(101)	2,012
– POCI	—	—	—	—	—	—	—	—
Financial guarantees	23,190	12,723	9,532	627	253	46,325	(54)	46,271
– stage 1	23,132	11,992	7,493	211	—	42,828	(20)	42,808
– stage 2	58	731	2,039	416	—	3,244	(10)	3,234
– stage 3	—	—	—	—	253	253	(24)	229
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2023	5,961,066	1,268,922	1,115,146	82,678	65,731	8,493,543	(40,192)	8,453,351
Debt instruments at FVOCI[1]								
– stage 1	1,317,382	69,918	26,535	—	—	1,413,835	(66)	1,413,769
– stage 2	—	—	—	462	—	462	(16)	446
– stage 3	—	—	—	—	39	39	(11)	28
– POCI	—	—	—	—	—	—	—	—
At 31 Dec 2023	1,317,382	69,918	26,535	462	39	1,414,336	(93)	1,414,243

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)

	The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	Other	of which: Hong Kong excluding exposure to mainland China borrowers
	HK$m	HK$m	HK$m	HK$m
Gross loans and advances				
Stage 1	**266,659**	**175,850**	**90,809**	**171,874**
Stage 2	**70,698**	**59,167**	**11,531**	**50,599**
Stage 3	**50,103**	**46,340**	**3,763**	**35,369**
POCI	**142**	**142**	**—**	**—**
31 Dec 2024	**387,602**	**281,499**	**106,103**	**257,842**
Allowance for ECL	**(12,638)**	**(11,009)**	**(1,629)**	**(3,149)**
Gross loans and advances				
Stage 1	322,704	225,358	97,346	215,310
Stage 2	103,351	81,053	22,298	67,817
Stage 3	27,893	25,203	2,690	4,500
POCI	117	117	—	—
31 Dec 2023	454,065	331,731	122,334	287,627
Allowance for ECL	(18,751)	(16,505)	(2,246)	(2,316)

Commercial real estate lending by credit quality

(Audited)

	The Hongkong and Shanghai Banking Corporation Limited	Hong Kong	Other	of which: Hong Kong excluding exposure to mainland China borrowers
	HK$m	HK$m	HK$m	HK$m
Gross loans and advances				
Strong	**70,716**	**35,116**	**35,600**	**34,825**
Good	**125,138**	**80,928**	**44,210**	**75,752**
Satisfactory	**105,276**	**84,262**	**21,014**	**83,213**
Sub-standard	**36,227**	**34,710**	**1,517**	**28,682**
Credit impaired	**50,245**	**46,483**	**3,762**	**35,370**
31 Dec 2024	**387,602**	**281,499**	**106,103**	**257,842**
Gross loans and advances				
Strong	96,819	50,995	45,824	47,794
Good	138,883	93,780	45,103	87,980
Satisfactory	152,413	127,261	25,152	123,121
Sub-standard	37,940	34,375	3,565	24,232
Credit impaired	28,010	25,320	2,690	4,500
31 Dec 2023	454,065	331,731	122,334	287,627

(Unaudited)

The Hong Kong CRE portfolio (excluding exposure to mainland China borrowers) saw negative credit migration in 2024 as a result of higher interest rates, high inventory levels and weak demand. This was predominantly driven by a deterioration in the secured portfolio as borrowers sought payment deferrals to accommodate debt serviceability challenges.

Secured exposures account for 54% of the total portfolio (31 December 2023: 54%), with collateral values regularly updated in line with our existing practice. The trend of loan right-sizing and borrower deleveraging within the secured portfolio has supported good collateral coverage levels that continue to provide headroom in the event of a further softening of property valuations. As at 31 December 2024, the weighted average LTV:

– of performing exposures rated 'sub-standard' was 46% (31 December 2023: 54%);
– of 'credit impaired' exposures was 58% (31 December 2023: 71%). This has driven relatively low levels of stage 3 allowance for ECL. The reduction in LTV reflects the significantly smaller 'credit impaired' portfolio at 31 December 2023.

The unsecured portfolio remained stable in size and quality, with very limited levels of default and close to 90% rated Strong or Good.

Unsecured exposures are typically granted to strong, listed Hong Kong CRE developers, which commonly are members of conglomerate group with diverse cashflows.

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.

Market conditions remain challenging, particularly for commercial property as a result of continued weakness in demand. The performance of the residential market remains mixed, with some initial improvement in sentiment and transaction levels observed in the fourth quarter of 2024, driven by a further easing of real estate regulatory policies in October and improved end-user affordability as prices and interest rates fell. Nevertheless, property price pressure is likely to persist in the near term and until economic conditions and sentiment improve. Given the more uncertain interest rate outlook, we expect broader market fundamentals to remain subdued and challenges in this sector to continue.

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 2024 are split by country/territory and credit quality including allowances for ECL by stage.

Mainland China CRE exposure

(Audited)	At 31 Dec 2024			
	Hong Kong	**Mainland China**	**Rest of Asia-Pacific**	**Total**
	HK$m	**HK$m**	**HK$m**	**HK$m**
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**
	At 31 Dec 2023			
Loans and advances to customers[1]	47,133	38,410	3,518	89,061
Guarantees issued and others[2]	1,993	518	86	2,597
Total mainland China CRE exposure	49,126	38,928	3,604	91,658
Distribution of mainland China CRE exposure by credit quality				
– Strong	6,100	13,458	57	19,615
– Good	4,719	7,445	3,283	15,447
– Satisfactory	5,308	13,313	84	18,705
– Sub-standard	10,142	2,557	180	12,879
– Credit Impaired	22,857	2,155	—	25,012
	49,126	38,928	3,604	91,658
Allowance for ECL by credit quality				
– Strong	—	(27)	—	(27)
– Good	(2)	(39)	(8)	(49)
– Satisfactory	(21)	(212)	—	(233)
– Sub-standard	(518)	(682)	(45)	(1,245)
– Credit Impaired	(13,484)	(977)	—	(14,461)
	(14,025)	(1,937)	(53)	(16,015)
Allowance for ECL				
ECL Stage 1	(4)	(77)	(8)	(89)
ECL Stage 2	(537)	(883)	(45)	(1,465)
ECL Stage 3	(13,484)	(977)	—	(14,461)
	(14,025)	(1,937)	(53)	(16,015)
ECL Coverage %	28.5	5.0	1.5	17.5

1 Amounts represent gross carrying amount.
2 Amounts represent nominal amount for guarantees and other contingent liabilities.

(Unaudited)

The mainland China commercial real estate portfolio continues to face challenges as market fundamentals remain weak and refinancing risks continue. The portfolio remains closely managed, with reductions in exposures driven by a combination of de-risking measures, repayments by performing customers and write-offs in the 'credit impaired' category.

The portfolio of mainland China CRE loans booked in Hong Kong remains relatively higher risk, with allowances for ECL substantially against unsecured exposures. For secured exposures, allowances for ECL are minimal, reflecting the nature and value of the security held.

Approximately half of the performing exposure in the mainland China CRE portfolio booked in Hong Kong 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.

