

2025

HSBC 

**HSBC BANK BERMUDA LIMITED**  
**Consolidated Financial Statements**





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# Independent auditor's report

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To the Board of Directors and Shareholder of HSBC Bank Bermuda Limited

## Our opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of HSBC Bank Bermuda Limited (the Company) and its subsidiaries (together 'the Group') as at 31 December 2025, and their consolidated financial performance and their consolidated cash flows for the year then ended in accordance with IFRS Accounting Standards.

## What we have audited

The Group's consolidated financial statements comprise:

- the consolidated balance sheet as at 31 December 2025;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, comprising material accounting policy information and other explanatory information.

## Basis for opinion

We conducted our audit in accordance with International Standards on Auditing ('ISAs'). 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 ethical requirements of the Chartered Professional Accountants of Bermuda Rules of Professional Conduct (CPA Bermuda Rules) that are relevant to audits of financial statements of public interest entities in Bermuda and the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (IESBA Code) as applicable to audits of financial statements of public interest entities. We have also fulfilled our other ethical responsibilities in accordance with the ethical requirements of CPA Bermuda Rules and the IESBA Code.

## Responsibilities of management and those charged with governance for the consolidated financial statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with IFRS Accounting Standards, and for such internal control as management determines 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, management is 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 management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are 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. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs 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 ISAs, 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 management.
- Conclude on the appropriateness of management's 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.

## Independent auditor's report

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We communicate with those charged with governance 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.

*PricewaterhouseCoopers Ltd.*

**Chartered Professional Accountants**

Hamilton, Bermuda

26 February 2026

# Consolidated financial statements

## Consolidated income statement

for the year ended 31 December 2025

	Notes	2025 US\$000	2024 US\$000
Net interest income	3	316,574	339,058
– interest income		361,758	372,602
– interest expense		(45,184)	(33,544)
Net fee income	3	69,687	69,204
– fee income		82,678	81,053
– fee expense		(12,991)	(11,849)
Net income from financial instruments held for trading or managed on a fair value basis		27,608	26,952
Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss		(52)	93
Gains from financial investments	10	4,050	3,936
Other operating income		48	74
<b>Total operating income before change in expected credit losses</b>		<b>417,915</b>	<b>439,317</b>
Change in expected credit losses and other credit impairment charges	8	10,015	2,326
<b>Net operating income</b>		<b>427,930</b>	<b>441,643</b>
Employee compensation and benefits		(62,730)	(61,433)
General and administrative expenses		(64,259)	(57,043)
Depreciation and impairment of property and equipment	13	(5,462)	(6,381)
<b>Total operating expenses</b>		<b>(132,451)</b>	<b>(124,857)</b>
<b>Operating profit</b>		<b>295,479</b>	<b>316,786</b>
Share of gain in associates	14	31	28
<b>Profit before tax</b>		<b>295,510</b>	<b>316,814</b>
Tax expense	5	(44,327)	(83,055)
<b>Profit for the year</b>		<b>251,183</b>	<b>233,759</b>

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated statement of comprehensive income

for the year ended 31 December 2025

	Notes	2025 US\$000	2024 US\$000
Profit for the year		251,183	233,759
<b>Other comprehensive income</b>			
<b>Items that will be reclassified subsequently to profit or loss when specific conditions are met:</b>			
Debt instruments at fair value through other comprehensive income		28,492	1,741
– fair value gains		32,124	5,702
– amounts reclassified to the income statement on disposal		(4,048)	(3,936)
– expected credit losses recognised in the income statement	8	(8)	(25)
– income taxes	5	424	—
Other movements		43	43
<b>Items that will not be reclassified subsequently to profit or loss:</b>			
Actuarial (losses) gains on defined benefit and healthcare plans	4	(3,012)	78
Income taxes	5	469	—
<b>Other comprehensive income for the year, net of tax</b>		<b>25,992</b>	<b>1,862</b>
<b>Total comprehensive income for the year</b>		<b>277,175</b>	<b>235,621</b>

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated financial statements

### Consolidated balance sheet as at 31 December 2025

Notes	2025 US\$000	2024 US\$000
<b>Assets</b>		
Cash and balances at banks	29,486	32,617
Items in the course of collection from other banks	3	50
Derivatives	6, 11 10,819	30,672
Reverse repurchase agreements – non-trading	8 900,000	382,720
Loans and advances to banks	7,8 2,754,757	1,573,555
Loans and advances to customers	8,9 1,498,650	1,514,537
Financial investments	10, 11, 12 4,599,542	3,948,431
Prepayments and accrued income	69,610	64,530
Other assets	9,300	10,274
Interest in associate	14 1,490	1,459
Property and equipment	13 84,884	85,963
Deferred tax asset	5 45	—
<b>Total assets</b>	<b>9,958,586</b>	<b>7,644,808</b>
<b>Liabilities and equity</b>		
<b>Liabilities</b>		
Deposits by banks	34,311	45,832
Customer accounts	9,196,414	6,800,157
Items in the course of transmission to other banks	752	2,478
Derivatives	6, 11 24,297	25,209
Accruals and deferred income	42,830	34,578
Provisions	15 1,571	375
Other liabilities	25,276	28,598
Current tax liabilities	3,827	—
Repurchase agreements – non-trading	10 —	100,000
Retirement benefit liabilities	4 8,339	5,271
<b>Total liabilities</b>	<b>9,337,617</b>	<b>7,042,498</b>
<b>Equity</b>		
Called up share capital	23 30,027	30,027
Share premium	23 388,652	388,652
Other Equity Instruments	23 118,800	—
Other reserves	569	(27,948)
Retained earnings	82,921	211,579
<b>Total equity</b>	<b>620,969</b>	<b>602,310</b>
<b>Total liabilities and equity</b>	<b>9,958,586</b>	<b>7,644,808</b>

The accompanying notes are an integral part of the Consolidated Financial Statements.



**Anthony Joaquin**  
Director



**Gregory Garnier**  
Director

## Consolidated financial statements

### Consolidated statement of cash flows

for the year ended 31 December 2025

	2025 US\$000	2024 US\$000
<b>Cash flows from operating activities</b>		
Profit for the year	251,183	233,759
<b>Adjustments for:</b>		
Net interest income	(316,574)	(339,058)
Non-cash items in profit for the year	(21,314)	11,361
Change in loans and advances to banks greater than three months	(500,000)	101,667
Change in loans and advances to customers	24,717	98,757
Change in other operating assets	15,088	275,212
Change in deposits by banks	(11,521)	(11,320)
Change in customer accounts	2,396,257	(661,910)
Change in repurchase agreements- non-trading	(100,000)	100,000
Change in other operating liabilities	(16,030)	(174,866)
Net gain from investing activities	(3,998)	(4,029)
Interest received	361,545	383,623
Interest paid	(38,153)	(31,767)
Taxes paid	(40,500)	—
<b>Net cash flows from/(used in) operating activities</b>	<b>2,000,700</b>	<b>(18,571)</b>
<b>Cash flows from investing activities</b>		
Purchase of financial investments	(2,907,102)	(1,649,641)
Proceeds from the sale and maturity of financial investments	2,364,359	1,683,190
Net cash flow from the purchase and sale of property and equipment	(4,383)	(3,918)
<b>Net cash flows (used in)/from investing activities</b>	<b>(547,126)</b>	<b>29,631</b>
<b>Cash flows from financing activities</b>		
Other equity instruments issued	118,800	—
Dividends paid	(377,000)	(398,000)
<b>Net cash flows used in financing activities</b>	<b>(258,200)</b>	<b>(398,000)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,195,374</b>	<b>(386,940)</b>
Cash and cash equivalents at the beginning of the year	896,464	1,284,166
Effect of exchange rate changes on cash and cash equivalents	1,656	(762)
Cash and cash equivalents at the end of the year	2,093,494	896,464
<b>Cash and cash equivalents comprise</b>		
Cash and balances at banks	29,486	32,617
Items in the course of collection from other banks	3	50
Loans and advances to banks less than three months	1,164,757	483,555
Reverse repurchase agreements with banks of one month or less	900,000	382,720
Items in the course of transmission to other banks	(752)	(2,478)
<b>Total cash and cash equivalents</b>	<b>2,093,494</b>	<b>896,464</b>

The accompanying notes are an integral part of the Consolidated Financial Statements.

## Consolidated financial statements

### Consolidated statement of changes in equity

for the year ended 31 December 2025

			Other reserves			Retained earnings	Total equity
	Called up share capital and Share premium	Other equity instruments	Financial Assets at FVOCI reserve	Cash flow hedging reserve	Share-based payment reserve		
	US\$000	US\$000	US\$000	US\$000	US\$000		
<b>At 1 Jan 2025</b>	<b>418,679</b>	<b>—</b>	<b>(31,670)</b>	<b>—</b>	<b>3,722</b>	<b>211,579</b>	<b>602,310</b>
<b>Total comprehensive income for the year</b>							
Profit for the year	—	—	—	—	—	251,183	251,183
Cash flow hedges	—	—	—	—	—	—	—
Change in fair value of financial assets measured at fair value through other comprehensive income	—	—	28,492	—	—	—	28,492
Actuarial losses on defined benefit and healthcare plans	—	—	—	—	—	(3,012)	(3,012)
Other movements	—	—	—	—	—	512	512
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>28,492</b>	<b>—</b>	<b>—</b>	<b>248,683</b>	<b>277,175</b>
<b>Transactions with the shareholder recorded directly in equity</b>							
Securities issued during the period	—	118,800	—	—	—	—	118,800
Dividends	—	—	—	—	—	(377,000)	(377,000)
Share-based plan movements	—	—	—	—	25	(341)	(316)
<b>Total transactions with the shareholder recorded directly in equity</b>	<b>—</b>	<b>118,800</b>	<b>—</b>	<b>—</b>	<b>25</b>	<b>(377,341)</b>	<b>(258,516)</b>
<b>At 31 Dec 2025</b>	<b>418,679</b>	<b>118,800</b>	<b>(3,178)</b>	<b>—</b>	<b>3,747</b>	<b>82,921</b>	<b>620,969</b>
At 1 Jan 2024	418,679	—	(33,490)	79	3,682	375,976	764,926
<b>Total comprehensive income for the year</b>							
Profit for the year	—	—	—	—	—	233,759	233,759
Cash flow hedges	—	—	—	(79)	—	—	(79)
Change in fair value of financial assets measured at fair value through other comprehensive income	—	—	1,820	—	—	—	1,820
Actuarial gains on defined benefit and healthcare plans	—	—	—	—	—	78	78
Other movements	—	—	—	—	—	43	43
<b>Total comprehensive income for the year</b>	<b>—</b>	<b>—</b>	<b>1,820</b>	<b>(79)</b>	<b>—</b>	<b>233,880</b>	<b>235,621</b>
<b>Transactions with the shareholder recorded directly in equity</b>							
Dividends	—	—	—	—	—	(398,000)	(398,000)
Share-based plan movements	—	—	—	—	40	(277)	(237)
<b>Total transactions with the shareholder recorded directly in equity</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>40</b>	<b>(398,277)</b>	<b>(398,237)</b>
At 31 Dec 2024	418,679	—	(31,670)	—	3,722	211,579	602,310

The accompanying notes are an integral part of the Consolidated Financial Statements.

# Notes on the consolidated financial statements

## 1 Basis of preparation

### (a) General

HSBC Bank Bermuda Limited (the 'Bank') was established in 1889 and incorporated in 1891. The Bank is domiciled in Bermuda. The address of its registered office is 37 Front Street, Hamilton HM11, Bermuda. The consolidated financial statements of the Bank for the year ended 31 December 2025 comprise the Bank and its subsidiaries (together referred to as the 'group') and the group's interests in associates. The group provides personal and corporate banking, investment, custody and fund administration services to international and local clients. The immediate parent company of the Bank is HSBC Bank Plc and the ultimate parent company is HSBC Holdings plc ('HSBC'). Copies of the financial statements of HSBC may be obtained from its registered office at 8 Canada Square, London, E14 5HQ, United Kingdom, or from the HSBC website, [www.hsbc.com](http://www.hsbc.com).

These consolidated financial statements were authorised for issue by the Board of Directors on 26 February 2026.

The consolidated financial statements are presented in US dollars, which is the presentational currency of HSBC. The functional currency of the group is primarily Bermuda dollars. Bermuda dollars are translated into US dollars at par. All amounts and figures are rounded to the nearest thousand except where explicitly stated.

The consolidated financial statements have been prepared on a historical cost basis except for fair value measurement where stated.

The group has prepared its consolidated financial statements in accordance with IFRS Accounting Standards ('IFRSs'). IFRSs comprise accounting standards issued by the International Accounting Standards Board ('IASB'), as well as interpretations issued by the International Financial Reporting Interpretations Committee ('IFRIC').

Certain reclassifications have been made to the 2024 corresponding figures in order to conform to current year presentation.

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 projections of profitability, cash flows, capital requirements and capital resources.

### Standards adopted during the year ended 31 December 2025

There were no new standards, amendments to standards or interpretations that had an effect on these financial statements. Accounting policies have been consistently applied.

### (b) Basis of consolidation

Where an entity is governed by voting rights, the Bank 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.

Subsidiaries are consolidated from the date the group gains control, until the date that control ceases. The Bank performs a re-assessment of consolidation whenever there is a change in the facts and circumstances of determining the control of all entities.

All intra-group transactions are eliminated on consolidation.

The consolidated financial statements of the group include the attributable share of the results of any interests in associates, based on either financial statements made up to 31 December or pro-rated amounts adjusted for any material transactions or events occurring between the date of financial statements available and 31 December.

### (c) Critical accounting 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 listed 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 these consolidated financial statements. Management's selection of accounting policies that contain critical estimates and judgements are those which relate to; the impairment of loans and advances, the valuation of healthcare benefits, fair value of assets held for sale, the valuation of financial instruments, the impairment of financial assets measured at fair value through other comprehensive income, the deferred tax asset and provisions for litigation.

Management has considered the impact of climate-related risks on the group's financial position and performance. While the effects of climate change are a source of uncertainty, as at 31 December 2025 management did not consider there to be a material impact on our critical judgements and estimates from the physical, transition and other climate-related risks in the short to medium term. In particular, management has considered the known and observable potential impacts of climate-related risks of associated judgements and estimates in our value in use calculations.

Further information about key assumptions concerning the future, and other key sources of estimation uncertainty, are set out in these notes on the consolidated financial statements.

## (d) Future accounting developments

### Minor amendments to IFRS

The IASB has published a number of minor amendments to IFRSs which are effective from 1 January 2026. The group expects they will have an insignificant effect, when adopted, on the group's consolidated financial statements.

### Other amendments and new IFRS

#### Amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures'

In May 2024, the IASB issued amendments to IFRS 9 'Financial Instruments' and IFRS 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on, or after, 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The group does not expect any material impact from these amendments.

#### IFRS 18 'Presentation and Disclosure in Financial Statements'

In April 2024, the IASB issued IFRS 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 IAS 1 'Presentation of Financial Statements' but carries over many requirements from that IFRS Accounting Standard 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 IFRS 18 will not change recognition criteria or measurement bases, it will have an impact on presenting information in the financial statements, in particular the income statement and to a lesser extent the cash flow statement. HSBC are currently evaluating impacts and ensuring data readiness is adequate in anticipation of implementation.