Mainland China real estate market activity remains depressed with continued weakness in underlying buyer demand for housing. Various government stimulus measures were introduced in 2024 to underpin market confidence. Despite some early signs of price stabilisation in certain cities, these measures have not yet triggered a meaningful recovery in transaction levels. Financing conditions and liquidity for borrowers operating in the real estate sector therefore remains constrained, particularly for privately-owned enterprises. A market recovery is likely to be protracted and contingent on further government support.

The Group has additional exposures to mainland China commercial real estate 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 unlikeliness 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. While single name concentrations arise in portfolios managed by Global Banking and Commercial Banking, it is only in Global Banking that their size requires the use of portfolio level credit mitigants. Across Global 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, Global 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 Global 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 commercial real estate 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; 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.

Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral.

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)

	2024		2023	
	Gross carrying/ nominal amount	ECL coverage	Gross carrying/ nominal amount	ECL coverage
	HK$m	%	HK$m	%
Stage 1				
Fully collateralised	1,140,466	—	1,182,015	—
LTV ratio:				
– less than 70%	865,626	—	909,167	—
– 71% to 90%	177,936	—	175,712	—
– 91% to 100%	96,904	—	97,136	—
Partially collateralised (A):	91,264	—	70,126	—
– collateral value on A	85,738		66,696	
Total	1,231,730	—	1,252,141	—
Stage 2				
Fully collateralised	20,096	0.5	25,573	0.3
LTV ratio:				
– less than 70%	11,857	0.3	17,326	0.2
– 71% to 90%	6,456	0.7	7,438	0.5
– 91% to 100%	1,783	1.1	809	0.6
Partially collateralised (B):	824	0.5	703	1.3
– collateral value on B	769		660	
Total	20,920	0.5	26,276	0.3
Stage 3				
Fully collateralised	5,992	4.3	4,555	4.0
LTV ratio:				
– less than 70%	4,513	3.4	3,477	3.5
– 71% to 90%	1,249	5.5	942	5.1
– 91% to 100%	230	14.4	136	11.0
Partially collateralised (C):	241	17.9	105	21.9
– collateral value on C	212		93	
Total	6,233	4.8	4,660	4.4
At 31 Dec	1,258,883	—	1,283,077	—

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 commercial real estate collateral is determined by using a combination of external and internal valuations and physical inspections. For commercial real estate, 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, market practice is typically for lending to major property companies to be either secured by guarantees or unsecured.

Commercial real estate loans and advances including loan commitments by level of collateral

(Audited)

	2024		2023	
	Gross carrying nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	HK$m	**%**	HK$m	%
Stage 1				
Not collateralised	**217,174**	**—**	217,922	—
Fully collateralised	**179,049**	**0.1**	206,940	0.1
Partially collateralised (A):	**8,929**	**0.2**	33,909	0.1
– collateral value on A	**4,916**		21,536	
Total	**405,152**	**0.1**	458,771	—
Stage 2				
Not collateralised	**21,564**	**12.6**	27,679	4.8
Fully collateralised	**56,135**	**1.7**	81,164	2.8
Partially collateralised (B):	**614**	**1.5**	7,487	1.4
– collateral value on B	**411**		5,558	
Total	**78,313**	**4.7**	116,330	3.2
Stage 3				
Not collateralised	**11,782**	**48.4**	17,904	77.7
Fully collateralised	**34,868**	**6.8**	10,034	8.7
Partially collateralised (C):	**4,428**	**17.8**	508	21.1
– collateral value on C	**3,138**		355	
Total	**51,078**	**17.4**	28,446	52.4
POCI				
Not collateralised	**—**	**—**	—	—
Fully collateralised	**—**	**—**	—	—
Partially collateralised (D):	**142**	**38.1**	117	—
– collateral value on D	**24**		65	
Total	**142**	**38.1**	117	—
At 31 Dec	**534,685**	**2.4**	603,664	3.1

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.

Accordingly, the following table reports values only for customers with CRR 8–10, recognising that these loans and advances generally have valuations that are comparatively recent.

Other corporate, commercial and non-bank financial institutions loans and advances including loan commitments by level of collateral

(Audited)

	2024		2023	
	Gross carrying/ nominal amount	**ECL coverage**	Gross carrying/ nominal amount	ECL coverage
	HK$m	**%**	HK$m	%
Stage 1				
Not collateralised	**2,412,898**	**—**	2,260,409	0.1
Fully collateralised	**297,063**	**0.1**	348,895	0.1
Partially collateralised (A):	**269,830**	**—**	260,554	—
– collateral value on A	**97,843**		96,226	
Total	**2,979,791**	**—**	2,869,858	0.1
Stage 2				
Not collateralised	**259,784**	**0.3**	297,925	0.3
Fully collateralised	**56,995**	**1.8**	83,629	1.3
Partially collateralised (B):	**24,671**	**0.4**	39,338	0.4
– collateral value on B	**9,563**		15,892	
Total	**341,450**	**0.5**	420,892	0.5
Stage 3				
Not collateralised	**16,304**	**54.8**	12,895	65.1
Fully collateralised	**15,481**	**6.5**	7,736	8.8
Partially collateralised (C):	**9,298**	**48.5**	7,675	33.7
– collateral value on C	**5,380**		3,618	
Total	**41,083**	**35.2**	28,306	41.2
POCI				
Not collateralised	**—**	**—**	—	—
Fully collateralised	**162**	**98.1**	173	94.8
Partially collateralised (D):	**—**	**—**	—	—
– collateral value on D	**—**		—	
Total	**162**	**98.1**	173	94.8
At 31 Dec	**3,362,486**	**0.5**	3,319,229	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 credit default swap ('CDS') protection.
- 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

Overview

(Unaudited)

Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to foreign exchange exposures, as well as changes in market interest rates, together with pension risk.

Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.

Approach and policy

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

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

Our policy is underpinned by our risk management framework. The risk management framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes. These risks include credit, market, operational, pensions, structural and transactional foreign exchange risk, and interest rate risk in the banking book.

Treasury risk management

Key developments in 2024

(Unaudited)

– Initiatives and readiness activities were undertaken to prepare for the implementation of the HKMA's Basel III Reform package in Hong Kong from 1 January 2025. Our Structural FX risk management strategy was revisited accordingly under the new regulatory regime.
– Continued to increase the stabilisation of our net interest income (‘NII’) as interest rate expectations fluctuated, driven by geo-political risks, central bank rate cut expectations and a reassessment of the trajectory of inflation in major economies.
– Continued to enhance the group’s recovery and resolution capabilities, in line with the Group’s preferred resolution strategy and regulatory expectations.
– Initiatives taken to strengthen our regulatory reporting process through enhancing consistency and improving controls. This multifaceted programme includes data enhancement, transformation of the reporting systems and uplift to the control environment over the report production process.

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 and structural foreign exchange risk on an on-going basis and provides support to the Asset and Liability Management Committee (‘ALCO’), and is overseen by the Treasury Risk Management sub-function ('TRM') and the RMM.

The Global Treasury sub-function also manages interest rate risk in the banking book, maintaining the transfer pricing framework and informing the regional and local ALCOs of the group and site’s overall banking book interest rate exposure. Banking book interest rate positions may be transferred to be managed by the Global Treasury sub-function, within the market risk limits approved by the RMM.

Pension risk is managed through a network of local governance forums. The regional Pension Risk Management Meeting oversees all pension plans sponsored by HSBC in the group, and is chaired by the Regional Head of Traded and Treasury Risk Management.

The Treasury Risk Management 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

Overview

(Audited)

Our approach to capital management is driven by our strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which we operate.

It is our objective to maintain a strong capital base to support the risks inherent in our business, to invest in accordance with our strategy and to meet regulatory capital requirements at all times. To achieve this, our policy is to hold capital in a range of different forms and all capital raising is agreed with major subsidiaries as part of their individual and the group’s capital management processes.

Framework

(Audited)

Our capital management approach is underpinned by a Global Capital Risk Policy and supporting 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, which enables us to manage our capital in a consistent manner. 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 is an assessment of the group’s capital position, outlining both regulatory and internal capital resources and requirements resulting from our business model, strategy, risk profile and management, performance and planning, risks to capital, and implications of stress testing. Our assessment of capital adequacy is driven by an assessment of risks. These risks include credit, market, operational, pensions, insurance, structural foreign exchange and interest rate risk in the banking book. Climate risk is also considered as part of the ICAAP, and we continue to develop our approach for climate risk management.

The group’s ICAAP supports the determination of the capital risk appetite and target ratios, as well as enables the assessment and determination of capital requirements by regulators. Banking subsidiaries prepare ICAAPs in line with global guidance, while considering their local regulatory regimes to determine 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 is the primary provider of capital and LAC resources to its subsidiaries. These investments are substantially funded by the Bank's own capital, issuance and profit retention. As part of its capital management process, the Bank seeks to maintain a prudent balance between the composition of its capital and that of its investment in subsidiaries.

The principal forms of capital are included in the following balances on the consolidated balance sheet: share capital, 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.

In accordance with the Banking (Capital) Rules under Basel III effective as of 31 December 2024, the group used the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme exposures, the group used the look-through approach and mandate-based approach to calculate the risk-weighted amount. For securitisation exposures, the group used 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. For counterparty credit risk, the group used 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. For market risk, the group used an internal models method approach ('IMM') to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The group also used an IMM approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The group used the standardised (market risk) approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

During the year, the group complied with all the capital requirements of HKMA on both a consolidated and solo-consolidated basis.

Basel III

(Unaudited)

The Banking (Capital) Rules under Basel III set out the minimum CET1 capital requirement of 4.5% and total capital requirement of 8%. At 31 December 2024, 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 and last announced by the HKMA on 18 October 2024 and 31 December 2024 respectively. In its announcements on the referenced dates, the HKMA reduced the CCyB for Hong Kong from 1.0% to 0.5% and maintained the D-SIB designation as well as HLA requirement at 2.5% for the group.

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 2024	31 Dec 2023
	%	%
Leverage ratio	**5.8**	5.8
Capital and leverage ratio exposure measure	**HK$m**	HK$m
Tier 1 capital	**581,944**	562,454
Total exposure measure	**10,038,018**	9,672,960

The leverage ratio as at 31 December 2024 is stable compared with the position as at 31 December 2023.

Further details regarding the group's leverage position can be viewed in the Banking Disclosure Statement at 31 December 2024, which will be available in the Regulatory Disclosure Section of our website: www.hsbc.com.hk.

Capital adequacy at 31 December 2024

(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 2024. 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 2024, the effect of this regulatory reserve requirement is to reduce the amount of reserves which can be distributed to shareholders by HK$15,736m (31 December 2023: HK$19,045m).

Basel III Reforms

(Unaudited)

We closely monitor and consider future regulatory change and continue to evaluate the impact upon our capital requirements of regulatory developments. The Basel III Reforms package was implemented in Hong Kong on 1 January 2025, covering credit risk, operational risk, market risk, credit valuation adjustment and the output floor. The approaches outlined in the above Regulatory capital requirements and Basel III sub-sections will be updated to align with the new standards. A Programme was established to facilitate implementation, and existing risk management frameworks are used to ensure our compliance with these new regulatory requirements.

The standardized Risk-Weighted Asset ('RWA') output floor under the Basel III Reforms will be phased in over 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 2024	31 Dec 2023
	%	%
Common Equity Tier 1 ('CET1') capital ratio	**16.3**	15.8
Tier 1 capital ratio	**18.4**	17.5
Total capital ratio	**20.3**	19.7

Risk-weighted assets by risk type

(Unaudited)

	At	
	31 Dec 2024	31 Dec 2023
	HK$m	HK$m
Credit risk	**2,426,160**	2,536,239
Counterparty credit risk	**147,479**	136,866
Market risk	**149,946**	158,707
Operational risk	**443,567**	380,575
Sovereign concentration risk	**—**	—
Total	**3,167,152**	3,212,387

Capital base

(Unaudited)

The following table sets out the composition of the group's capital base under Basel III at 31 December 2024.

Capital base

(Unaudited)

	At	
	31 Dec 2024	31 Dec 2023
	HK$m	HK$m
Common Equity Tier 1 ('CET1') capital		
Shareholders' equity	**733,239**	733,940
– shareholders' equity per balance sheet	**819,049**	812,726
– revaluation reserve capitalisation issue	**(1,454)**	(1,454)
– other equity instruments	**(64,677)**	(52,465)
– unconsolidated subsidiaries	**(19,679)**	(24,867)
Non-controlling interests	**32,708**	28,330
– non-controlling interests per balance sheet	**58,959**	59,860
– non-controlling interests in unconsolidated subsidiaries	**(2,584)**	(2,437)
– surplus non-controlling interests disallowed in CET1	**(23,667)**	(29,093)
Regulatory deductions to CET1 capital	**(249,826)**	(253,666)
– valuation adjustments	**(3,069)**	(2,291)
– goodwill and intangible assets	**(35,050)**	(33,949)
– deferred tax assets net of deferred tax liabilities	**(2,249)**	(3,754)
– cash flow hedging reserve	**(815)**	(2,018)
– changes in own credit risk on fair valued liabilities	**4,709**	2,264
– defined benefit pension fund assets	**(315)**	(50)
– significant Loss-absorbing Capacity ('LAC') investments in unconsolidated financial sector entities	**(134,235)**	(127,173)
– property revaluation reserves[1]	**(63,066)**	(67,650)
– regulatory reserve	**(15,736)**	(19,045)
Total CET1 capital	**516,121**	508,604
Additional Tier 1 ('AT1') capital		
Total AT1 capital before regulatory deductions	**65,841**	53,850
– perpetual subordinated loans	**64,677**	52,465
– allowable non-controlling interests in AT1 capital	**1,164**	1,385
Regulatory deductions to AT1 capital	**(18)**	—
– significant LAC investments in unconsolidated financial sector entities	**(18)**	—
Total AT1 capital	**65,823**	53,850
Total Tier 1 capital	**581,944**	562,454
Tier 2 capital		
Total Tier 2 capital before regulatory deductions	**64,590**	72,391
– term subordinated debt	**29,825**	26,060
– property revaluation reserves[1]	**29,034**	31,097
– impairment allowances and regulatory reserve eligible for inclusion in Tier 2 capital	**4,330**	14,260
– allowable non-controlling interests in Tier 2 capital	**1,401**	974
Regulatory deductions to Tier 2 capital	**(3,079)**	(3,144)
– significant LAC investments in unconsolidated financial sector entities	**(3,079)**	(3,144)
Total Tier 2 capital	**61,511**	69,247
Total capital	**643,455**	631,701

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 2024.