## 2 Material accounting policies

### (a) Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value, is recognised in 'Interest income' and 'Interest expense' in the consolidated income statement using the effective interest rate method. The effective interest rate method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability or, where appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the group estimates cash flows considering all contractual terms of the financial instrument but not future credit losses. The calculation includes all amounts paid or received by the group that are an integral part of the effective interest rate, including transaction costs and all other premiums or discounts.

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).

### (b) Non-interest income and expense

#### (i) Fee income

The group generates fee income from services provided over time, such as account services and card fees, or when the group delivers a specific transaction at a point in time, such as broking services. With the exception of certain fund management and performance fees, which can be variable depending on the size of the customer portfolio over the period, all other fees are generated at a fixed price. Variable fees are recognised when all the associated uncertainties are resolved and to the extent that it is highly probable that a significant reversal will not occur. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

The group is principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, the group acts as agent in the transaction, and recognises broking income net of fees payable to other parties in the arrangement.

The group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Where the group offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

#### (ii) Net income from financial instruments held for trading or managed on a fair value basis

Net income from financial instruments held for trading or managed on a fair value basis 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, expense and dividends, 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.

#### (iii) Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss

Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss includes interest on instruments that fail the solely payments of principal and interest test, see (f) below.

## (c) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Such investments are normally those with less than three months maturity from the date of acquisition.

## (d) Loans and advances to banks and customers

Loans and advances to banks and customers include loans and advances originated by the group which are not classified as held for trading or designated at fair value. They are recognised when cash is advanced to a borrower and are derecognised when either the borrower repays its obligations, or the loans are sold or written off, or substantially all the risks and rewards of ownership are transferred. They are held to collect the contractual cash flows and contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest.

They are initially recorded at fair value plus any directly attributable transaction costs and are subsequently measured at amortised cost using the effective interest rate method, less expected credit losses.

Loans and advances are reclassified to 'Assets held for sale' when they meet the criteria presented in Note 2(j) though their measurement remains in accordance with this policy.

When the group purchases a financial asset and simultaneously enters into an agreement to resell the asset (or a substantially similar asset) at a fixed price on a future date ('reverse repo' or 'stock borrowing'), the arrangement is accounted for as a loan or advance, and the underlying asset is not recognised in the group's consolidated financial statements.

## (e) Valuation of financial instruments

Financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date and on initial recognition is generally the transaction price. 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 either until the transaction matures or 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 financial statements, unless they satisfy the IFRS offsetting criteria.

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 used. For inactive markets, the group sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an ongoing basis. Fair value adjustments are applied where additional factors are not incorporated into the primary product valuation model.

For fair value through other comprehensive income ('FVOCI') securities that are quoted in active markets, fair values are determined by reference to the current quoted bid prices. Where independent prices are not available, fair values may be determined using valuation techniques with reference to observable market data. These include comparison to similar instruments where market observable prices exist, discounted cash flow analysis and other valuation techniques commonly used by market participants. Fair values of financial instruments may be determined in whole or in part using valuation techniques based on assumptions that are not supported by prices from current market transactions or observable market data, where current prices or observable market data are not available.

Fair values of financial assets and liabilities are determined according to the following hierarchy:

Level 1 – valuation technique using quoted market price: financial instruments with quoted prices for identical instruments in active markets that HSBC can access at the measurement date.

Level 2 – valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments valued using models where all significant inputs are observable.

Level 3 – valuation technique with significant unobservable inputs: financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

## (f) 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 amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.

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 generally not recognised but is subject to expected credit loss considerations.

### Non-trading reverse repurchase, repurchase and similar agreements

When 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 repurchase or repurchase agreements (such as sales or purchases of 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.

## (g) Financial assets measured at fair value through other comprehensive income

Financial assets managed within for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily debt securities. They are generally recognised on the trade date when the group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains less losses from financial investments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in profit or loss.

## (h) Financial assets designated at fair value through profit and loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- The use of the designation removes or significantly reduces an accounting mismatch.
- A group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.
- A financial liability that contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the group enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred.

Designated financial liabilities are recognised when the group enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', 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 liabilities that contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

## (i) Trading assets and liabilities

Treasury bills, debt securities, equity securities, loans, deposits, debt securities in issue, and short positions in securities are classified as held for trading if they have been acquired or incurred principally for the purpose of selling or repurchasing in the near term, or they form part of a portfolio of identifiable financial instruments that are managed together and for which there is evidence of a recent pattern of short-term profit-taking. These financial assets or financial liabilities are recognised on trade date, when the group enters into contractual arrangements with counterparties to purchase or sell the financial instruments, and are normally derecognised when either sold (assets) or extinguished (liabilities). Measurement is initially at fair value, with transaction costs recognised in the consolidated income statement. Subsequently, the fair values are remeasured, and gains and losses from changes therein are recognised in the consolidated income statement in 'Net income from financial instruments held for trading or managed on a fair value basis'.

## (j) Non-current assets and disposal groups held for sale

The group classifies non-current assets or disposal groups (including assets and liabilities) as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset or disposal group must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets (or disposal groups), and the sale must be highly probable. For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset (or disposal group) and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset (or disposal group) must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Held for sale assets and disposal groups are measured at the lower of their carrying amount and fair value less costs to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5. If the carrying amount of the non-current asset (or disposal group) is greater than the fair value less costs to sell, an impairment loss for any initial or subsequent write-down of the asset or disposal group to fair value less costs to sell is recognised. Any such impairment loss is first allocated against the non-current assets that are in scope of IFRS 5 for measurement. This first reduces the carrying amount of any goodwill allocated to the disposal group, and then to the other non-current assets of the disposal group pro rata on the basis of the carrying amount of each asset in the disposal group. Thereafter, any impairment loss in excess of the carrying amount of the non-current assets in scope of IFRS 5 for measurement is recognised against the total assets of the disposal group.

## (k) 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 and 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 HSBC 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 a 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income 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 other comprehensive income is reclassified to the income statement.

### Hedge effectiveness testing

To qualify for hedge accounting, the group requires that at the inception of the hedge and throughout its life each hedge must be expected to be highly effective both prospectively and retrospectively on an ongoing basis.

The documentation of each hedging relationship sets out how the effectiveness of the hedge is assessed and the method adopted by an entity to assess hedge effectiveness will depend on its risk management strategy.

Hedge ineffectiveness is recognised in the consolidated income statement in 'Net income from financial instruments held for trading or managed on a fair value basis'.

## (l) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ('ECL') are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets measured at amortised cost, debt instruments measured at FVOCI and certain loan commitments and financial guarantee contracts.

At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is 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, 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 so are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ('POCI') are treated differently as set out below.

## Unimpaired and without significant increase in credit risk – (stage 1)

ECL resulting from default events that are possible within the next 12 months ('12-month ECL') are recognised for financial instruments that remain in stage 1.

## Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to 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 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 IFRS 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 CRR scales can be found in Note 20(e).

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 homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts include accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold 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.

## Credit-impaired (stage 3)

The group determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; or
- the loan is otherwise considered to be in default.

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

Under IFRS 9, 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 reassessed.

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.

### Forbearance

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

Performing forbore loans are initially stage 2 and remain classified as forbore 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 forbore loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forbore loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forbore.

### Loan modifications other than forbore loans

Loan modifications that are not identified as forbore are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided. Modifications of certain higher credit risk wholesale loans are assessed for derecognition, having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument. Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy.

### Purchased or originated credit-impaired

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes new financial instruments recognised in most cases following the derecognition of forbore loans. The amount of change in lifetime ECL for a POCI loan is recognised in profit or loss until the POCI loan is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition.

### Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forbore loans, such as financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

### Measurement of ECL

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

In general, the group calculates ECL using three main components, a probability of default ('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 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 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 ECL for wholesale stage 3 is determined primarily on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on estimates as of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at the original effective interest rate. For significant cases, cash flows under up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by the group and judgement in relation to the likelihood of the work-out strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the Bank may use an LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

All the group's debt instruments at amortised cost and FVOCI are considered to have a low credit risk, and the ECL recognised during the period is limited 12 months' expected losses. The group considers 'low credit risk' for listed bonds to be an investment grade credit rating with at least one major rating agency. Other instruments are considered to be low credit risk where they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

### Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the group is exposed to credit risk. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken to realise the material losses for an account, determined on a portfolio basis 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.

Four global economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Scenarios produced to calculate ECL are aligned to the group's top and emerging risks.

Three of the scenarios, the Upside, Central and Downside are drawn from consensus forecasts and distributional estimates. The Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting, while the outer scenarios represent the tails of the distribution, which are less likely to occur. The Central scenario is created using the average of a panel of external forecasters. Consensus Upside and Downside scenarios are created with reference to distributions for select markets that capture forecasters' views of the entire range of outcomes. In the later years of the scenarios, projections revert to long-term consensus trend expectations. In the consensus outer scenarios, reversion to trend expectations is done mechanically with reference to historically observed quarterly changes in the values of macroeconomic variables.

The central forecast and spread between the Central and Outer scenarios for Retail is grounded on the expected gross domestic product of Bermuda and for Wholesale is grounded on a US gross domestic product proxy. The economic factors include, but are not limited to, gross domestic product, unemployment, interest rates, inflation and commercial property prices across all the countries in which HSBC operates.

The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent narrative-driven scenario that explores more extreme economic outcomes 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 activity moves permanently away from past trends.

The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10% probability. The Downside 2 is constructed with a 5% probability. The Central scenario is assigned the remaining 75%. 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 is determined to be particularly uncertain and risks are elevated.

In general, the consequences of the assessment of credit risk and the resulting ECL outputs will be probability-weighted using the standard probability weights. This probability weighting may be applied directly or the effect of the probability weighting determined on a periodic basis, at least annually, and then applied as an adjustment to the outcomes resulting from the central economic forecast. The central economic forecast is updated quarterly.

The group recognises that the consensus economic scenario approach using four scenarios will be insufficient in certain economic environments. Additional analysis may be requested at management's discretion, including the production of extra scenarios. If conditions warrant, this could result in a management overlay for economic uncertainty which is included in the ECL.

## Critical estimates and judgements

The calculation of the group's ECL under IFRS 9 requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
<ul style="list-style-type: none"> <li>- Defining what is considered to be a significant increase in credit risk</li> <li>- Determining the lifetime and point of initial recognition of overdrafts and credit cards</li> <li>- 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</li> <li>- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected credit loss</li> <li>- Making management adjustments to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgements</li> <li>- Selecting applicable recovery strategies for certain wholesale credit-impaired loans</li> </ul>	<ul style="list-style-type: none"> <li>- The section 'Economic scenarios sensitivity analysis of ECL estimates', on page 28, provides an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions</li> </ul>

## (m) Impairment of non-financial assets

In assessing whether an asset is impaired, the recoverable amount of the asset is calculated as the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets. Impairment losses are recognised in the consolidated income statement.

Software under development is tested for impairment at least annually. Other non-financial assets are property, plant and equipment, intangible assets (excluding goodwill) and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the cash generating unit ('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.

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.

## (n) Derecognition of financial assets and financial liabilities

Financial assets are derecognised when the contractual right to receive cash flows from the assets has expired; or when the group has transferred its contractual right to receive the cash flows of the financial assets, and either:

- substantially all the risks and rewards of ownership have been transferred; or
- the group has neither retained nor transferred substantially all the risks and rewards, but has not retained control.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, is cancelled, or expires.

## (o) Offsetting financial assets and financial liabilities

Financial assets and financial liabilities are offset and the net amount reported in the consolidated 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.

## (p) Subsidiaries and associates

The group classifies investments in entities which it controls as subsidiaries. The group classifies investments in entities over which it has significant influence, and that are neither subsidiaries nor joint ventures, as associates.

Interests in associates are recognised using the equity method. Under this method, such investments are initially stated at cost, including attributable goodwill, and adjusted thereafter for the post-acquisition change in the group's share of net assets.

Profits on transactions between the group and its associates are eliminated to the extent of the group's interests in the respective associates. Losses are also eliminated to the extent of the group's interests in the associates unless the transaction provides evidence of an impairment of the asset transferred.

## (q) Property and equipment

Land and buildings are stated at historical cost, or fair value at the date of transition to IFRSs ('deemed cost'), less impairment losses and depreciated, using the straight-line method, over their estimated useful lives as follows:

Freehold land	not depreciated
Buildings	lesser of 50 years or the remaining useful lives

Equipment, fixtures and fittings and software are stated at cost less impairment losses and depreciated, using the straight-line method, over their estimated useful lives, which is generally between three and seven years.

Property and equipment is subject to an impairment review if there are events or changes in circumstances which indicates the carrying amount may not be recoverable.

## (r) Tax

Income tax on the profit or loss for the year comprises current tax and deferred tax. Income tax is recognised in the consolidated income statement except to the extent that it relates to items recognised in other comprehensive income or directly in equity, in which case it is also recognised in the same statement in which the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year, and 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 amount of assets and liabilities in the consolidated balance sheet and the amount attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

In assessing the probability and sufficiency of future taxable profit, management considers the availability of evidence to support the recognition of deferred tax assets, taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. Management also considers the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations. The Group has applied the exception available under IAS 12 to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes.

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

## (s) 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 other comprehensive income. 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.

The costs of obligations arising from other post-employment plans are accounted for on the same basis as defined benefit pension plans.

### Share-based payments

HSBC enters into both equity-settled and cash-settled share-based payment arrangements with its employees as compensation for the provision of their services.

The vesting period for these schemes may commence before the legal grant date if the employees have started to render services in respect of the award before the legal grant date, where there is a shared understanding of the terms and conditions of the arrangement. Expenses are recognised when the employee starts to render service to which the award relates.

Cancellations result from the failure to meet a non-vesting condition during the vesting period, and are treated as an acceleration of vesting recognised immediately in the income statement. Failure to meet a vesting condition by the employee is not treated as a cancellation, and the amount of expense recognised for the award is adjusted to reflect the number of awards expected to vest.

## (t) Foreign currencies

Transactions in foreign currencies are recorded in the functional currency at the rate of exchange prevailing on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated into the functional currency at the rate of exchange ruling at the balance sheet date. Any resulting exchange differences are included in the consolidated income statement. Non-monetary assets and liabilities that are measured at historical cost in a foreign currency are translated into the functional currency using the rate of exchange at the date of the initial transaction. Non-monetary assets and liabilities measured at fair value in a foreign currency are translated into the functional currency using the rate of exchange at the date the fair value was determined. Any exchange component of a gain or loss on a non-monetary item is recognised either in other comprehensive income or in the consolidated income statement depending where the gain or loss on the underlying non-monetary item is recognised.

## (u) Deposits by banks and customer accounts

Financial liabilities are recognised when the group enters into the contractual provisions of the arrangements with counterparties, which is generally on trade date, and initially measured at fair value, which is normally the consideration received, net of directly attributable transaction costs incurred. Subsequent measurement of financial liabilities, other than those measured at fair value through profit or loss and financial

guarantees, is at amortised cost, using the effective interest rate method. Deposits by banks and customer accounts which are typically short term in nature and reprice to current market rates frequently, and in such cases the carrying amount is a reasonable approximation of fair value.