Non-trading book foreign exchange exposures

Structural foreign exchange exposures

(Unaudited)

Structural foreign exchange exposures arise from the capital invested or net assets in a foreign operation. A foreign operation is an entity that is a subsidiary, associate, joint arrangement or branch of a reporting entity, the activities of which are based or conducted in a country or currency other than those of the reporting entity. An entity's functional reporting currency is normally that of the primary economic environment in which the entity operates.

Exchange differences on structural exposures are recognised in other comprehensive income ('OCI'). We use Hong Kong dollar as our presentation currency in our consolidated financial statements. Therefore, our consolidated balance sheet is affected by exchange differences between Hong Kong dollar and all the non-Hong Kong dollar functional currencies of underlying foreign operations.

Our structural foreign exchange exposures are managed with the primary objective of ensuring, where practical, that our consolidated capital ratios and the capital ratios of individual banking subsidiaries and foreign branches subject to minimum regulatory capital requirements are largely protected from the effect of changes in exchange rates.

We hedge structural foreign exchange positions where it is capital efficient to do so, and subject to approved limits. Hedging positions are monitored and rebalanced periodically 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 2024		
Renminbi	**243,434**	**259,002**
US dollars	**11,356**	**88,192**
At 31 Dec 2023		
Renminbi	232,642	255,961
US dollars	11,176	87,314

Transactional foreign exchange exposures

(Unaudited)

Transactional foreign exchange exposures arise from transactions in the banking book generating profit and loss or OCI reserves in a currency other than the reporting currency of the operating entity. Transactional foreign exchange exposure generated through profit and loss is periodically transferred to Markets and Securities Services and managed within limits with the exception of limited residual foreign exchange exposure arising from timing differences or for other reasons. Transactional foreign exchange exposure generated through OCI reserves is managed by the Global Treasury sub-function within an agreed limit framework.

Liquidity and funding risk

Overview

(Audited)

Liquidity Risk is the risk that an entity does not have sufficient resources to meet its financial obligations when they fall due, or can only secure them at excessive cost. This may cause potential breaches in regulatory or internal metrics such as the Liquidity Coverage Ratio ('LCR') or the Internal Liquidity Metrics ('ILM'). Funding Risk is the risk that an entity does not have sufficiently stable and diverse sources of funding or the funding structure is inefficient. This may cause potential breaches in regulatory or internal metrics such as the Net Stable Funding Ratio ('NSFR').

The group has comprehensive policies, metrics and controls to manage liquidity and funding risk. The group manages liquidity and funding risk at an operating entity level to make sure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the group.

Operating entities are required to meet internal and applicable regulatory requirements at all times. These requirements are assessed through the ILAAP, which ensures that operating entities have robust strategies, processes and systems for the identification, measurement, management and monitoring of liquidity and funding risk over appropriate set of time horizons, including intra-day. The ILAAP supports determination of liquidity and funding risk appetite and assesses capability to manage liquidity and funding effectively in each major entity. Liquidity and funding risk metrics are set and managed locally but are subject to global review and challenge to ensure consistency of approach and application of 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, with the two major elements being:

- Asset and Liability Management Committees ('ALCOs') at the group and entity level; and
- annual ILAAP support determination of risk appetite.

All operating entities are required to prepare an ILAAP document at appropriate frequency. Compliance with liquidity and funding requirements is monitored and reported to ALCO, RMM and Executive Committee 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 the concentration and profile of term funding;
- managing contingent liquidity commitment exposures within pre-determined limits;
- maintaining debt financing plans;
- monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken during stress, while minimising adverse long-term implications for the business.

Management of liquidity and funding risk

(Audited)

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

- a minimum LCR requirement;
- a minimum NSFR requirement or other appropriate metric;
- an ILM requirement;
- a minimum liquidity requirement in material currencies;
- a 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)

Our primary sources of funding are customer current accounts, customer savings deposits payable on demand or at short notice and term deposits. We issue wholesale securities (secured and unsecured) to supplement our customer deposits and change the currency mix, maturity profile or location of our 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 our 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 2024

(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 2024	31 Dec 2023
	%	%
Average LCR	**162.2**	168.9

The 3-month average LCR decreased by 6.7 percentage points from 168.9% for the quarter ended 31 December 2023 to 162.2% for the quarter ended 31 December 2024. During this period the LCR liquidity surplus, i.e. weighted amount of HQLAs held above net cash outflows remained stable. The reduction in ratio resulted from smaller proportionate increase of weighted HQLAs as compared to net cash outflows, from the deployment of higher customer deposit balances.

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 2024	31 Dec 2023
	HK$m	HK$m
Level 1 assets	**1,878,908**	1,789,314
Level 2A assets	**108,641**	87,633
Level 2B assets	**76,689**	61,953
Total	**2,064,238**	1,938,900

The NSFR of the group for the period are as follows:

	Quarter ended	
	31 Dec 2024	31 Dec 2023
	%	%
Net stable funding ratio	**152.2**	156.0

The NSFR decreased by 3.8 percentage points from 156.0% for the quarter ended 31 December 2023 to 152.2% for the quarter ended 31 December 2024.

Interdependent assets and liabilities included in the group's NSFR are certificates of indebtedness held and legal tender notes issued.

Interest Rate Risk in the Banking Book

(Unaudited)

Assessment and risk appetite

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged is transferred to the Global Treasury sub-function. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds. Any interest rate risk that Global Treasury sub-function cannot economically hedge is not transferred and remains within the global business where the risk originates.

The Global Treasury sub-function uses a number of measures to monitor and control interest rate risk in the banking book, including:

- net interest income ('NII') sensitivity;
- economic value of equity sensitivity;
- hold-to-collect-and-sell value at risk ('VAR'); and
- hold-to-collect-and-sell present value of a basis point ('PV1B').

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 (i.e. simulation modelling), where all other economic variables are held constant. This monitoring is undertaken at an entity level, where a range of interest rate scenarios are monitored on a one-year basis.

NII sensitivity figures represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure. The exception to this is where the size of the balances or repricing is deemed interest rate sensitive, for example, early prepayment of mortgages. These sensitivity calculations do not incorporate actions that would be taken by Global Treasury sub-function or in the business that originates the risk to mitigate the effect of interest rate movements.

The NII sensitivity calculations assume that interest rates of all maturities move by the same amount in the 'up-shock' scenario. The sensitivity calculations in the 'down-shock' scenarios reflect no floors to the shocked market rates. However, customer product-specific interest rate floors are recognised where applicable.

Economic value of equity sensitivity

Economic value of equity ('EVE') measures the present value of our banking book assets and liabilities excluding equity, based on a run-off balance sheet. Economic value of equity sensitivity measures the impact to EVE 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. Operating entities are required to monitor EVE sensitivities as a percentage of capital resources.

Further details of HSBC's risk management of interest rate risk in the banking book can be found in the Pillar 3 Disclosures at 31 December 2024.

Market Risk

Overview

(Unaudited)

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

Market risk management

Key developments in 2024

(Unaudited)

There were no material changes to our policies and practices for the management of market risk in 2024.