## (v) 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.

### Critical estimates and judgements

The recognition and measurement of provisions requires the group to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
<ul style="list-style-type: none"> <li>Determining whether a present obligation exists. Professional advice is taken on the assessment of litigation and similar obligations.</li> <li>Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.</li> </ul>	<ul style="list-style-type: none"> <li>Provisions for legal proceedings and regulatory matters remain very sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.</li> </ul>

### 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 financial statements but are disclosed unless the probability of settlement is remote.

### Financial guarantee contracts

Financial guarantee contracts are contracts that require the group to make specific payments to reimburse the holder for a loss incurred because a specific debtor fails to make payment when due. Liabilities under financial guarantee contracts are recorded initially at their fair value, which is generally the fee received or receivable and are amortised over the lives of the contracts. Subsequently, they are measured at the higher of the amount determined in accordance with IFRS 9 for ECL and the amount initially recognised less, where appropriate, any cumulative income recognised in accordance with IFRS 15. Financial guarantee contracts are included in 'Other liabilities'.

## (w) Fiduciary activities

The group commonly acts in a fiduciary capacity resulting in the holding or placing of assets on behalf of individuals, trusts, post-employment benefit plans and other institutions. The assets and liabilities and income and expenditure arising from these assets and liabilities are excluded from the consolidated financial statements, as they are not assets of the group. The group earns a fee for acting in these capacities.

## 3 Net interest income and net fee income

### Analysis of net interest income

	2025	2024
<b>Interest income</b>		
Financial investments <sup>1</sup>	163,412	146,513
Loans and advances to banks	92,751	109,479
Loans and advances to customers	99,742	106,350
Derivatives in a hedging relationship	5,853	9,957
Other	—	303
<b>Total interest income</b>	<b>361,758</b>	<b>372,602</b>
<b>Interest expense</b>		
Customer accounts	(45,184)	(33,544)
<b>Total interest expense</b>	<b>(45,184)</b>	<b>(33,544)</b>
<b>Net interest income</b>	<b>316,574</b>	<b>339,058</b>

<sup>1</sup> Interest income includes \$61,953 (2024: \$51,852) of interest recognised on financial assets measured at amortised cost and \$101,459 (2024: \$94,661) of interest recognised on financial assets measured at fair value through other comprehensive income.

### Analysis of net fee income

	2025	2024
<b>Fee income</b>		
Custody and fund administration	1,837	1,950
Banking	39,555	37,304
Asset Management	30,143	30,548
Other	11,143	11,251
<b>Total fee income</b>	<b>82,678</b>	<b>81,053</b>
Total fee expense	(12,991)	(11,849)
<b>Net fee income</b>	<b>69,687</b>	<b>69,204</b>

## 4 Retirement benefit liabilities

### Post-employment benefit plans

	2025	2024
<b>Balance Sheet</b>		
Defined benefit pension plans	(649)	(730)
Post-employment healthcare benefits plan	(7,690)	(4,541)
<b>Total post-employment benefit plan deficit</b>	<b>(8,339)</b>	<b>(5,271)</b>
<b>Income Statement charge</b>		
Defined contribution pension plans	(3,146)	(3,091)
Defined benefit pension plans	(81)	(81)
Post-employment healthcare benefits plan	(380)	(230)
<b>Total post-employment benefit plans</b>	<b>(3,607)</b>	<b>(3,402)</b>

### (a) Defined contribution pension plans

The group provides defined contribution pension plans to its employees. Employees are able to make additional voluntary payments to the defined contribution pension plans.

The group's expense for the defined contribution pension plans in 2025 was \$3,146 (2024: \$3,091).

### (b) Defined benefit pension plans

The group continues to assume responsibility of a closed plan comprising previous employees and is not subject to new membership from current employees.

The defined benefit plan exposes the group to actuarial risks, such as longevity risk, and to currency risk, interest rate risk and market (investment) risk.

Actuarial valuation of the assets and liabilities of the group's defined benefit pension plan is carried out periodically to determine their financial position and to ensure that benefit obligations are adequately funded. The group's pension expense for the defined benefit pension plan was \$81 (2024: \$81).

An actuarial gain of \$118 (2024: gain of \$226) was included in the consolidated statement of comprehensive income for the defined benefit pension plan.

The group determines the discount rate to be applied to its obligations in consultation with the plan's actuaries, on the basis of current average yields of high quality (AA-rated or equivalent) debt instruments with maturities consistent with those of the defined benefit obligations.

### (c) Post-employment healthcare benefits plan

The group provides a partially funded post-employment healthcare benefits plan (the 'plan') for certain Bermuda-based retired employees. To qualify, employees must have a minimum of 15 or 20 years (depending on their hire date) of successive service at the date of retirement. Independent, qualified actuaries carry out an actuarial assessment of the liabilities of the plan on an annual basis using the PRH-2014 Total Data Set Mortality Table rolled back to 2006 and then projected fully generationally with the MP-2017 Mortality Improvement Scale. The liabilities are evaluated by discounting the expected future obligation to a net present value.

During 2017 the terms of the plan were amended. The amendments included closing the post-employment healthcare benefits plan to new employees from September 2017 and shifting the retiree's cost of the premiums on a gradual basis each year with premiums being fully funded by retirees as of May 2024.

The latest actuarial assessment was carried out in December 2025 in accordance with IAS 19. At 31 December 2025, the estimated present value of the post-employment healthcare benefit obligation was \$7,690 (2024: \$4,541). The main financial assumptions used to estimate the obligation at 31 December 2025 are current and ultimate healthcare claims trend rate of 9.00% and 4.75% per annum respectively (2024: 7.25% and 4.5%) and a discount rate of 4.9% (2024: 5.4%) per annum.

The changes in the present value of the post-employment healthcare benefit obligations are as follows:

	2025	2024
<b>At 1 Jan</b>	<b>4,541</b>	4,826
Interest cost	380	230
Contributions by retirees	2,717	3,318
Actuarial losses	3,130	148
Benefits paid	(3,078)	(3,981)
<b>At 31 Dec</b>	<b>7,690</b>	4,541

The total net income (expense) recognised in the consolidated income statement within 'Employee compensation and benefits' in respect of the post-employment healthcare benefits plan is comprised of:

	2025	2024
<b>Interest cost</b>	<b>380</b>	230
<b>Total net expense</b>	<b>380</b>	230

## Notes on the consolidated financial statements (In US dollar thousands)

Total net actuarial results recognised in the consolidated statement of comprehensive income in 2025 in respect of the post-employment healthcare benefits plan are a loss of \$3,130 (2024: loss of \$148). The net deficits and the experience adjustments on plan liabilities expressed as an amount and as a percentage of the net deficit for the current and previous annual period are as follows:

	2025	2024
Net obligation	7,690	4,541
Experience adjustments on plan liabilities expressed as an amount	(3,130)	(148)
Experience adjustments on plan liabilities expressed as a percentage	(41)%	(3)%

The actuarial assumptions related to the healthcare cost trend rates may have a significant effect on the amounts recognised. A one-percentage point change in assumed healthcare cost trend rates would have the following effects on amounts recognised in 2025:

	2025	2024
	1% increase	1% increase
Effect on the aggregate of the current service cost and interest cost	24	16
Effect on present value of the benefit obligation	454	324
	1% decrease	1% decrease
Effect on the aggregate of the current service cost and interest cost	(22)	(14)
Effect on present value of the benefit obligation	(416)	(294)

## Share-based payments

During 2025, \$433 (2024: \$398) was charged to the consolidated income statement in respect of share-based payment transactions relating to deferred share awards. This expense, which was computed from the fair values of the share-based payments on transaction dates, arose under employee share awards made in accordance with the group's reward structures. All share plans are based on ordinary \$0.50 par value shares in the ultimate parent company HSBC Holdings plc.

## The HSBC share plan

The HSBC share plan was adopted by HSBC Holdings plc in 2005. Under this plan, performance share awards, restricted share awards, employee share purchase and share option awards may be made. The aim of the HSBC share plan is to align the interests of executives and employees with the creation of shareholder value and recognise individual performance and potential. Awards are also made under this plan for recruitment and retention purposes.

## Restricted share awards

Restricted shares are awarded to employees on the basis of their performance, potential and retention requirements, to aid retention or as a part-deferral of annual bonuses. Shares are awarded without corporate performance conditions and generally vest between one and five years from the date of award, providing the employees have remained continually employed by the group for this period.

## International Employee Share Purchase Plan ('ShareMatch')

In 2015 the group joined the ShareMatch Plan. Shares are purchased in the market each quarter up to a maximum value of one thousand and seventeen dollars (2024 – nine hundred and sixty three dollars). Matching awards are added at a ratio of one free share for every three purchased. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum period of two years and nine months.

## 5 Tax

The Government of Bermuda enacted the Corporate Income Tax Act 2023 on December 27, 2023, subjecting certain Bermuda businesses to a 15% Bermuda corporate income tax for the fiscal years beginning January 1, 2025 onwards. The Bank is in scope of this legislation and is incurring and paying corporate income tax ('CIT') in Bermuda in 2025.

The Act contains an economic transition adjustment ('ETA') that intends to provide a fair transition for in scope companies into the new CIT regime. In 2023, the Bank recognized a net deferred tax asset ('DTA') of \$83,055 in relation to the ETA which was expected to be amortized over 10 years starting from 2025. During 2024, the Bank reassessed its DTA position and elected to opt out of the ETA provisions of the Bermuda CIT and as a result has reversed the DTA in 2024.

### Tax Expense

	2025	2024
Current tax	44,327	—
Deferred tax	—	83,055
Total	44,327	83,055

### Tax Reconciliation

	2025	%
Profit before tax	295,510	—
Taxation at Bermuda corporation tax rate	44,327	15
Items increasing/reducing the tax charge in 2025:	—	—
Year ended 31 Dec 2025	44,327	15

Movement of deferred tax assets and liabilities

	Financial assets at FVOCI	Retirement obligations	Other	Total
Asset	—	—	—	—
Liability	—	—	—	—
At 1 Jan 2025	—	—	—	—
Income statement	—	—	—	—
Other comprehensive income	(424)	469	—	45
Foreign exchange and other adjustment	—	—	—	—
At 31 Dec 2025	(424)	469	—	45
Asset	—	469	—	469
Liability	(424)	—	—	(424)

## 6 Derivatives

Fair values of derivatives by product type

	2025		2024	
	Fair value		Fair value	
	Assets	Liabilities	Assets	Liabilities
Foreign exchange	5,356	6,084	19,483	20,865
Interest rate	—	—	745	911
<b>Trading derivatives</b>	<b>5,356</b>	<b>6,084</b>	<b>20,228</b>	<b>21,776</b>
Fair value hedges – Interest rate	5,463	18,213	10,444	3,433
<b>Total derivatives</b>	<b>10,819</b>	<b>24,297</b>	<b>30,672</b>	<b>25,209</b>

The notional contract amounts of derivatives held for trading purposes indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

Notional contract amounts of derivatives by product type

	2025	2024
Foreign exchange	2,353,721	2,163,541
Interest rate	—	240,000
<b>Trading derivatives</b>	<b>2,353,721</b>	<b>2,403,541</b>
Fair value hedges – Interest rate	1,082,979	747,979
<b>Total derivatives</b>	<b>3,436,700</b>	<b>3,151,520</b>

Derivatives are financial instruments that derive their value from the price of an underlying item such as equities, bonds, interest rates, foreign exchange rates, credit spreads, commodities and equity or other indices. Derivatives enable users to increase, reduce or alter exposure to credit or market risks. The group makes markets in derivatives for its customers and uses derivatives to manage its exposure to market risks (Note 20).

Derivatives are carried at fair value and shown in the consolidated balance sheet gross. Asset values represent the cost to the group of replacing all transactions with a fair value in the group's favour assuming that the entire group's relevant counterparties default at the same time, and that transactions can be replaced instantaneously. Liability values represent the cost to the group's counterparties of replacing all their transactions with the group with a fair value in their favour if the group were to default. Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Use of derivatives

The group uses derivatives for two primary purposes: to create risk management solutions for clients and to manage and hedge the group's own risks. For accounting purposes, derivative instruments are classified as held either for trading or hedging. Derivatives that are held as hedging instruments are formally designated as hedges as defined in IAS 39. IFRS 9 includes an accounting policy choice to remain with IAS 39 hedge accounting, which the group has exercised. All other derivative instruments are classified as held for trading. The held for trading classification includes two types of derivative instruments: those used in sales and trading activities; and those instruments that are used for risk management purposes but which for various reasons do not meet the qualifying criteria for hedge accounting.

The group's derivative activities give rise to significant open positions in portfolios of derivatives. These positions are managed frequently to ensure that they remain within acceptable risk levels, with matching deals being utilised to achieve this where necessary. When entering into derivative transactions, the group employs the same credit risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

With respect to derivative contracts, the notional or contractual amounts of these instruments indicate the nominal value of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

A three level fair value hierarchy, which reflects the availability of observable market inputs, is used when estimating fair values. All derivatives are considered Level 2 as they are based upon observable market inputs. Total exposure to HSBC Group counterparties at 31 December 2025 amounted to an unrealised loss of \$3,331 (2024: loss of \$11,485) and cash collateral was \$22,950 (2024: \$16,930). Where the group receives collateral from customers related to outstanding derivative contracts, these comprise cash and cash equivalents, securities and mortgage interests over property. Credit concentrations with large counterparties are controlled through counterparty limits. Credit exposures, incorporating derivative exposures, to single names are capped and monitored by senior management as detailed in Note 20.

## (a) Trading derivatives

The derivative transactions of the group relate to foreign exchange and interest rate sales 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.

As mentioned above, other derivatives classified as held for trading may include non-qualifying hedging derivatives, ineffective hedging derivatives and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting.

Gains and losses from changes in the fair value of derivatives that do not qualify for hedge accounting are reported in 'Net income from financial instruments held for trading or managed on a fair value basis'.

## (b) Hedging accounting derivatives

The group uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the group to optimise the overall cost 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.

### Fair value hedges

The group's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates. For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in the consolidated income statement. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the item and is amortised to the consolidated income statement as a yield adjustment over the remainder of the hedging period.

#### Gains or (losses) arising from fair value hedges

	2025	2024
Gains (losses)		
– on hedging instruments	(19,070)	3,556
– on hedged items attributable to the hedged risk	18,667	(3,913)
<b>Net (loss)</b>	<b>(403)</b>	<b>(357)</b>

### Offsetting of financial assets and financial liabilities

The following table presents the recognised financial instruments that are subject to enforceable master netting arrangements.

	Amounts subject to enforceable netting arrangements not offset in the Balance Sheet					Amounts not subject to enforceable netting arrangements	Balance sheet total
	Gross amounts	Amounts offset in the balance sheet	Amounts reported in the balance sheet	Cash <sup>2</sup> collateral	Net amount		
<b>At 31 Dec 2025</b>							
Derivatives assets	7,161	–	7,161	291	6,870	3,658	10,819
Derivatives liabilities	23,241	–	23,241	23,241	–	1,056	24,297
<b>At 31 Dec 2024</b>							
Derivatives assets	15,426	–	15,426	290	15,136	15,246	30,672
Derivatives liabilities	19,899	–	19,899	17,220	2,679	5,310	25,209

2 Cash collateral on assets is reflected in deposits by banks.

For the financial assets and liabilities subject to enforceable master netting arrangements above, the agreement between the group and the counterparty allows for automatic net settlement of the relevant financial assets and financial liabilities when each party's obligation would otherwise be payable in the same currency in respect of the same transactions. In addition, the parties may elect in respect of two or more transactions, that a net amount will be determined in respect of all amounts payable on the same date in the same currency.

## 7 Loans and advances to banks

### Maturity analysis

	2025		2024	
	Amortised cost	Fair value	Amortised cost	Fair value
One year or less	2,154,757	2,154,757	583,555	583,555
More than one year	600,000	600,000	990,000	990,000
<b>Total loans and advances to banks</b>	<b>2,754,757</b>	<b>2,754,757</b>	<b>1,573,555</b>	<b>1,573,555</b>

There are no past due loans (2024: \$NIL) and \$3 expected credit losses (2024: \$10) included in loans and advances to banks. There are no netting agreements or collateral held in respect of loans and advances to banks (2024: \$NIL).

Fair value of all loans and advances are calculated using observable market inputs and therefore are classified as Level 2 in the fair value hierarchy.

## Notes on the consolidated financial statements (In US dollar thousands)

### Loans and advances to banks by country and credit rating

	2025						Total
	AAA	AA+, AA, AA-	A+, A, A-	BBB+, BBB, BBB-	BB+, BB, BB-	Not rated	
Australia	—	—	2,783	—	—	—	2,783
Belgium	—	6,923	—	—	—	—	6,923
Bermuda	11,074	—	—	6,203	194	2,585	20,056
Canada	—	2,507	84,000	—	—	—	86,507
Chile	—	—	30,000	—	—	—	30,000
China	—	303	—	—	—	—	303
Czech Republic	—	—	2	—	—	—	2
Denmark	—	—	36	—	—	—	36
France	—	—	369,471	—	—	—	369,471
Hungary	—	—	1	—	—	—	1
Israel	—	—	11	—	—	—	11
Japan	—	136,599	—	—	—	—	136,599
Mexico	—	—	—	9	—	—	9
New Zealand	—	—	137	—	—	—	137
Norway	—	997	—	—	—	—	997
Poland	—	—	143	—	—	—	143
Singapore	—	—	425	—	—	—	425
South Africa	—	—	—	—	298	—	298
Sweden	—	—	624	—	—	—	624
Switzerland	—	—	503	—	—	—	503
Turkey	—	—	—	—	—	1	1
United Kingdom	—	—	466,936	—	—	—	466,936
United Arab Emirates	—	—	900,000	—	—	—	900,000
United States	—	—	731,992	—	—	—	731,992
<b>At 31 Dec 2025</b>	<b>11,074</b>	<b>147,329</b>	<b>2,587,064</b>	<b>6,212</b>	<b>492</b>	<b>2,586</b>	<b>2,754,757</b>

	2024						Total
	AAA	AA+, AA, AA-	A+, A, A-	BBB+, BBB, BBB-	BB+, BB, BB-	Not rated	
Australia	—	—	852	—	—	—	852
Belgium	—	6,126	—	—	—	—	6,126
Bermuda	10,682	—	—	7,273	234	1,940	20,129
Canada	—	1,787	—	—	—	—	1,787
Chile	—	—	30,000	—	—	—	30,000
China	—	552	—	—	—	—	552
Czech Republic	—	—	2	—	—	—	2
Denmark	—	—	463	—	—	—	463
France	—	392,512	17,425	—	—	—	409,937
Hungary	—	—	2	—	—	—	2
Israel	—	—	33	—	—	—	33
Japan	—	3,816	112,000	—	—	—	115,816
Mexico	—	—	—	71	—	—	71
New Zealand	—	—	528	—	—	—	528
Norway	—	146	—	—	—	—	146
Poland	—	—	124	—	—	—	124
Singapore	—	—	568	—	—	—	568
South Africa	—	—	—	—	452	—	452
Sweden	—	—	74	—	—	—	74
Switzerland	—	—	1,003	—	—	—	1,003
Turkey	—	—	—	—	—	1	1
United Kingdom	—	—	18,703	—	—	—	18,703
United Arab Emirates	—	—	800,000	—	—	—	800,000
United States	—	—	166,186	—	—	—	166,186
<b>At 31 Dec 2024</b>	<b>10,682</b>	<b>404,939</b>	<b>1,147,963</b>	<b>7,344</b>	<b>686</b>	<b>1,941</b>	<b>1,573,555</b>

Loans and advances to banks are rated using a hierarchy of rating agencies. The Standard & Poor's ('S&P') ratings are used where available, followed by Fitch then Moody's. If no rating is provided by S&P, Fitch or Moody's, the balance is classified as not rated. Loans and advances to banks are unsecured.

Collateral may be held for the group's securities lending activity, for which the Bank normally accepts collateral in the form of cash, US government or federal agency securities, letters of credit or OECD debt instruments approved by the group.

## 8 Credit Risk

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

Stage 1: 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 since initial recognition on which a lifetime ECL is recognised.

Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit-impaired on which a lifetime ECL is recognised.

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

	Gross carrying/nominal amount				Allowance for ECL				Net total per balance sheet
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Loans and advances to customers:	1,254,430	202,868	93,758	1,551,056	(2,932)	(10,433)	(39,041)	(52,406)	1,498,650
– Residential mortgages	792,695	113,948	90,590	997,233	(497)	(7,354)	(37,867)	(45,718)	951,515
– Other personal	117,313	4,433	1,950	123,696	(1,757)	(674)	(928)	(3,359)	120,337
– Industrial and international trade	6,748	28,914	162	35,824	(33)	(565)	(156)	(754)	35,070
– Commercial real estate	7,196	34,168	936	42,300	(98)	(1,099)	–	(1,197)	41,103
– Government	89,956	–	–	89,956	–	–	–	–	89,956
– Other commercial	81,598	355	120	82,073	(134)	(3)	(90)	(227)	81,846
– Non-bank financial institutions	158,924	21,050	–	179,974	(413)	(738)	–	(1,151)	178,823
Reverse repurchase agreements:	900,000	–	–	900,000	–	–	–	–	900,000
Loans and advances to banks:	2,754,760	–	–	2,754,760	(3)	–	–	(3)	2,754,757
Financial investments held at amortised cost	1,758,923	–	–	1,758,923	–	–	–	–	1,758,923
Financial guarantees and similar contracts:	547,251	597	–	547,848	(576)	(34)	–	(610)	N/A <sup>3</sup>
<b>At 31 Dec 2025</b>	<b>7,215,364</b>	<b>203,465</b>	<b>93,758</b>	<b>7,512,587</b>	<b>(3,511)</b>	<b>(10,467)</b>	<b>(39,041)</b>	<b>(53,019)</b>	

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

	Gross carrying/nominal amount				Allowance for ECL				Net total per balance sheet
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
Loans and advances to customers:	1,244,460	216,738	130,677	1,591,875	(3,494)	(15,510)	(58,334)	(77,338)	1,514,537
– Residential mortgages	804,984	107,117	117,658	1,029,759	(939)	(11,421)	(48,971)	(61,331)	968,428
– Other personal	116,753	4,340	1,808	122,901	(1,428)	(705)	(761)	(2,894)	120,007
– Industrial and international trade	10,287	24,209	–	34,496	(13)	(138)	–	(151)	34,345
– Commercial real estate	8,371	37,514	6,917	52,802	(110)	(1,757)	(5,004)	(6,871)	45,931
– Other commercial	141,361	14,203	1,052	156,616	(438)	(682)	(1,054)	(2,174)	154,442
– Non-bank financial institutions	162,704	29,355	3,242	195,301	(566)	(807)	(2,544)	(3,917)	191,384
Reverse repurchase agreements	382,720	–	–	382,720	–	–	–	–	382,720
Loans and advances to banks:	1,573,565	–	–	1,573,565	(10)	–	–	(10)	1,573,555
Financial investments held at amortised cost	1,317,211	–	–	1,317,211	–	–	–	–	1,317,211
Financial guarantees and similar contracts:	519,741	7,356	–	527,097	(188)	(187)	–	(375)	N/A <sup>3</sup>
<b>At 31 Dec 2024</b>	<b>5,037,697</b>	<b>224,094</b>	<b>130,677</b>	<b>5,392,468</b>	<b>(3,692)</b>	<b>(15,697)</b>	<b>(58,334)</b>	<b>(77,723)</b>	

<sup>3</sup> Financial guarantees and similar contracts nominal amount represents off-balance sheet positions. The corresponding allowance for ECL is included on the balance sheet hence no net total is presented.

## Notes on the consolidated financial statements (In US dollar thousands)

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from stage 1 to stage 2. The disclosure below presents the ageing of stage 2 financial assets by those less than 30 and greater than 30 days past due and therefore presents those financial assets classified as stage 2 due to ageing (30 days past due) and those identified at an earlier stage (less than 30 days past due). Past due financial instruments are those loans where customers have failed to make payments in accordance with the contractual terms of their facilities.

### Stage 2 days past due analysis at 31 December 2025

	Gross carrying amount			Allowance for ECL		
	Stage 2	of which: 1 to 29 DPD <sup>4,5</sup>	of which: 30 and > DPD <sup>4,5</sup>	Stage 2	of which: 1 to 29 DPD <sup>4,5</sup>	of which: 30 and > DPD <sup>4,5</sup>
Loans and advances to customers:	202,868	15,947	6,767	(10,433)	(1,286)	(581)
– Residential mortgages	113,948	13,721	3,870	(7,354)	(889)	(269)
– Other personal	4,433	2,226	1,568	(674)	(397)	(179)
– Industrial and international trade	28,914	—	—	(565)	—	—
– Commercial real estate	34,168	—	1,329	(1,099)	—	(133)
– Government	—	—	—	—	—	—
– Other commercial	355	—	—	(3)	—	—
– Non-bank financial institutions	21,050	—	—	(738)	—	—
Reverse repurchase agreements:	—	—	—	—	—	—
Loans and advances to banks:	—	—	—	—	—	—
Financial investments at amortised cost	—	—	—	—	—	—

### Stage 2 days past due analysis at 31 December 2024

	Gross carrying amount			Allowance for ECL		
	Stage 2	of which: 1 to 29 DPD <sup>4,5</sup>	of which: 30 and > DPD <sup>4,5</sup>	Stage 2	of which: 1 to 29 DPD <sup>4,5</sup>	of which: 30 and > DPD <sup>4,5</sup>
Loans and advances to customers:	216,738	20,500	5,877	(15,510)	(2,493)	(507)
– Residential mortgages	107,117	16,665	4,593	(11,421)	(1,759)	(332)
– Other personal	4,340	2,279	1,284	(705)	(421)	(175)
– Industrial and international trade	24,209	—	—	(138)	—	—
– Commercial real estate	37,514	1,556	—	(1,757)	(313)	—
– Government	—	—	—	—	—	—
– Other commercial	14,203	—	—	(682)	—	—
– Non-bank financial institutions	29,355	—	—	(807)	—	—
Reverse repurchase agreements:	—	—	—	—	—	—
Loans and advances to banks:	—	—	—	—	—	—
Financial investments at amortised cost	—	—	—	—	—	—

4 Days past due ('DPD'). Up to date accounts in Stage 2 are not shown in the amounts.

5 The days past due amounts presented above are on a contractual basis and include the benefit of any customer relief payment holidays granted.

## Notes on the consolidated financial statements (In US dollar thousands)

Reconciliation of changes in gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Gross carrying/nominal amount	Allowance for ECL
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL		
At 1 Jan 2025	5,037,697	(3,692)	224,094	(15,697)	130,677	(58,334)	5,392,468	(77,723)
Loans and advances to customers:								
Transfers	3,828	(1,273)	9,748	(38)	(13,576)	1,311	–	–
– Transfers from Stage 1 to Stage 2	(18,684)	40	18,684	(40)	–	–	–	–
– Transfers from Stage 2 to Stage 1	23,948	(1,322)	(23,948)	1,322	–	–	–	–
– Transfers to Stage 3	(5,581)	20	(4,609)	491	10,190	(511)	–	–
– Transfers from Stage 3	4,145	(11)	19,621	(1,811)	(23,766)	1,822	–	–
Net remeasurement of ECL including transfer of stage	–	1,786	–	(696)	–	(214)	–	876
New financial assets originated	191,805	(855)	–	–	–	–	191,805	(855)
Assets derecognised (including final repayments)	(185,665)	904	(23,617)	5,812	(5,880)	2,097	(215,162)	8,813
Assets written off	–	–	–	–	(17,463)	16,099	(17,463)	16,099
<b>Reverse repurchase agreements:</b>								
– Net movement	517,280	–	–	–	–	–	517,280	–
<b>Loans and advances to banks:</b>								
– Net movement	1,181,195	7	–	–	–	–	1,181,195	7
<b>Financial investments at amortised cost:</b>								
– Net movement	441,713	–	–	–	–	–	441,713	–
<b>Financial guarantees and similar contracts:</b>								
– Net movement	27,511	(388)	(6,760)	152	–	–	20,751	(236)
<b>At 31 Dec 2025</b>	<b>7,215,364</b>	<b>(3,511)</b>	<b>203,465</b>	<b>(10,467)</b>	<b>93,758</b>	<b>(39,041)</b>	<b>7,512,587</b>	<b>(53,019)</b>
– ECL release/(charge) for the period		180		5,228		3,194		8,602
– Recoveries						1,405		1,405
Others								–
<b>Total ECL release for the period</b>								<b>10,007</b>

	At 31 Dec 2025		Twelve months ended 31 Dec 2025
	Gross carrying/nominal amount	Allowance for ECL	ECL release
As above	7,512,587	(53,019)	10,007
Debt instruments measured at FVOCI	2,840,520	(73)	8
<b>Total allowance for ECL/total income statement ECL release for the period</b>	<b>N/A</b>	<b>(53,092)</b>	<b>10,015</b>