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** – Foreign exchange and commodities – Interest rates – Credit spreads – Equities
Global business	GB & MSS
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 of Directors. 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 ALCO. The Traded Risk sub-function enforces the controls around trading in permissible instruments approved for each site as well as changes that follow completion of the new product approval process. 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.

Risk not in VaR framework

(Unaudited)

The risks not in VaR ('RNIV') framework captures and capitalises material market risks that are not adequately covered in the VaR model.

Risk factors are reviewed on a regular basis and are either incorporated directly in the VaR models, where possible, or quantified through either the VaR-based RNIV approach or a stress test approach within the RNIV framework. While VaR-based RNIVs are calculated by using historical scenarios, stress-type RNIVs are estimated on the basis of stress scenarios whose severity is calibrated to be in line with the capital adequacy requirements. The outcome of the VaR-based RNIV approach is included in the overall VaR calculation but excluded from the VaR measure used for regulatory back-testing. Stress-type RNIVs include a deal contingent derivatives capital charge to capture risk for these transactions.

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.

Trading portfolios

(Audited)

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.

Back-testing

(Audited)

We routinely validate the accuracy of our VaR models by back-testing the VaR metric against both actual and hypothetical profit and loss. Hypothetical profit and loss excludes non-modelled items such as fees, commissions and revenue of intra-day transactions. The hypothetical profit and loss reflects the profit and loss that would be realised if positions were held constant from the end of one trading day to the end of the next.

The number of hypothetical loss back-testing exceptions, together with a number of other indicators, are used to assess model performance and to consider whether enhanced internal monitoring of a VaR model is required. We back-test our VaR at set levels of our group entity hierarchy.

Market risk in 2024

(Unaudited)

It was a busy year on the political agenda, with the November US election being the main event. Geopolitics remained prominent amid ongoing tensions of political instability and military conflict in some regions.

Central banks began their easing cycles in 2024, with the US Federal Reserve cutting its policy rate by 1% since September. In contrast, the Bank of Japan raised its overnight rate, marking the end of a prolonged period of negative interest rates and abandoning yield curve control in March.

Throughout the year, government bond yields generally trended upward, except during the third quarter, largely driven by volatile inflation figures and shifting central bank expectations. In China, the yields of Chinese government bonds slipping to decade lows driven by expectations of aggressive policy easing and demand for haven assets. Global equities reached multiple record highs in the US and Europe, buoyed by strong corporate earnings and positive sentiment in the technology sector.

Global markets rebounded from a short period of volatility in August, triggered by the unwinding of carry trades due to rising Japanese government bond yields, US recession concerns, and equity market valuations. In foreign exchange markets, the trend of a strengthening US dollar continued against most developed and emerging market currencies. The Euro approached parity with the US dollar, while the Yen weakened to multi-decade lows. Credit markets performed positively throughout the year, with a more pronounced tightening of high-yield credit spreads compared to investment-grade spreads, despite a broad widening of spreads in August.

We continued to manage market risk prudently during 2024. Sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers. Market risk was managed using a complementary set of risk measures and limits, including stress testing and scenario analysis.

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 2024 compared to 31 December 2023, mainly driven by decrease in VaR exposed to interest rate risk and equity risk, and by increase in portfolio diversification across different asset class VaRs, partially offset by increase in VaR from foreign exchange risk, and credit spread risk.

The trading VaR for the year is shown in the table below.

Trading value at risk, 99% 1 day[1]

(Audited)

	Foreign exchange and commodity	Interest rate	Equity	Credit spread	Portfolio diversification[2]	Total[3]
	HK$m	HK$m	HK$m	HK$m	HK$m	HK$m
At 31 Dec 2024						
Year end	**103**	**185**	**49**	**24**	**(201)**	**160**
Average	**70**	**241**	**55**	**21**		**241**
Maximum	**136**	**440**	**88**	**45**		**425**
At 31 Dec 2023						
Year end	70	206	70	15	(114)	247
Average	67	223	110	24		266
Maximum	118	311	201	36		444

1 Trading portfolios comprise positions arising from the market-making and warehousing of customer-derived positions.
2 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.
3 The total VaR is non-additive across risk types due to diversification effects.

Climate risk TCFD

(Unaudited)

Overview

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.

In addition, the Group has also identified the following thematic issues related to climate risk, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks:

– net zero alignment risk, which arises from the risk of HSBC failing to meet its net zero ambition or failing to meet external expectations related to net zero; and

– the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to the group's stakeholders.

Approach

The group recognises that the physical impacts of climate change and the transition to net zero economy can create significant financial risks for companies, investors and the financial system. The group may be affected by climate risks either directly or indirectly through its relationships with customers, which could result in both financial and non-financial impacts.

The Group's climate risk approach aims to effectively manage the material climate risks that could impact the Group's operations, financial performance and stability, and reputation. The approach is informed by the evolving expectations of the Group's regulators.

Climate considerations and the thematic issues of net zero alignment risk and the risk of greenwashing are incorporated within the group's traditional risk types in line with the Group-wide risk management framework.

The group continues to develop its climate risk capabilities across its businesses, by prioritising sectors, portfolios and counterparties with the highest impacts, and recognises that this is a long-term iterative process.

This includes increasing coverage and incorporating mature data, climate analytics, frameworks and tools, as well as responding to emerging industry best practice and climate risk regulations as well as reflecting on how climate risk continues to evolve in the real world, and improving how the Group embeds climate risk factors into strategic planning, transactions and decision-making across its businesses. For example, the Group's merger and acquisition process considers potential climate and sustainability-related targets, net zero transition plans and climate strategy and how this relates to HSBC.

The Group’s climate risk approach is aligned to the Group-wide risk management framework and three lines of defence model, which sets out how the group identifies, assesses and manages its risks. For further details of the three lines of defence framework, see page 21.

The group's annual climate risk materiality assessment helps it to understand how climate risk may impact HSBC's risk taxonomy. The assessment considers short-term (up to 2026), medium-term (2027-2035) and long-term (2036-2050) periods.

In addition to this assessment, the group also considers climate risk in its emerging risk reporting and scenario analysis (for further details, see 'Top and emerging risks' on pages 22 to 23).

The table below provides an overview of the climate risk drivers considered within HSBC's climate risk approach.

Climate risk – primary risk drivers		Details	Potential Impacts	Time horizons
Physical	**Acute**	Increased frequency and severity of weather events causing disruption to business operations.	– 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 on, 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.		

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[1]	Regulatory compliance risk[1]	Resilience risk	Other financial and non-financial risk types
Physical risk	◆	◆			◆	◆
Transition risk	◆	◆	◆	◆	◆	◆

1 The Group's climate risk approach identifies thematic issues such as net zero alignment risk and the risk of greenwashing, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks.

Climate risk management

Key developments in 2024

The group's climate risk programme continues to support the development of its climate risk management capabilities. The following outlines key developments in 2024:

- The group has started to enhance its approach to assessing the impact of climate change on capital, focusing on credit, market and operational risk.
- The group expanded its climate-related metrics to assess the impact of physical risk on the group's retail mortgage portfolio in India and Malaysia, in addition to Australia, Hong Kong, mainland China and Singapore.
- The group rolled-out the transition engagement questionnaire to its key wholesale customers and enhanced climate risk considerations in its credit risk assessments.
- The group completed the HKMA long-term climate risk scenario analysis. For further details of scenario analysis, see pages 13 to 14.
- The group has started to embed the Group's enhanced approach for managing and mitigating the risk of greenwashing.
- The group provided climate-related training for Board and senior management, and supported staff upskilling through climate risk related professional certifications as well as internal training.