## Notes on the consolidated financial statements (In US dollar thousands)

### 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)

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/nominal amount	Allowance for ECL						
At 1 Jan 2024	5,530,170	(12,236)	251,387	(11,905)	179,360	(79,980)	5,960,917	(104,121)
Loans and advances to customers:								
Transfers	(26,214)	(1,619)	40,028	47	(13,814)	1,572	—	—
– Transfers from Stage 1 to Stage 2	(68,745)	376	68,745	(376)	—	—	—	—
– Transfers from Stage 2 to Stage 1	37,059	(2,015)	(37,059)	2,015	—	—	—	—
– Transfers to Stage 3	(3,472)	92	(7,047)	621	10,519	(713)	—	—
– Transfers from Stage 3	8,944	(72)	15,389	(2,213)	(24,333)	2,285	—	—
Net remeasurement of ECL including transfer of stage	—	9,835	—	(1,128)	—	(7,316)	—	1,391
New financial assets originated	133,636	(756)	—	—	—	—	133,636	(756)
Assets derecognised (including final repayments)	(161,457)	1,113	(60,976)	(2,636)	(12,818)	2,481	(235,251)	958
Assets written off	—	—	—	—	(22,051)	24,909	(22,051)	24,909
Reverse repurchase agreements:								
– Net movement	(267,280)	—	—	—	—	—	(267,280)	—
Loans and advances to banks:								
– Net movement	(221,744)	17	—	—	—	—	(221,744)	17
Financial investments at amortised cost:								
– Net movement	8,691	—	—	—	—	—	8,691	—
Financial guarantees and similar contracts:								
– Net movement	41,895	(46)	(6,345)	(75)	—	—	35,550	(121)
At 31 Dec 2024	5,037,697	(3,692)	224,094	(15,697)	130,677	(58,334)	5,392,468	(77,723)
– ECL release/(charge) for the period		8,544		(3,792)		(3,263)		1,489
– Recoveries						812		812
Others								—
Total ECL release for the period								2,301

	At 31 December 2024		Twelve months ended 31 Dec 2024
	Gross carrying/nominal amount	Allowance for ECL	ECL release
As above	5,392,468	(77,723)	2,301
Debt instruments measured at FVOCI	2,631,069	(81)	25
Total allowance for ECL/total income statement ECL release for the period	N/A	(77,804)	2,326

### Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation (see note 20(e) for credit quality classification definitions)

	Gross carrying/notional amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total		
Reverse repurchase agreements at amortised costs	900,000	—	—	—	—	900,000	—	900,000
Loans and advances to banks at amortised cost	2,745,470	9,290	—	—	—	2,754,760	(3)	2,754,757
– Stage 1	2,745,470	9,290	—	—	—	2,754,760	(3)	2,754,757
– Stage 2	—	—	—	—	—	—	—	—
– Stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortised cost	957,620	191,131	257,426	51,121	93,758	1,551,056	(52,406)	1,498,650
– Stage 1	948,736	189,061	114,187	2,446	—	1,254,430	(2,932)	1,251,498
– Stage 2	8,884	2,070	143,239	48,675	—	202,868	(10,433)	192,435
– Stage 3	—	—	—	—	93,758	93,758	(39,041)	54,717
Financial investments held at amortised cost	1,758,923	—	—	—	—	1,758,923	—	1,758,923
– Stage 1	1,758,923	—	—	—	—	1,758,923	—	1,758,923
– Stage 2	—	—	—	—	—	—	—	—
– Stage 3	—	—	—	—	—	—	—	—
Financial guarantees and similar contracts	121,440	200,332	196,476	29,600	—	547,848	(610)	N/A <sup>6</sup>
– Stage 1	121,440	200,332	195,899	29,580	—	547,251	(576)	
– Stage 2	—	—	577	20	—	597	(34)	
– Stage 3	—	—	—	—	—	—	—	
<b>At 31 Dec 2025</b>	<b>6,483,453</b>	<b>400,753</b>	<b>453,902</b>	<b>80,721</b>	<b>93,758</b>	<b>7,512,587</b>	<b>(53,019)</b>	

## Notes on the consolidated financial statements (In US dollar thousands)

Distribution of financial instruments to which the impairment requirements in IFRS 9 are applied, by credit quality and stage allocation (see note 20(e) for credit quality classification definitions) (continued)

	Gross carrying/notional amount						Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total		
Reverse repurchase agreements at amortised cost	382,720	—	—	—	—	382,720	—	382,720
– Stage 1	382,720	—	—	—	—	382,720	—	382,720
– Stage 2	—	—	—	—	—	—	—	—
– Stage 3	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	1,563,594	9,971	—	—	—	1,573,565	(10)	1,573,555
– Stage 1	1,563,594	9,971	—	—	—	1,573,565	(10)	1,573,555
– Stage 2	—	—	—	—	—	—	—	—
– Stage 3	—	—	—	—	—	—	—	—
Loans and advances to customers at amortised cost	864,358	110,375	361,496	124,969	130,677	1,591,875	(77,338)	1,514,537
– Stage 1	857,496	107,929	269,511	9,524	—	1,244,460	(3,494)	1,240,966
– Stage 2	6,862	2,446	91,985	115,445	—	216,738	(15,510)	201,228
– Stage 3	—	—	—	—	130,677	130,677	(68,334)	72,343
Financial investments held at amortised cost	1,317,210	—	—	—	—	1,317,210	—	1,317,210
– Stage 1	1,317,210	—	—	—	—	1,317,210	—	1,317,210
– Stage 2	—	—	—	—	—	—	—	—
– Stage 3	—	—	—	—	—	—	—	—
Financial guarantees and similar contracts	165,346	111,243	247,171	3,337	—	527,097	(375)	N/A <sup>6</sup>
– Stage 1	165,346	111,243	240,768	2,384	—	519,741	(188)	
– Stage 2	—	—	6,403	953	—	7,356	(187)	
– Stage 3	—	—	—	—	—	—	—	
At 31 Dec 2024	4,293,228	231,589	608,667	128,306	130,677	5,392,467	(77,723)	

6 Financial guarantees and similar contracts nominal amount represents off-balance sheet positions. The corresponding allowance for ECL is included on the balance sheet hence no net total is presented.

## 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 of the 4 economic scenarios (outline in Note 2(I)) 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 allowances 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 allowances 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. 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.

## Notes on the consolidated financial statements (In US dollar thousands)

### ECL sensitivity for residential mortgages and wholesale loans

	2025						
	Reported Gross Carrying Amt	Reported allowance for ECL	Consensus Central scenario allowance for ECL	Consensus Upside scenario allowance for ECL	Consensus Downside scenario allowance for ECL	Downside2 scenario allowance for ECL	
	\$000	\$000	\$000	\$000	\$000	\$000	
Residential mortgages	997,233	45,718	45,864	45,261	45,634	55,403	
Wholesale loans	430,127	3,329	3,611	2,885	4,073	7,326	

  

	2024						
	Reported Gross Carrying Amt	Reported allowance for ECL	Consensus Central scenario allowance for ECL	Consensus Upside scenario allowance for ECL	Consensus Downside scenario allowance for ECL	Downside2 scenario allowance for ECL	
	\$000	\$000	\$000	\$000	\$000	\$000	
Residential mortgages	1,029,759	61,331	62,144	61,471	62,580	67,936	
Wholesale loans	439,215	13,113	4,741	4,677	5,021	11,743	

## Collateral received

The fair value of assets accepted as collateral relating to reverse repurchase agreements that HSBC is permitted to sell or repledge in the absence of default was \$893,374 (2024: \$368,573). The fair value of any such collateral sold or repledged was \$NIL (2024: \$NIL).

HSBC is obliged to return equivalent securities. These transactions are conducted under terms that are usual and customary to reverse repurchase agreements.

## 9 Loans and advances to customers

The group has the following concentration of loans and advances to customers.

Where customers have both a borrowing and a deposit relationship with the group, loans and deposits are presented gross:

	2025	2024
<b>Personal</b>		
– Residential mortgages	997,233	1,029,759
– Other personal	123,696	122,901
<b>Total personal</b>	<b>1,120,929</b>	<b>1,152,660</b>
<b>Wholesale</b>		
– Industrial and international trade	35,824	34,496
– Commercial real estate	42,300	52,802
– Government	89,956	—
– Other commercial	82,073	156,616
<b>Total corporate and commercial</b>	<b>250,153</b>	<b>243,914</b>
<b>Financial</b>		
– Non-bank financial institutions	179,974	195,301
<b>Total wholesale</b>	<b>430,127</b>	<b>439,215</b>
<b>Gross loans and advances to customers</b>	<b>1,551,056</b>	<b>1,591,875</b>
Expected credit losses	(52,406)	(77,338)
<b>Loans and advances to customers</b>	<b>1,498,650</b>	<b>1,514,537</b>

Gross loans with variable rates are \$1,548,690 (2024: \$1,587,454) and fixed rates are \$2,366 (2024: \$4,421).

The following table provides an analysis of remaining contractual maturities and measurement bases of loans and advances to customers:

### Maturity analysis

	2025		2024	
	Amortised cost	Fair value	Amortised cost	Fair value
One year or less	366,234	366,057	327,076	326,889
More than one year	1,132,416	1,113,633	1,187,461	1,166,207
	<b>1,498,650</b>	<b>1,479,690</b>	1,514,537	1,493,096

The loan fair values disclosed above are based on weighted average estimated remaining maturities and are determined using a valuation technique supported by market interest rates and estimated future cash flows. As there is no secondary liquid market, they are classified as Level 3. Additional information about the interest rate risk exposure pertaining to loans and advances to customers is presented in Note 20.

## Notes on the consolidated financial statements (In US dollar thousands)

The following tables provide further analyses of customer loans and collateral types at 31 December:

### Gross loans and advances to customers

	2025	2024
Neither past due nor impaired	1,417,750	1,418,164
<b>Past due but not impaired:</b>		
– Past due less than 30 days	32,781	37,157
– Past due between 30 and 60 days	6,018	5,572
– Past due between 60 and 90 days	749	305
Credit impaired	93,758	130,677
<b>Total</b>	<b>1,551,056</b>	<b>1,591,875</b>

### Gross loans and advances to customers by type of collateral

	2025		2024	
	Secured	Unsecured	Secured	Unsecured
Neither past due nor impaired	1,048,685	369,066	971,060	447,104
<b>Past due but not impaired:</b>				
– Past due less than 30 days	28,971	3,810	32,553	4,604
– Past due between 30 and 60 days	4,864	1,154	4,594	978
– Past due between 60 and 90 days	336	413	—	305
Credit impaired	91,701	2,057	123,727	6,950
<b>Total</b>	<b>1,174,557</b>	<b>376,500</b>	<b>1,131,934</b>	<b>459,941</b>

## Collateral and other credit enhancements

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 group 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.

## Collateral on loans and advances

Collateral held is analysed separately for CRE and for other corporate, commercial and financial (non-bank) lending. The following tables include off-balance sheet loan commitments, primarily undrawn credit lines.

The collateral measured in the following tables consists of fixed first charges on real estate, and charges over cash and marketable financial instruments. The values in the tables represent the expected market value on an open market basis, actual values realised are a function of market conditions. No adjustment has been made to the collateral for any expected costs of recovery. Marketable securities are measured at their fair value.

Other types of collateral, such as unsupported guarantees and floating charges over the assets of a customer's business, are not measured in the following tables. While such mitigants have value, often providing rights in insolvency, their assignable value is not sufficiently certain and they are therefore assigned no value for disclosure purposes.

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. When collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies charge, the collateral value is pro-rated across the loans and advances protected by the collateral.

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments, actual values realised are a function of market conditions. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral.

## Mortgage loans

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.

Commercial real estate loans and advances

The value of CRE collateral is determined by using a combination of external and internal valuations and physical inspections. For CRE, where the facility exceeds regulatory threshold requirements, Group policy requires an independent review of the valuation at least every three years, or more frequently as the need arises.

Other corporate, commercial and financial (non-bank) loans and advances

Other corporate, commercial and financial (non-bank) 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.

### Loans and advances to customers including loan commitments by level of collateral (by stage)

	2025							
	Gross carrying/nominal amount				ECL Coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	\$000	\$000	\$000	\$000	%	%	%	%
<b>Residential mortgages</b>								
Fully collateralised by LTV ratio	789,144	100,000	59,057	948,201	0.06	5.17	28.30	2.34
– less than 50%	294,592	34,119	12,598	341,309	0.02	1.34	13.13	0.64
– 51% to 70%	355,882	32,139	17,700	405,721	0.07	5.28	21.90	1.43
– 71% to 80%	94,582	11,699	9,183	115,464	0.08	7.97	31.80	3.40
– 81% to 90%	30,206	14,548	16,950	61,704	0.13	9.13	41.54	13.63
– 91% to 100%	13,882	7,495	2,626	24,003	0.28	10.07	40.47	7.74
Partially collateralised (A): LTV > 100%	8,015	13,948	31,533	53,496	0.38	15.25	67.59	43.87
– collateral value on A	6,816	11,523	23,247	41,586				
<b>Total at 31 Dec 2025</b>	<b>797,159</b>	<b>113,948</b>	<b>90,590</b>	<b>1,001,697</b>	<b>0.06</b>	<b>6.40</b>	<b>41.80</b>	<b>4.56</b>
<b>Commercial real estate</b>								
Not collateralised	9	–	–	9	–	–	–	–
Fully collateralised by LTV ratio	5,972	34,168	936	41,076	1.04	3.22	–	2.83
– less than 50%	4,886	34,168	–	39,054	1.05	3.22	–	2.95
– 51% to 75%	1,086	–	936	2,022	0.97	–	–	0.52
– 76% to 90%	–	–	–	–	–	–	–	–
– 91% to 100%	–	–	–	–	–	–	–	–
Partially collateralised (A): LTV > 100%	1,215	–	–	1,215	2.40	–	–	2.40
– collateral value on A	1,000	–	–	1,000				
<b>Total at 31 Dec 2025</b>	<b>7,196</b>	<b>34,168</b>	<b>936</b>	<b>42,300</b>	<b>4.42</b>	<b>3.22</b>	<b>–</b>	<b>5.86</b>
<b>Other corporate, commercial and financial (non-bank)</b>								
Not collateralised	363,125	41,081	106	404,312	0.20	2.11	75.24	0.41
Fully collateralised by LTV ratio	124,763	8,568	176	133,507	0.19	3.99	88.75	0.55
– less than 50%	14,978	6,894	162	22,034	0.79	2.56	96.14	2.05
– 51% to 75%	99,797	1,631	14	101,442	0.07	10.12	–	0.23
– 76% to 90%	9,988	43	–	10,031	0.55	–	–	0.55
– 91% to 100%	–	–	–	–	–	–	–	–
Partially collateralised (A): LTV > 100%	854	671	–	1,525	0.94	14.40	–	6.87
– collateral value on A	500	550	–	1,050				
<b>Total at 31 Dec 2025</b>	<b>488,742</b>	<b>50,320</b>	<b>282</b>	<b>539,344</b>	<b>2.55</b>	<b>29.19</b>	<b>171.38</b>	<b>10.10</b>

## Notes on the consolidated financial statements (In US dollar thousands)

### Loans and advances to customers including loan commitments by level of collateral (by stage)

	2024							
	Gross carrying/nominal amount				ECL Coverage			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	\$000	\$000	\$000	\$000	%	%	%	%
<b>Residential mortgages</b>								
Fully collateralised by LTV ratio	781,233	91,162	68,435	940,830	0.10	8.61	27.70	2.93
– less than 50%	234,014	25,921	11,750	271,685	0.03	2.47	14.85	0.91
– 51% to 70%	327,067	29,506	22,621	379,194	0.11	7.68	19.64	1.86
– 71% to 80%	156,384	13,656	8,211	178,251	0.15	11.91	33.23	2.57
– 81% to 90%	42,897	12,109	13,540	68,546	0.22	14.10	34.19	9.38
– 91% to 100%	20,871	9,970	12,313	43,154	0.25	16.10	43.97	16.39
Partially collateralised (A): LTV > 100%	23,750	15,956	49,222	88,928	0.56	22.36	60.98	37.92
– collateral value on A	21,135	13,945	35,879	70,959				
<b>Total at 31 Dec 2024</b>	<b>804,983</b>	<b>107,118</b>	<b>117,657</b>	<b>1,029,758</b>	<b>0.12</b>	<b>10.66</b>	<b>41.63</b>	<b>5.96</b>
<b>Commercial real estate</b>								
Not collateralised	22	7	4,090	4,119	0.76	0.10	100.00	99.31
Fully collateralised by LTV ratio	7,097	37,507	2,828	47,432	1.18	4.68	30.27	5.69
– less than 50%	5,920	35,725	—	41,645	1.19	4.04	—	3.63
– 51% to 75%	1,177	1,782	2,828	5,787	1.14	17.60	30.27	20.44
– 76% to 90%	—	—	—	—	—	—	—	—
– 91% to 100%	—	—	—	—	—	—	—	—
Partially collateralised (A): LTV > 100%	1,252	—	—	1,252	2.09	—	—	2.09
– collateral value on A	1,252	—	—	1,252				
<b>Total at 31 Dec 2024</b>	<b>8,371</b>	<b>37,514</b>	<b>6,918</b>	<b>52,803</b>	<b>5.18</b>	<b>21.74</b>	<b>130.27</b>	<b>125.48</b>
<b>Other corporate, commercial and financial (non-bank)</b>								
Not collateralised	441,421	55,306	1,052	497,779	0.15	0.81	100.00	0.43
Fully collateralised by LTV ratio	34,193	14,121	—	48,314	1.06	7.35	—	2.90
– less than 50%	20,398	4,442	—	24,840	0.98	6.03	—	1.89
– 51% to 75%	3,739	6,921	—	10,660	1.33	6.83	—	4.90
– 76% to 90%	10,056	2,758	—	12,814	1.13	10.78	—	3.21
– 91% to 100%	—	—	—	—	—	—	—	—
Partially collateralised (A): LTV > 100%	—	1,936	3,242	5,178	—	7.23	78.74	51.84
– collateral value on A	—	1,175	2,469	3,644				
<b>Total at 31 Dec 2024</b>	<b>475,614</b>	<b>71,363</b>	<b>4,294</b>	<b>551,271</b>	<b>3.59</b>	<b>31.69</b>	<b>—</b>	<b>62.27</b>

The group holds collateral against loans and advances to customers in the form of mortgage interests over property and pledges, other charges over real and financial assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and updated at a minimum of every three years for performing facilities, but more frequently where the market is subject to significant changes in condition. In the case of performing personal mortgages the value of collateral is adjusted annually to reflect overall movements in the market. Where a loan is showing signs of potential impairment, or is classified as credit impaired, collateral values are updated annually. Collateral held for impaired loans amounts to \$136,882 (2024: \$163,408).

The group adheres to HSBC policy and monitors credit concentration risk in accordance with local regulatory requirements. A substantial portion of the loans and advances to customers are due from residents of Bermuda and are secured by residential or commercial property in Bermuda. The only exposures of significance to customers with principal operations outside of Bermuda are \$22,966 (2024: \$24,017) in Netherlands.

The group regularly reviews loans and advances to customers and allocates a risk rating against each loan or advance based on performance criteria. The breakdown of loans and advances to customers by risk category at 31 December 2025 is 90.7% (2024: 83.9%) performing, 3.3% (2024: 7.9%) sub-standard and 6.1% (2024: 8.2%) credit impaired.

'Performing' exposures demonstrate a strong to fair capacity to meet financial commitments, with low to moderate probability of default. Personal accounts meet commitments as agreed or show only short periods of delinquency. ('Performing' encompasses the 'Strong,' 'Good' and 'Satisfactory' categories outlined in Note 20. 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern. Personal portfolio segments show longer delinquency periods, of up to 90 days past due. 'Credit impaired' exposures include wholesale exposures where the group considers that either the customer is unlikely to pay its credit obligations in full, without recourse by the group to actions such as realising security if held, or the customer is past due more than 90 days on any material credit obligation.

The breakdown of credit impaired exposures by customer category is as follows: Personal \$92,540 (2024: \$119,423), Wholesale \$1,218 (2024: \$11,254).

Interest receivable on credit impaired facilities at 31 December 2025 amounted to \$5,808 (2024: \$6,767).

At 31 December 2025, the group held repossessed collateral relating to stage 3 loans with a carrying value of \$5,624 (2024: \$7,140), split between Personal \$5,624 (2024: \$7,140) and Wholesale \$Nil (2024: \$Nil).

Change in expected credit losses and other-credit impairment charges on loans and advances to customers during 2025 are split between Personal \$8,817 release (2024: \$3,381 release) and Wholesale \$1,412 release (2024: \$952 charge).

Expected credit losses are split between Personal \$49,076 (2024: \$64,134) and Wholesale \$3,330 (2024: \$13,201).



## 10 Financial investments

### Carrying amount of financial investments

	2025	2024
<b>Debt instruments measured at FVOCI</b>		
– Treasury and other eligible bills	218,725	127,079
– Debt securities	2,621,795	2,503,990
<b>Total debt securities measured at FVOCI</b>	<b>2,840,520</b>	<b>2,631,069</b>
<b>Debt instruments measured at amortised cost</b>		
– Debt securities	1,758,923	1,317,211
<b>Total debt securities measured at amortised cost</b>	<b>1,758,923</b>	<b>1,317,211</b>
<b>Total debt securities</b>	<b>4,599,443</b>	<b>3,948,280</b>
<b>Financial investments mandatorily measured at FVPL</b>		
– Equity securities	99	151
<b>Total financial investments mandatorily measured at FVPL</b>	<b>99</b>	<b>151</b>
<b>Total financial investments</b>	<b>4,599,542</b>	<b>3,948,431</b>

### Maturity analysis of debt securities

	2025	2024
One year or less	1,045,129	1,040,990
More than one year	3,554,314	2,907,290
<b>Total debt securities</b>	<b>4,599,443</b>	<b>3,948,280</b>

### Credit rating analysis of debt securities

	2025	2024
AAA	654,509	819,587
AA+	3,066,779	2,460,236
AA	141,358	95,320
AA-	64,659	229,229
A+	672,138	343,908
<b>Total debt securities</b>	<b>4,599,443</b>	<b>3,948,280</b>

Total gains or losses included in profit and loss for the period are presented in the consolidated income statement in 'Gains (losses) from financial investments'. Expected credit losses on debt securities measured at FVOCI amounting to \$73 are included in other reserves (2024: \$81). There are no expected credit losses on debt securities measured at amortised cost.

Debt securities are rated using a hierarchy of rating agencies. The Standard & Poor's ('S&P') ratings are used where available, followed by Fitch then Moody's. All securities guaranteed by the US Government are assigned the US Government's sovereign rating.

### Financial investments by country and sector

Country	2025				
	Sovereign	Bank	Other	Equities	Total
Belgium	—	—	—	99	99
Bermuda	15,682	—	—	—	15,682
Canada	22,598	186,523	195,779	—	404,900
Denmark	—	10,496	—	—	10,496
France	—	145,816	—	—	145,816
Germany	—	150,381	85,853	—	236,234
Japan	218,725	—	—	—	218,725
Netherlands	—	71,751	—	—	71,751
Norway	—	30,505	—	—	30,505
Philippines	—	151,955	—	—	151,955
Sweden	—	37,482	—	—	37,482
Tunisia	—	89,977	—	—	89,977
United States	3,058,765	127,155	—	—	3,185,920
<b>Total financial investments</b>	<b>3,315,770</b>	<b>1,002,041</b>	<b>281,632</b>	<b>99</b>	<b>4,599,542</b>

2024					
Country	Sovereign	Bank	Other	Equities	Total
Belgium	—	—	—	72	72
Bermuda	15,079	—	—	79	15,158
Canada	37,072	201,749	108,963	—	347,784
Denmark	—	10,493	—	—	10,493
France	—	120,266	—	—	120,266
Germany	—	215,040	24,758	—	239,798
Japan	127,079	—	—	—	127,079
Netherlands	—	59,693	—	—	59,693
Norway	—	43,612	—	—	43,612
Philippines	—	163,747	—	—	163,747
Sweden	—	52,825	—	—	52,825
Tunisia	—	93,229	—	—	93,229
United States	2,392,344	282,331	—	—	2,674,675
<b>Total financial investments</b>	<b>2,571,574</b>	<b>1,242,985</b>	<b>133,721</b>	<b>151</b>	<b>3,948,431</b>

'Other' investments include non-sovereign government issued bonds and non-banking financial institutions issued bonds.

Supranational entities, reflected in the above tables, are formed by two or more central governments to promote economic development for the member countries.

## Assets transferred

\$Nil (2024: \$99,500) of debt securities assets were transferred to third parties that do not qualify for derecognition and held by counterparties as collateral under repurchase agreements. 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 as 'Repurchase agreements -non trading' as \$Nil (2024: \$100,000).

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 pledged assets.

The group is carrying financial investments at fair value of \$2,840,520 (2024: \$2,631,069) and financial investments at amortised cost of \$1,758,923 (2024: \$1,317,211). During the year the group received proceeds of \$2,364,359 (2024: \$1,683,191) from the sale or maturity of financial investments and realised a net gain of \$4,050 (2024 net gain: \$3,936). The group monitors interest rate sensitivity under varying interest rate scenarios as summarised in Note 20.

## 11 Fair values of financial instruments carried at fair value

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. A three level fair value hierarchy, which reflects the significance of observable market inputs, is used when estimating fair values and is summarised below:

### Financial Instruments fair value hierarchy summary by sector

	2025			
	Level 1	Level 2	Level 3	Total
Sovereign	1,692,447	257,005	—	1,949,452
Bank	—	660,116	—	660,116
Other	—	230,952	—	230,952
Equities	—	—	99	99
<b>Total financial investments</b>	<b>1,692,447</b>	<b>1,148,073</b>	<b>99</b>	<b>2,840,619</b>
<b>Derivatives</b>				
Assets	—	10,819	—	10,819
Liabilities	—	24,297	—	24,297
	2024			
Sovereign	1,574,356	179,230	—	1,753,586
Bank	—	806,433	—	806,433
Other	—	71,050	—	71,050
Equities	—	—	151	151
<b>Total financial investments</b>	<b>1,574,356</b>	<b>1,056,713</b>	<b>151</b>	<b>2,631,220</b>
<b>Derivatives</b>				
Assets	—	30,672	—	30,672
Liabilities	—	25,209	—	25,209

'Other' investments include non-sovereign government issued bonds and non-banking financial institutions issued bonds.

For Levels 1 and 2 the fair values of these securities have been measured using quoted market prices for identical or similar instruments in active markets. The present value of future cash flows for interest rate swaps and foreign currency forwards are based on observable yield curves and forward exchange rates at the reporting date respectively. There have been no transfers between the Levels.

The following table shows the reconciliation from the beginning balance to the ending balance for fair value measurements in Level 3 of the fair value hierarchy:

	2025			2024		
	Debt Securities	Equities	Total	Debt Securities	Equities	Total
<b>At 1 Jan</b>	—	151	151	—	197	197
Purchases	—	—	—	—	—	—
Sales	—	—	—	—	—	—
Total gains or losses:	—	—	—	—	—	—
– in profit or loss <sup>7</sup>	—	(52)	(52)	—	(46)	(46)
– in other comprehensive income	—	—	—	—	—	—
<b>At 31 Dec</b>	—	99	99	—	151	151

7 Included in 'Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss' in the consolidated income statement.

Level 3 securities comprise FVPL equities.

## 12 Fair values of financial investments carried at amortised cost

The fair value of financial instruments is generally measured on the basis of the individual financial instrument. A three level fair value hierarchy, which reflects the significance of observable market inputs, is used when estimating fair values and is summarised below:

### Financial Investments fair value hierarchy summary by sector

	2025				Total
	Carrying amount	Level 1	Level 2	Level 3	
Sovereign	1,366,318	1,379,031	—	—	1,379,031
Bank	341,925	—	342,368	—	342,368
Other	50,680	—	50,319	—	50,319
<b>Total financial investments</b>	<b>1,758,923</b>	<b>1,379,031</b>	<b>392,687</b>	<b>—</b>	<b>1,771,718</b>

  

	2024				Total
	Carrying amount	Level 1	Level 2	Level 3	
Sovereign	817,988	818,054	—	—	818,054
Bank	436,552	—	432,274	—	432,274
Other	62,671	—	61,145	—	61,145
Total financial investments	1,317,211	818,054	493,419	—	1,311,473

'Other' investments include non-sovereign government issued bonds and non-banking financial institutions issued bonds.

For Levels 1 and 2 the fair values of these securities have been measured using quoted market prices for identical or similar instruments in active markets. There have been no transfers between the Levels. Other financial instruments not carried at fair value are typically short-term in nature and reprice to current market rates frequently. Accordingly, their carrying amount is reasonable approximation of fair value.

## 13 Property and equipment

	Land and buildings	Equipment, fixtures and fittings and software	Total
<b>Cost</b>			
Cost at 1 Jan 2025	123,411	75,530	198,941
Additions at cost	—	4,383	4,383
Disposals and write-offs	—	(1,301)	(1,301)
<b>Cost at 31 Dec 2025</b>	<b>123,411</b>	<b>78,612</b>	<b>202,023</b>
<b>Accumulated depreciation</b>			
Accumulated depreciation at 1 Jan 2025	55,348	57,630	112,978
Depreciation charge for the year	1,358	4,104	5,462
Disposals and write-offs	—	(1,301)	(1,301)
<b>Accumulated depreciation at 31 Dec 2025</b>	<b>56,706</b>	<b>60,433</b>	<b>117,139</b>
<b>Net book value at 31 Dec 2025</b>	<b>66,705</b>	<b>18,179</b>	<b>84,884</b>
<b>Cost</b>			
Cost at 1 Jan 2024	123,411	75,572	198,983
Additions at cost	—	3,918	3,918
Disposals and write-offs	—	(3,960)	(3,960)
Cost at 31 Dec 2024	123,411	75,530	198,941
<b>Accumulated depreciation</b>			
Accumulated depreciation at 1 Jan 2024	53,991	56,566	110,557
Depreciation charge for the year	1,357	5,024	6,381
Disposals and write-offs	—	(3,960)	(3,960)
Accumulated depreciation at 31 Dec 2024	55,348	57,630	112,978
Net book value at 31 Dec 2024	68,063	17,900	85,963

## 14 Group entities

### (a) Principal subsidiaries

The Bank has a 100% interest in the legal entities listed below:

Legal Entity	Country of incorporation or registration	Activity
HSBC Global Asset Management (Bermuda) Limited	Bermuda	Investment management
HSBC Institutional Trust Services (Bermuda) Limited	Bermuda	Custodial and other fiduciary services
HSBC Securities Services (Bermuda) Limited	Bermuda	Fund administration

During the year ended 31 December 2024 HSBC Bank Cayman Services relinquished its Trust Licence.