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 group Chief Risk Officer is responsible for the management of climate risk, which involves holding overall accountability for the group's climate risk programme.

The group Environmental Risk Oversight Forum provides oversight of environmental risk.

The group Risk Management Meeting and the group Risk Committee receive regular updates on the group's climate risk profile and the progress of its climate risk programme.

Risk appetite

The group's climate risk appetite forms part of the group's risk appetite statement and supports the business in delivering the group's climate strategy effectively and sustainably.

The group's climate risk appetite statement is approved and overseen by the group Board. Climate risk indicators are reported for oversight by the group Risk Management Meeting and the group Risk Committee.

Policies, processes and controls

The Group continues to integrate climate risk into policies, processes and controls across many areas of the organisation, and it will continue to update these as its climate risk management capabilities mature over time.

For further details of how the group manages climate risk across its global businesses, see page 13.

Embedding the Group's climate risk approach

The table below provides further details of how the group has embedded the management of climate risk across key risk types.

Risk type	Details
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, contacting and building materials; metals and mining; oil and gas; and power and utilities. The group's relationship managers engage with their key wholesale customers through a transition engagement questionnaire ('TEQ'). In 2024, the TEQ was expanded to cover all geographies. The TEQ helps to gather information and assess the alignment of the wholesale customers' business models to net zero 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 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. Key developments to the group's framework in 2024 included expansion of the TEQ, as set out above, and additionally the development of 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 current climate assessment, in line with last year's assessment, indicates that its retail mortgage portfolio remains resilient to climate risk, with impact severity muted at a portfolio level given that its book has diversified property locations, with insurance coverage being a key loan covenant. The Group's retail credit risk mortgage policy requires that every mortgage market conducts an annual review of their climate risk management procedures, to ensure they remain fit for purpose. Within the group's mortgage portfolios, properties or areas with potential heightened physical risk are identified and assessed locally with exposure monitored using risk indicators. A reduction in property value, higher insurance costs and insurance availability are potential future negative financial impacts for higher risk properties. The group has set risk appetite metrics in six key markets in the region namely Australia, Hong Kong, India, mainland China, Malaysia and Singapore, further enhancing its ability to manage the financial risks from climate change in line with its risk appetite. Additionally, the group has released the guidance for physical risk assessment at mortgage origination with implementation planned for 2025.

Risk type	Details
Treasury Risk	Climate risk may impact Treasury Risk through increased regulatory requirements and from changes to customer behaviours, which may result in increased deposit outflows. From a capital risk perspective, climate risk has been considered as part of the internal capital adequacy assessment ('ICAAP') in 2024. Treasury portfolios were included within scope of the Hong Kong Monetary Authority's Climate Risk Stress Test ('CRST'), the impacts of which were considered as part of the ICAAP. Internal Liquidity Adequacy Assessment Process ('ILAAP') included assessment of how climate risk may impact the key liquidity risk drivers and identify potential impact of climate risk exposures. In October 2024, the Group published its Green Financing Framework, in alignment with the International Capital Market Association Green Bond Principles. This framework promotes transparency, forming part of the Group's sustainability strategy and helping to further the Group's aim of supporting its clients in transitioning to a net zero future. **Pension Risk** Climate risk could result in additional costs within the Group's defined benefit pension plans, due to changes in the pension plans' investment performance or through having to meet evolving regulatory requirements. The Group's global policies on the oversight of pension investments explicitly reflect climate considerations. Training has been provided to local management on how to consider ESG risk in pension investments. The Group also conducts an annual exercise to estimate the exposure of its largest pension plans to climate risk.
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 has implemented climate risk limits in global and regional trading mandates to monitor exposure to climate-sensitive sectors and countries across different asset classes in the Markets and Securities Services ('MSS') business. The Group's market risk policies include specific climate risk control requirements, which ensure that the Group's climate risk limits and utilisations are monitored in the same way as market and traded credit risk exposures. The Group conducts monthly stress testing to understand the vulnerabilities of its trading portfolio to various climate scenarios, which are refined on annual basis, with the 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, supported by its sustainability risk policies and metrics. The Group's sustainability risk policies set out its appetite for financing activities in certain sectors. The Group's thermal coal phase-out and energy policies aim to drive down greenhouse gas emissions while supporting a just transition. The group's regional network of sustainability risk managers provides policy guidance to relationship managers for the oversight of policy compliance and in support of implementation across the group's wholesale banking activities.
Regulatory compliance risk	Regulatory Compliance is responsible for the oversight and management of climate-related risks that could cause breaches of its regulatory duties to customers and inappropriate market conduct. The Group has updated its policies to incorporate considerations for ESG and climate risks, particularly in relation to new and ongoing product management, sales outcomes, and product marketing. To support its key policies, the Group also enhanced the underlying control frameworks and processes. This includes the integration of greenwashing risk and controls considerations in the design of new products and changes to them, as well as in relation to marketing materials. From a product sales perspective, the Group has established key control principles, encompassing the sales journey design, training and competence, supervision, sales quality, and governance. The Group Regulatory Compliance function operates an ESG and climate risk working group tasked with tracking and monitoring the integration of ESG and climate risk stewardship across its operations. This group also monitors regulatory and legislative developments related to the ESG and climate agenda. In Asia-Pacific, a dedicated working group continues to coordinate the regional implementation of climate and ESG risk-related enhancements within the Regulatory Compliance function.
Resilience Risk	Resilience risks may potentially crystallise through physical climate risk impacts to the group's buildings supporting service provision, or through physical and/or transition disruption to the group's third-party supply chain relationships. The Group has developed metrics to assess how physical risk may impact its critical properties and to monitor progress against its own operations' net zero ambitions. The Group's resilience risk policies are subject to continuous improvement to remain relevant to evolving climate risks.
Model Risk	Model risk in the ESG 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. Climate risk modelling is at a nascent stage, with challenges - including limitations in data availability, consistency and quality - shared across the financial industry. The Group has developed procedures that set out the minimum control requirements for identifying, measuring and managing model risk for climate-related models. All the identified climate-related models are subject to HSBC's model lifecycle controls and policy.

Challenges

While the group has continued to develop its climate risk capabilities, its remaining 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;
- data limitations on customer assets and supply chains, and methodology gaps, which hinder the group's ability to assess physical risks accurately;
- industry-wide data gaps on customer emissions and transition plan and methodology gaps, which limit its ability to assess transition risks accurately; and
- limitations in the management of net zero alignment risk, which is undertaken at a Group level and supported by actions within Asia, due to known and unknown factors, including the limited accuracy and reliability of data, merging methodologies, and the need to develop new tools to better inform decision making.