All of the above entities prepare their financial statements up to 31 December.

## (b) Principal associate

### Movement in investment in associate

	2025	2024
<b>At 1 Jan</b>	<b>1,459</b>	1,431
Share of profit (loss)	31	28
<b>At 31 Dec</b>	<b>1,490</b>	1,459

### Summarised aggregate financial information on associate at 31 December

	2025	2024
Assets	3,602	3,266
Liabilities	576	300
Operating income	3,504	3,330
Profit for the year	62	56

The associate investment is accounted for using the equity method.

## 15 Provisions

	Debt collection and redundancy costs	Contingent liabilities, contractual commitments and guarantees	Total
<b>At 1 Jan 2025</b>	—	375	375
Increase in provision	961	—	961
Net change in expected credit loss	—	235	235
<b>At 31 Dec 2025</b>	<b>961</b>	<b>610</b>	<b>1,571</b>
At 1 Jan 2024	—	254	254
Increase in provision	—	—	—
Net change in expected credit loss	—	121	121
At 31 Dec 2024	—	375	375

## 16 Contingent liabilities, contractual commitments and guarantees

Contingent liabilities and commitments are credit-related instruments, which include letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client defaults. Since a significant portion of guarantees and commitments are expected to expire without being drawn upon, the total of the contractual amounts is not indicative of future liquidity requirements. The following table gives the nominal principal amounts of off-balance sheet transactions:

	2025	2024
<b>Guarantees and contingent liabilities</b>		
Guarantees in the form of irrevocable letters of credit	216,790	195,178
<b>Total guarantees and contingent liabilities</b>	<b>216,790</b>	195,178
<b>Commitments</b>		
Standby facilities, credit lines and other commitments to lend		
– remaining contractual maturity one year or less	252,718	292,142
– remaining contractual maturity more than one year	78,340	39,777
<b>Total commitments</b>	<b>331,058</b>	331,919
<b>Total guarantees, contingent liabilities and commitments</b>	<b>547,848</b>	527,097

At 31 December 2025 approximately 6% (2024: 6%) of the above guarantees have an original contractual term of less than one year. Guarantees with a term of more than one year are subject to the group's annual credit review process. When the group has given a guarantee on behalf of a customer, it will have the right to recover from that customer any amounts paid under the guarantee. At 31 December 2025, the group holds collateral amounting to \$166,874 (2024: \$132,941), which could be used to recover amounts paid under the above guarantees. The expected credit loss provisions relating to guarantees and commitments under IFRS 9 are disclosed in Note 15.

## 17 Maturity analysis of financial assets and financial liabilities

The following is an analysis of financial assets and financial liabilities by remaining contractual maturities at the date of the consolidated balance sheet:

	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
<b>At 31 Dec 2025</b>									
Cash and balances at banks	29,486	—	—	—	—	—	—	—	29,486
Items in the course of collection from other banks	3	—	—	—	—	—	—	—	3
Derivatives	4,180	1,176	—	—	—	114	3,343	2,006	10,819
Reverse repurchase agreements - non-trading	900,000	—	—	—	—	—	—	—	900,000
Loans and advances to banks	1,164,757	—	200,000	490,000	300,000	400,000	200,000	—	2,754,757
Loans and advances to customers	156,346	34,293	29,511	20,488	125,596	81,679	300,056	750,681	1,498,650
– of which:									
Personal	54,222	10,270	16,284	16,435	16,286	68,474	198,369	691,511	1,071,851
Corporate and commercial	8,990	21,358	3,323	2,613	91,022	9,902	53,858	56,909	247,975
Financial and other	93,134	2,665	9,904	1,440	18,288	3,303	47,829	2,261	178,824
Financial investments	103,778	347,544	226,523	182,455	184,829	1,296,821	2,114,467	143,125	4,599,542
<b>Total financial assets</b>	<b>2,358,550</b>	<b>383,013</b>	<b>456,034</b>	<b>692,943</b>	<b>610,425</b>	<b>1,778,614</b>	<b>2,617,866</b>	<b>895,812</b>	<b>9,793,257</b>
Other assets	78,956	—	—	—	—	—	—	86,373	165,329
<b>Total assets</b>	<b>2,437,506</b>	<b>383,013</b>	<b>456,034</b>	<b>692,943</b>	<b>610,425</b>	<b>1,778,614</b>	<b>2,617,866</b>	<b>982,185</b>	<b>9,958,586</b>
Deposits by banks <sup>8</sup>	34,311	—	—	—	—	—	—	—	34,311
Customer accounts <sup>9</sup>	8,668,595	304,293	71,879	64,032	50,297	18,541	18,777	—	9,196,414
– of which:									
Personal	2,198,821	72,886	39,416	44,797	30,132	17,224	9,828	—	2,413,104
Corporate and commercial	1,908,281	34,043	5,069	8,506	12,985	224	—	—	1,969,108
Financial and other	4,561,493	197,364	27,394	10,729	7,180	1,093	8,949	—	4,814,202
Items in course of transmission to other banks	752	—	—	—	—	—	—	—	752
Derivatives	4,926	1,159	—	—	—	2,735	12,734	2,743	24,297
Repurchase agreements – non-trading	—	—	—	—	—	—	—	—	—
<b>Total financial liabilities</b>	<b>8,708,584</b>	<b>305,452</b>	<b>71,879</b>	<b>64,032</b>	<b>50,297</b>	<b>21,276</b>	<b>31,511</b>	<b>2,743</b>	<b>9,255,774</b>
Other liabilities	69,048	98	700	59	359	234	858	10,487	81,843
<b>Total liabilities</b>	<b>8,777,632</b>	<b>305,550</b>	<b>72,579</b>	<b>64,091</b>	<b>50,656</b>	<b>21,510</b>	<b>32,369</b>	<b>13,230</b>	<b>9,337,617</b>

8 Deposits by banks are predominantly United States (23%), Bermuda (76%), United Kingdom (1%), and are included in Level 2 of the fair value levelling hierarchy. The carrying amounts equal the fair value as these are typically short term in nature.

9 Customer accounts are predominantly Bermuda (94%), and Other (6%) and are included in Level 2 of the fair value levelling hierarchy. The carrying amounts equal the fair value as these are typically short term in nature.

'Other assets' comprise 'Prepayments and accrued income' classified within 'Due not more than 1 month' and 'Interest in associate', 'Property and equipment' classified as 'Due over 5 years'. 'Other liabilities' comprise 'Accruals' and 'Provisions' classified within 'Due not more than 1 month'; 'Retirement benefit liabilities' within 'Due over 5 years' and 'Deferred income' which is reflected across all periods.

'Off balance sheet commitments' are classified 'Due not more than 1 month'.

## Notes on the consolidated financial statements (In US dollar thousands)

	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
At 31 Dec 2024									
Cash and balances at banks	32,617	—	—	—	—	—	—	—	32,617
Items in the course of collection from other banks	50	—	—	—	—	—	—	—	50
Derivatives	12,147	7,080	256	—	—	645	1,691	8,853	30,672
Reverse repurchase agreements - non-trading	382,720	—	—	—	—	—	—	—	382,720
Loans and advances to banks	483,555	—	—	—	100,000	990,000	—	—	1,573,555
Loans and advances to customers	179,128	15,703	22,452	22,749	87,044	103,784	333,179	750,498	1,514,537
– of which:									
Personal	54,569	13,228	19,501	19,308	19,052	75,706	202,839	684,232	1,088,435
Corporate and commercial	100,183	2,083	1,913	2,855	4,471	9,230	51,194	62,789	234,718
Financial and other	24,376	392	1,038	586	63,521	18,848	79,146	3,477	191,384
Financial investments	27,539	385,498	324,097	73,795	230,061	765,778	1,812,230	329,433	3,948,431
Total financial assets	1,117,756	408,281	346,805	96,544	417,105	1,860,207	2,147,100	1,088,784	7,482,582
Other assets	74,805	—	—	—	—	—	—	87,421	162,226
Total assets	1,192,561	408,281	346,805	96,544	417,105	1,860,207	2,147,100	1,176,205	7,644,808
Deposits by banks <sup>8</sup>	45,832	—	—	—	—	—	—	—	45,832
Customer accounts <sup>9</sup>	6,222,974	288,309	92,677	38,679	54,013	88,936	14,569	—	6,800,157
– of which:									
Personal	2,076,093	85,575	42,836	36,004	36,160	12,129	11,852	—	2,300,649
Corporate and commercial	816,332	69,312	3,636	2,675	9,775	10	174	—	901,914
Financial and other	3,330,549	133,422	46,205	—	8,078	76,797	2,543	—	3,597,594
Items in course of transmission to other banks	2,478	—	—	—	—	—	—	—	2,478
Derivatives	13,585	7,035	245	—	—	—	3,246	1,098	25,209
Repurchase Agreements – non-trading	100,000	—	—	—	—	—	—	—	100,000
Total financial liabilities	6,384,869	295,344	92,922	38,679	54,013	88,936	17,815	1,098	6,973,676
Other liabilities	59,434	44	444	64	244	290	932	7,371	68,823
Total liabilities	6,444,303	295,388	93,366	38,743	54,257	89,226	18,747	8,469	7,042,498

8 Deposits by banks are predominantly United States (60%), Bermuda (38%), United Kingdom (1%) and are included in Level 2 of the fair value levelling hierarchy. The carrying amounts equal the fair value as these are typically short term in nature.

9 Customer accounts are predominantly Bermuda (90%), and Other (10%) and are included in Level 2 of the fair value levelling hierarchy. The carrying amounts equal the fair value as these are typically short term in nature.

'Other assets' comprise 'Prepayments and accrued income' classified within 'Due not more than 1 month' and 'Interest in associate', 'Property and equipment' classified as 'Due over 5 years'. 'Other liabilities' comprise 'Accruals' and 'Provisions' classified within 'Due not more than 1 month'; 'Retirement benefit liabilities' within 'Due over 5 years' and 'Deferred income' which is reflected across all periods.

'Off balance sheet commitments' are classified 'Due not more than 1 month'.

## 18 Interest rate analysis of financial instruments

The table below discloses the mismatch of the dates on which interest on financial assets and financial liabilities are next reset to market rate on a contractual basis, or if earlier, the dates on which the instruments mature. Contractual terms may not be representative of the behaviour of financial assets and liabilities and the group therefore manages interest rate risk based on the behavioural characteristics of the relevant financial assets and liabilities.

At 31 Dec 2025	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Non-interest bearing	Total	Range of weighted average effective interest rates
<b>Financial assets</b>								
Cash and balances at banks	—	—	—	—	—	29,486	29,486	
Items in the course of collection from other banks	—	—	—	—	—	3	3	
Derivatives	—	—	—	—	—	10,819	10,819	
Reverse repurchase agreements – non-trading	900,000	—	—	—	—	—	900,000	3.66-4.34%
Loans and advances to banks	2,754,757	—	—	—	—	—	2,754,757	4.38-5.26%
Loans and advances to customers	1,497,104	375	363	808	—	—	1,498,650	6.62-7.06%
Financial investments	547,741	160,361	367,284	3,381,031	143,125	—	4,599,542	3.71-3.94%
<b>Total at 31 Dec 2025</b>	<b>5,699,602</b>	<b>160,736</b>	<b>367,647</b>	<b>3,381,839</b>	<b>143,125</b>	<b>40,308</b>	<b>9,793,257</b>	
<b>Financial liabilities</b>								
Deposits by banks	26,074	—	—	—	—	8,237	34,311	0.00-0.02%
Customer accounts	8,972,888	71,878	114,328	37,320	—	—	9,196,414	0.43-0.84%
Items in course of transmission to other banks	—	—	—	—	—	752	752	
Derivatives	—	—	—	—	—	24,297	24,297	
Repurchase agreements – non-trading	—	—	—	—	—	—	—	
<b>Total at 31 Dec 2025</b>	<b>8,998,962</b>	<b>71,878</b>	<b>114,328</b>	<b>37,320</b>	<b>—</b>	<b>33,286</b>	<b>9,255,774</b>	
Interest rate sensitivity gap	(3,299,360)	88,858	253,319	3,344,519	143,125	—	—	
Cumulative interest rate sensitivity gap	(3,299,360)	(3,210,502)	(2,957,183)	387,336	530,461	—	—	

Financial instruments included within 'Prepayments and accrued income', 'Other assets', 'Accruals and deferred income', 'Provisions', 'Other liabilities' and 'Retirement benefit liabilities' have not been included in the analysis above and are all considered non-interest bearing. The interest rate sensitivity gap on non-interest bearing assets and liabilities is considered to be \$NIL.

At 31 Dec 2024	Up to 3 months	From 3 months to 6 months	From 6 months to 1 year	From 1 year to 5 years	From 5 years to 10 years	Non-interest bearing	Total	Range of weighted average effective interest rates
<b>Financial assets</b>								
Cash and balances at banks	—	—	—	—	—	32,617	32,617	
Items in the course of collection from other banks	—	—	—	—	—	50	50	
Derivatives	—	—	—	—	—	30,672	30,672	
Reverse repurchase agreement - non-trading	382,720	—	—	—	—	—	382,720	4.58-5.33%
Loans and advances to banks	1,573,555	—	—	—	—	—	1,573,555	0.33-6.13%
Loans and advances to customers	1,457,942	53,338	991	2,266	—	—	1,514,537	6.66-7.26%
Financial investments	505,340	324,097	303,856	2,485,705	329,433	—	3,948,431	3.66-3.99%
<b>Total at 31 Dec 2024</b>	<b>3,919,557</b>	<b>377,435</b>	<b>304,847</b>	<b>2,487,971</b>	<b>329,433</b>	<b>63,339</b>	<b>7,482,582</b>	
<b>Financial liabilities</b>								
Deposits by banks	22,742	—	—	—	—	23,090	45,832	0.00-0.00%
Customer accounts	6,511,284	92,676	92,692	103,505	—	—	6,800,157	0.41-0.53%
Items in course of transmission to other banks	—	—	—	—	—	2,478	2,478	
Derivatives	—	—	—	—	—	25,209	25,209	
Repurchase agreements - non-trading	100,000	—	—	—	—	—	100,000	4.55 %
<b>Total at 31 Dec 2024</b>	<b>6,634,026</b>	<b>92,676</b>	<b>92,692</b>	<b>103,505</b>	<b>—</b>	<b>50,777</b>	<b>6,973,676</b>	
Interest rate sensitivity gap	(2,714,469)	284,759	212,155	2,384,466	329,433	—	—	
Cumulative interest rate sensitivity gap	(2,714,469)	(2,429,710)	(2,217,555)	166,911	496,344	—	—	

Financial instruments included within 'Prepayments and accrued income', 'Other assets', 'Accruals and deferred income', 'Provisions', 'Other liabilities' and 'Retirement benefit liabilities' have not been included in the analysis above and are all considered non-interest bearing. The interest rate sensitivity gap on non-interest bearing assets and liabilities is considered to be \$NIL.