Resilience risk

(Unaudited)

Overview

Resilience risk is the risk of sustained and significant business disruption from execution, delivery, physical security or safety events, causing the inability to provide critical services to our customers, affiliates, and counterparties. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

Resilience risk management

Key developments in 2024

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

- We continued to recognise that our customers are impacted by service disruptions, responded to these urgently and aimed to recover with minimum delay. We continued to initiate post-incident review processes to prevent recurrence. Where we identified that investment is required to further enhance the group's operational resilience capabilities, findings are fed into the Group's financial planning, helping to ensure we continue to meet the expectations of our customers and our regulators.
- We continued to monitor markets affected by the Russia-Ukraine and Israel-Hamas wars, as well as other geopolitical events, for any potential impact they may have on our colleagues and operations.
- 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 further strengthened our non-financial risk governance and senior leadership.

We prioritise our efforts on material risks and areas undergoing strategic growth, aligning our location strategy to this need.

Governance and structure

The Enterprise Risk Management target operating model provides a globally consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure.

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

Risk appetite and key escalations for resilience risk are reported to the group Risk Management Meeting, chaired by the group Chief Risk Officer, with an escalation path to the Group Non-Financial Risk Management Board ('NFRMB'), chaired by the Group Chief Risk and Compliance Officer.

Operational Resilience

Operational resilience is our ability to anticipate, prevent, adapt, respond to, recover and learn from operational disruption while minimising customer, firm and market impact. Resilience is determined by assessing whether we can continue to provide our important business services, within an agreed impact tolerance. We accept we will not be able to prevent all disruption, but we must prioritise investment to continually improve the response and recovery strategies for our important business services and important group business services to meet the expectations of our customers, regulators and markets in which we participate.

Regulatory compliance risk

(Unaudited)

Overview

Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct (including unauthorised trading) and breaching related financial services regulatory standards. Regulatory compliance risk arises from the failure to observe relevant laws, codes, rules and regulations and can manifest itself in poor market or customer outcomes and lead to fines, penalties and reputational damage to our business.

Regulatory compliance risk management

Key developments in 2024

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. We have enhanced our processes, framework, and governance capabilities to improve the controls and oversight of regulatory compliance risks. 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. The group Chief Compliance Officer is also the group Head of Regulatory Compliance. 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 capability is responsible for setting global policies, standards and risk appetite to guide the Group's management of regulatory compliance risk. It also devises the required frameworks, support processes and tooling to protect against regulatory compliance risks. The Group capability provides oversight, review and challenge of the global market, regional and line of business teams to help them identify, assess and mitigate regulatory compliance risks, where required. The Group's regulatory compliance risk policies are regularly reviewed. Global policies and procedures require the identification and escalation of any actual or potential regulatory breaches, and relevant events and issues are escalated to group Risk Management Meeting and group Risk Committee, as appropriate. The group Chief Compliance Officer co-chairs with the group Chief Risk Officer the group Risk and Compliance Executive Committee and is a member of the group Risk Management Meeting and an attendee to the group Risk Committee.

Financial crime risk

(Unaudited)

Overview

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, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

Financial crime risk management

Key developments in 2024

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

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 global businesses;
- deployment of a next generation capability to increase our monitoring coverage on correspondent banking activity in additional markets;
- 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 digital assets and currencies strategy.

Governance and structure

The structure of the Financial Crime function remained substantively unchanged in 2024. The Regional Head of Financial Crime reports to the Group Head of Financial Crime while remaining accountable to the Regional Chief Compliance Officer, and the Regional 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.

Model Risk

(Unaudited)

Overview

Model risk is the risk of the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.

Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

Key developments in 2024

In 2024, we continued to make improvements in our model risk management processes amid regulatory changes in model risk management requirements.

Initiatives during the year included:

- updated our Model Risk Management Framework to meet the enhanced regulatory requirements, where a programme of work was initiated to adopt these changes across our model landscape;
- completed a full review of Model Tiering across the organisation, assessing the materiality and complexity of all models, which will drive the level of oversight required at model level;
- introduced a new framework to govern and manage the risks associated with Deterministic Quantitative Methods, these are complex and material calculators which present similar risks as models;
- following feedback from the PRA and HKMA on a number of our model submissions for internal ratings-based ('IRB') models, a programme of work was delivered to address and redevelop a number of the IRB models for wholesale credit;
- completed independent validation of models being submitted for regulatory approval including the first tranche of models for the Fundamental Review of the Trading Book;
- enhanced our process for independent validation of models, accounting for new generative Artificial Intelligence ('AI') techniques; and
- worked closely with the Businesses and Functions in developing a governance framework to manage the range of risks Artificial Intelligence and Machine Learning techniques can introduce.

Governance

The group's Model Risk Committee ('MRC') provides oversight of models used in the group and focuses on local delivery and requirements. The Committee is chaired by the group Chief Risk Officer 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 Model Risk Management.

Model Risk Management also reports on model risk to senior management and the Board Risk Committee on a regular basis through the use of the risk map, risk appetite, top and emerging risks, and regular key updates.

The effectiveness of these processes, including the Regional 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 Functions.

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 HSBC 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, Singapore and mainland China. We also hold an interest in a life insurance manufacturing associate in India.

Where we do not have the risk appetite or operational scale to be an effective insurance manufacturer, we engage with a small 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.

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

This section focusses only on the risks relating to the insurance products we manufacture.

Insurance manufacturing operations risk management

Key developments in 2024

(Unaudited)

The insurance manufacturing subsidiaries follow the group's risk management framework. In addition, there are specific policies and practices relating to the risk management of insurance contracts, which did not change materially over 2024. During the year there has been continued market volatility observed across interest rates, equity markets and foreign exchange rates. This has been predominantly driven by geopolitical factors and wider inflationary concerns. Other areas of focus have been the ongoing integration of the insurance business that was acquired in 2022, AXA Insurance Pte Limited ('AXA Singapore'), into the group's risk management framework and controls supporting HKFRS 17.

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 Bank'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 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 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, amongst others, some or all of the techniques listed below, depending on the nature of the contracts written:

– We are able to adjust bonus rates 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. The group manages its assets using an approach that considers asset quality, diversification, cash flow matching, liquidity, volatility and target investment return. We use models to assess the effect of a range of future scenarios on the values of financial assets and associated liabilities, and ALCOs employ the outcomes in determining how best to structure asset holdings to support liabilities;
– We use derivatives to protect against adverse market movements; and
– We design new products to mitigate market risk.

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 ICAAP based on their financial capacity to support the risks to which they are exposed. Capital adequacy is assessed on both the group's economic capital basis, and the relevant local insurance regulatory 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 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, establishing committed contingency borrowing facilities and stress testing to understand the impact on liquidity in the event of a mass lapse.

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

(Unaudited)

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;
- 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.

Insurance manufacturing operations risk in 2024

Measurement

(Unaudited)

The tables below show the composition of assets and liabilities by contract type. 87% (2023: 88%) of both assets and liabilities are derived from Hong Kong.

Balance sheet of insurance manufacturing subsidiaries by type of contract[1]

(Audited)

	Life direct participating and investment DPF contracts[2]	Life other contracts[3]	Other contracts[4]	Shareholders' assets and liabilities	Total
	HK$m	HK$m	HK$m	HK$m	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[5]	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	29,233	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

Balance sheet of insurance manufacturing subsidiaries by type of contract[1] (continued)

	Life direct participating and investment DPF contracts[2]	Life other contracts[3]	Other contracts[4]	Shareholders' assets and liabilities	Total
	HK$m	HK$m	HK$m	HK$m	HK$m
At 31 Dec 2023					
Financial assets	675,860	26,482	34,021	40,415	776,778
– financial assets designated and otherwise mandatorily measured at fair value	649,932	25,348	21,426	580	697,286
– derivatives	1,099	76	3	—	1,178
– financial investments measured at amortised cost	8,388	523	8,996	37,106	55,013
– financial investments measured at fair value through other comprehensive income	—	—	36	—	36
– other financial assets[5]	16,441	535	3,560	2,729	23,265
Insurance contract assets	98	798	—	—	896
Reinsurance contract assets	—	36,633	—	—	36,633
Other assets and investment properties	14,258	524	275	11,487	26,544
Total assets at 31 Dec 2023	690,216	64,437	34,296	51,902	840,851
Liabilities under investment contracts designated at fair value	—	—	29,885	—	29,885
Insurance contract liabilities	700,691	25,505	—	—	726,196
Reinsurance contract liabilities	—	6,079	—	—	6,079
Deferred tax	—	9	—	—	9
Other liabilities	—	—	—	31,306	31,306
Total liabilities	700,691	31,593	29,885	31,306	793,475
Total equity	—	—	—	47,376	47,376
Total liabilities and equity at 31 Dec 2023	700,691	31,593	29,885	78,682	840,851

1 Balance sheet of insurance manufacturing operations is shown before elimination of inter-company transactions with HSBC non-insurance operations.
2 'Life direct participating and investment 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.
3 'Life other' contracts are measured under the general measurement model and mainly includes protection insurance contracts as well as reinsurance contracts. The reinsurance contracts primarily provide diversification benefits over life direct participating and investment DPF contracts.
4 'Other contracts' includes investment contracts for which HSBC does not bear significant insurance risk.
5 '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. These funds are primarily invested in fixed interest assets, with a proportion allocated to other asset classes to provide customers with the potential for enhanced returns.

Participating products expose the group to the risk of variation in asset returns, which will impact our participation in the investment performance.

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

Sensitivities

(Unaudited)

The following table provides the impacts on the contractual service margin ('CSM'), profit after tax and equity of our insurance manufacturing subsidiaries from reasonably possible effects of changes in selected interest rate, credit spreads, equity price, growth assets and foreign exchange rate scenarios for the year. These sensitivities are prepared in accordance with current HKFRSs and are based on changing one assumption at a time with other variables being held constant, recognising that in practice such variables could be correlated.

Due in part to the impact of the cost of guarantees and hedging strategies, which may be in place, the relationship between the CSM profit after tax and total equity and the risk factors is non-linear. Therefore, the results disclosed should not be extrapolated to measure sensitivities to different levels of stress. For the same reason, the impact of the stress is not necessarily symmetrical on the upside and downside. The sensitivities are stated before allowance for management actions, which may mitigate the effect of changes in the market environment.

The method used for deriving sensitivity information and significant market risk factors remain unchanged except for updates made to the foreign exchange rates risk methodology which now limits the impacts to within more recent historical ranges. 2023 comparative sensitivities have been updated to reflect this change.

In 2023, due to a lower CSM level, some portfolios generated onerous contracts in the 100bps up scenarios for interest rate and credit spread sensitivities, generating income statement losses and equity reductions in those scenarios. This was less prevalent in 2024 as the base CSMs were higher from changing market conditions and changes in lapse rate assumptions.

Sensitivity of the group's insurance manufacturing subsidiaries to market risk factors

(Audited)

	2024			2023		
	Effect on CSM	**Effect on profit after tax[1]**	**Effect on total equity**	Effect on CSM	Effect on profit after tax[1]	Effect on total equity
	HK$m	**HK$m**	**HK$m**	HK$m	HK$m	HK$m
+100 basis point parallel shift in yield curves	**(1,695)**	**578**	**578**	(779)	453	453
-100 basis point parallel shift in yield curves	**(828)**	**(1,551)**	**(1,551)**	(2,413)	(964)	(964)
+100 basis point shift in credit spreads	**(6,882)**	**(610)**	**(610)**	(6,564)	(48)	(48)
-100 basis point shift in credit spreads	**6,730**	**432**	**432**	5,931	772	772
10% increase in growth assets[2]	**3,002**	**362**	**362**	2,762	289	289
10% decrease in growth assets[2]	**(3,383)**	**(403)**	**(403)**	(3,325)	(338)	(338)
10% appreciation in US dollar exchange rate against local functional currency[3]	**525**	**127**	**127**	191	(18)	(18)
10% depreciation in US dollar exchange rate against local functional currency[3]	**(175)**	**(19)**	**(19)**	(273)	(13)	(13)

1 'Effect on profit after tax' in respect for the year.
2 'Growth assets' primarily comprise equity securities and investment properties. Variability in growth asset fair value constitutes a market risk to insurance manufacturing subsidiaries.
3 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 62.

The credit quality of the reinsurers' share of liabilities under insurance contracts is assessed as 'strong' or 'good' (as defined on page 26), with none of the exposure being either past due or impaired (2023: none).

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 39.

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 95.

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

Amounts Payable on Demand

(Audited)

	2024		2023	
	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	**731,066**	**764,423**	654,981	700,691
Life other contracts	**21,548**	**29,696**	20,021	25,505
At 31 Dec	**752,614**	**794,119**	675,002	726,196

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. Lapse risk exposure on products with premium financing has increased over the year as rising interest rates have led to an increase in the cost of financing for customers.

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 62 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 2023.

Sensitivities

(Audited)

The table below shows the sensitivity of the CSM, profit and total equity to reasonably foreseeable changes in non-economic assumptions across all our insurance manufacturing subsidiaries.

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. During the year we have revised the sensitivity to mortality and morbidity rates from 10% to 5% to align with reasonably foreseeable changes, and the comparatives have been restated accordingly. 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 our profits. The risk is generally greatest for our smaller entities.

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.

Sensitivity of the group's insurance manufacturing subsidiaries to insurance underwriting risk factors[1]

(Audited)

At 31 Dec 2024	Effect on CSM HK$m	Effect on profit after tax[2] HK$m	Effect on total equity HK$m
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**
At 31 Dec 2023			
10% increase in lapse rates	(1,500)	(100)	(100)
10% decrease in lapse rates	1,555	119	119
5% increase in mortality and/or morbidity rates[3]	(490)	(69)	(69)
5% decrease in mortality and/or morbidity rates[3]	491	81	81
10% increase in expense rates	(236)	(26)	(26)
10% decrease in expense rates	242	37	37

1 The sensitivities impacts are provided after considering the impacts of reinsurance contracts held as risk mitigation.
2 'Effect on profit after tax' in respect for the year.
3 During the year the sensitivity to mortality and morbidity rates have been changed from 10% to 5% and the comparatives have been restated accordingly.

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.

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.

Moody's long-term ratings definitions

Aaa

Obligations rated Aaa are judged to be of the highest quality, with minimal 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 considered upper medium-grade and are subject to low credit risk.

Baa

Obligations rated Baa are subject to moderate credit risk. They are considered medium-grade and as such may possess 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.moodys.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/about/intro-to-credit-ratings* (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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