## 19 Foreign currency exposures

### (a) Balance sheet denominated in foreign currency

The group recognises that changes in foreign exchange rates can result in changes to profit and loss and other comprehensive income. In order to mitigate this risk, the group matches assets and liabilities by currency to the greatest extent possible including using forward foreign exchange contracts to reduce potential mismatches. The table below shows the extent of foreign currency mismatch including the impact of the forward foreign exchange contracts.

	At 31 Dec					
	2025		Net foreign exchange exposure	2024		
	Assets	Liabilities and Equity		Assets	Liabilities and Equity	Net foreign exchange exposure
Euro	328,081	328,930	(849)	319,396	314,018	5,378
Pound sterling	353,894	352,951	943	288,409	296,411	(8,002)
Japanese yen	222,311	222,307	4	186,881	186,856	25
Canadian dollars	166,474	166,091	383	174,509	174,969	(460)
Australian dollars	119,283	119,306	(23)	133,088	130,048	3,040
New Zealand dollars	24,443	24,520	(77)	27,689	27,729	(40)
Swiss franc	24,664	24,668	(4)	18,582	18,553	29
Other currencies	120,363	120,471	(108)	87,328	88,337	(1,009)
<b>Total foreign currency</b>	<b>1,359,513</b>	<b>1,359,244</b>	<b>269</b>	<b>1,235,882</b>	<b>1,236,921</b>	<b>(1,039)</b>
US and Bermuda dollars	8,599,073	8,599,342	(269)	6,408,926	6,407,887	1,039
<b>Total</b>	<b>9,958,586</b>	<b>9,958,586</b>	<b>—</b>	<b>7,644,808</b>	<b>7,644,808</b>	<b>—</b>

Considering the foreign exchange exposures as at 31 December 2025 and 31 December 2024, shareholder's equity, which is in Bermuda dollars (2025: \$620,969; 2024: \$602,310), would increase by \$13 (2024: decrease by \$52) if foreign currency exchange rates all weakened by 5% relative to the US and Bermuda dollar. The group therefore considers that the overall risk of changes in foreign exchange rates to profit and loss and equity as not significant.

## 20 Risk management

The most important types of risk categories that the group are exposed to are market risk (including interest rate, equity price, foreign exchange and credit spread risk), liquidity and funding risk, non-financial risk (including financial crime and compliance risks), credit risk (including cross-border risk) and reputational risk. This note presents information about the group's risk management framework, objectives, policies and processes for measuring and managing risk, the group's exposure to each of the material risks, and the group's management of capital.

### Managing risk

The group maintains a conservative and consistent approach to risk, ensuring we protect customers' funds, lend responsibly and support economies. By carefully aligning our risk appetite to our strategy, we are able to deliver long-term shareholder returns. All employees are responsible for the management of risk, with the ultimate accountability residing with the Board. We have a strong risk culture, which is embedded through clear and consistent communication and appropriate training for all employees.

A comprehensive risk management framework is applied throughout the group, with effective governance and corresponding risk management tools. Our dedicated HSBC Global Risk function supported by the Bermuda Risk function oversees the framework, and is led by the HSBC Group Chief Risk Officer supported by the Bermuda Chief Risk Officer. It is independent from our sales and trading functions to help provide challenge, appropriate oversight, and balance in risk/reward decisions. The group's risk appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process.

The following principles guide the group's overarching risk appetite and determine how its businesses and risks are managed.

#### Financial position

- Strong capital position, defined by regulatory and internal capital ratios.
- Liquidity and funding management on a stand-alone basis.

#### Operating model

- Returns generated in line with risk taken.
- Sustainable and diversified earnings mix, delivering consistent returns for shareholders.

#### Business practice

- Zero tolerance for knowingly engaging in any business, activity or association where foreseeable reputational risk or damage has not been considered and/or mitigated.
- No appetite for deliberately or knowingly causing detriment to consumers arising from our products and services or incurring a breach of the letter or spirit of regulatory requirements.
- No appetite for inappropriate market conduct by a member of staff or by any group business.
- Robust risk governance and accountability is embedded into our risk management framework.

## Our risk management framework

Our risk management framework is underpinned by a strong risk culture and reinforced by the HSBC Values and our Global Standards. These are instrumental in aligning the behaviours of individuals with the group's attitude to assuming and managing risk and ensuring that our risk profile remains in line with our risk appetite.

The risk management framework promotes continuous monitoring of the risk environment, and an integrated evaluation of risks and their interactions. It also ensures a consistent approach to monitoring, managing and mitigating the risks we accept and incur in our activities.

The key aspects of the framework include (i) our risk culture; (ii) governance and structure; (iii) our responsibilities; and (iv) risk management policies and risk appetite.

### (i) Our risk culture

The group has long recognised the importance of a strong risk culture, the fostering of which is a key responsibility of senior executives. We use clear and consistent employee communication on risk to convey strategic messages and set the tone from senior management. We also deploy mandatory training on risk and compliance topics to embed skills and understanding in order to strengthen our risk culture and reinforce the attitude to risk in the behaviour expected of employees, as described in our risk policies. Mandatory training materials are updated regularly, describing technical, cultural and ethical aspects of the various risks assumed by the group and how they should be managed effectively. A whistleblowing policy is in place to allow people to raise concerns confidentially. Our risk culture is also reinforced by our approach to remuneration. Individual awards, including those for senior executives, are based on compliance with HSBC Values and the achievement of financial and non-financial objectives, which are aligned to our risk appetite and global strategy.

### (ii) Governance and structure

Robust risk governance and accountability are embedded throughout the group through an established framework that ensures appropriate oversight of and accountability for the effective management of risk. The Board has ultimate responsibility for the effective management of risk and approves the group's risk appetite. The Board is advised on risk-related matters primarily by the Risk Management Meeting ('RMM').

Our strong risk governance reflects the importance placed by the Board and the RMM on shaping the group's risk strategy and managing risks effectively. It is supported by a clear policy framework of risk ownership, a risk appetite process through which the types and levels of risk that we are prepared to accept in executing our strategy are articulated and monitored, performance scorecards cascaded that align business and risk objectives, and the accountability of all staff for identifying, assessing and managing risks within the scope of their assigned responsibilities. This personal accountability, reinforced by the governance structure, mandatory learning and our approach to remuneration, helps to foster a disciplined and constructive culture of risk management and control.

Primary responsibility for managing risk at the group's operating entity levels lies with the relevant Chief Executive Officer, as custodian of the relevant balance sheets. In turn, the Chief Risk Officer has functional responsibility for financial risks (including credit and market risk) and non-financial risks. The Risk Function co-ordinates the development of the risk appetite statement. Finance (including asset and liability management) is primarily responsible for the economic capital and stress-testing frameworks. Risk is responsible for economic capital and stress-testing is jointly managed by Risk and Finance.

### (iii) Our responsibilities

All employees are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model. We use an activity-based three lines of defence model to delineate management accountabilities and responsibilities for risk management and the control environment. This creates a robust control environment in which to manage residual risks. The model underpins our approach to risk management by clarifying responsibility, encouraging collaboration, and enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:

First line of defence	Owns the risk and is responsible for identifying, recording, reporting, managing risks and ensuring that the right controls and assessments are in place to mitigate these risks.
Second line of defence	Sets the policy and guidelines for managing the risks and provides advice, guidance and challenge to the first line of defence on effective risk management.
Third line of defence	The third line of defence is the Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the group's risk management framework and control governance process.

### (iv) Risk management policies and risk appetite

The group's risk appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process. The group's approach to risk appetite reinforces the integration of risk considerations into key business goals and planning processes. Preserving the strong capital position remains a key priority for the group, and the level of integration of risk and capital management helps to optimise response to business demand for regulatory and economic capital.

As risk is not static, the group's risk profile continually alters as a result of change in the scope and impact of a wide range of factors, from geopolitical to transactional. The risk environment requires continual monitoring and holistic assessment in order to understand and manage its complex interactions across the group.

The group's risk management policies are designed to communicate standards, instructions and guidance to employees. They support the formation of risk appetite and establish procedures for monitoring and controlling risks, with timely and reliable reporting to management. Risk management policies, systems and methodologies are regularly reviewed and updated to reflect changes in law, regulation, markets, products and emerging best practice. Functional Instruction Manuals ('FIM') are the vehicles by which policies on risk and capital governance are articulated. All senior managers are required to have read and adhere to all relevant FIMs.

Each business area is responsible for creating and maintaining its own business-specific procedures. Staff are trained using the procedures which are reviewed on a regular basis. The second line of defence performs independent oversight and highlights any control gaps. In addition, HSBC Group Audit conducts periodic audits of functions and businesses.

The group's Risk Appetite Statement ('RAS') is the written articulation of the aggregated level and types of risk that we are willing to accept in our business activities in order to achieve our business objectives. It is central to an integrated approach to risk, capital and business management. The RAS is a key component in our management of risk and is reviewed on an ongoing basis, with formal annual approval from the Board on recommendation from the RMM and Audit Risk Committee ('ARC').

The formulation of risk appetite considers the group's risk capacity, its financial position, the strength of its core earnings and the resilience of its reputation and brand. The RAS includes measures on earnings, capital and liquidity, market risk, credit risk, financial crime risk, along with other financial and non-financial risks.

Senior management attach quantitative metrics within the risk appetite framework in order that (i) underlying business activity may be guided and controlled so it continues to align with risk appetite; (ii) key assumptions underpinning the risk appetite can be monitored and, as necessary, adjusted through subsequent business plan iterations; and (iii) anticipated mitigating business decisions are flagged and acted upon promptly.

The risk appetite framework covers both the beneficial and adverse aspects of risk. It is used as the basis for risk evaluation, capital ratio monitoring and performance measurement for the group and across customer groups. Risk appetite is executed through the operational limits that control the levels of risk run by the group and customer groups and is measured using risk-adjusted performance metrics.

### (a) Market risk management

Market risk is the risk of 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.

The group is not required to report under market risk methodologies as its trading book does not exceed the De Minimis threshold, resulting in an exemption as defined in the Bermuda Monetary Authority ('BMA') Framework. Further details are noted below in the capital management section explanations regarding Basel III Pillar 1 regulatory reporting requirements.

Market risk is:

- measured in terms of value at risk ('VaR'), which measures the potential losses on risk positions over a specified time horizon for a given level of confidence, and assessed using stress testing and sensitivity analysis;
- monitored using VaR, stress testing and other measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and
- managed using approved risk limits applied to our businesses.

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

Global Risk is responsible for our market risk management policies and measurement techniques. The group has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with the policies defined by Global Risk, and for monitoring and reporting exposures against the prescribed limits on a daily basis in accordance with our risk appetite. Interest rate risk in the banking book ('IRRBB') is defined as the exposure of our non-trading products to interest rates. This risk arises in such portfolios principally from mismatches between the future yield on assets and their funding costs, as a result of interest rate changes. Analysis of this risk is complicated by behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts.

The group assesses the structural interest rate risks which arise in the businesses and transfers these risks to the group's Markets Treasury business. Our aim is to ensure that all market risks are consolidated within operations that have the necessary skills, tools, management and governance to manage them. When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the appropriate underlying interest rate risk. The Asset and Liability Management Committee ('ALCO') regularly monitors all such behavioural assumptions and interest rate risk positions to ensure they comply with established interest rate risk limits.

In executing the management of the liquidity risk on behalf of ALCO, and managing the non-trading interest rate positions transferred to it, Markets Treasury invests in highly-rated liquid assets in line with the group's liquid asset policy. The majority of the liquidity is invested in central bank deposits and government, supranational and agency securities with most of the remainder held in short-term interbank and central bank loans. Markets Treasury is permitted to use derivatives as part of its mandate to manage interest rate risk. Derivative activity is predominantly through the use of interest rate swaps which are part of cash flow hedging and fair value hedging relationships.

In the course of managing interest rate risk, quantitative techniques and simulation models are used where appropriate to identify the potential net interest income and market value effects of these interest rate positions under different scenarios. We use a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk and stress testing. The primary objective of such interest rate risk management is to limit potential adverse effects of interest rate movements on net interest income whilst balancing the effect on the current net operating income stream and unrealised mark-to-market positions.

A principal part of the group's management of market risk is to monitor the sensitivity of projected net interest income under varying interest rate scenarios (simulation modelling). The group aims to mitigate the effect of prospective interest rate movements which could reduce future net interest income by utilising interest rate hedges, while balancing the cost of such hedging activities on the current net operating income stream. The table below sets out the effect of a 100 basis point shock at the beginning of the year on our accounting net interest income projections compared to the current actual interest rates by product. The sensitivities shown represent the change in the expected base case net interest income that would be expected under the rate scenarios, assuming that all other non-interest rates risk variables remain constant and current management policies are applied. The model measures the effect on net interest income due to parallel movements of plus or minus 100 basis points in all yield curves. The results represent the effect of the pro-forma movements in net interest income.

#### Change in 2025 projected net interest income arising from 100 basis points movement in yield curves

	At 31 Dec	
	2025 increase (decrease)	2024 increase (decrease)
+100 basis points parallel	37,841	31,510
-100 basis points parallel	(38,471)	(31,509)

The scenarios are calculated by first establishing a base case projection for the following financial year using the current consolidated balance sheet. In deriving our base case net interest income projections, the re-pricing rates of assets and liabilities used are derived from current yield curves, thereby reflecting current market expectations of the future path of interest rates. The scenarios therefore represent interest rate shocks which occur to the current market implied path of rates. The interest rate sensitivities are indicative and based on simplified scenarios for product groups. The base case assumes no change in volumes or margins across all currencies. The parallel scenario is calculated by impacting all interest margins by 100 basis points immediately. The prospective annual differences in net interest income between the base case and the parallel case is set out in the table above. The model is further simplified in the assumption that all currency yield curves rise and fall at the same time and all current management policies are applied consistently. The model does not incorporate the proactive management of the interest rate risk profile undertaken by ALCO and the Markets Treasury business in order to minimise losses and optimise net income. The projected change in financial assets at FVOCI reserve from a 100 basis points parallel increase in market rates is a decrease of \$30,192 (2024: \$35,887).

### (b) Liquidity and funding risk management

Liquidity and funding risk is the risk that the Bank, at an entity level, does not have sufficient financial resources to meet its obligations as they fall due or will have to do so at excessive cost. Liquidity risk arises from mismatches in the timing of cash flows. Funding risk arises where the liquidity needed to fund illiquid asset positions cannot be obtained at the expected terms and when required.

Liquidity and funding risk is:

- measured using a range of different metrics including liquidity coverage ratio and net stable funding ratio;
- monitored against the group's liquidity and funding risk framework; and
- managed on a stand-alone basis with no reliance on any HSBC group entity (unless pre-committed) or central bank or government body, unless this represents routine established business as usual market practice.

The objective of the group's internal liquidity and funding framework ('LFRF') is to allow it to withstand very severe liquidity stresses. It is designed to be adaptable to changing business models, markets and regulations. All operating entities are required to manage liquidity and funding risk in accordance with the LFRF.

The group uses the liquidity coverage ratio ('LCR') and net stable funding ratio ('NSFR') regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that we consider are not adequately reflected by the regulatory framework.

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile. It aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ('HQLA') to meet its liquidity needs in a 30-calendar day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

The NSFR requires institutions to maintain sufficient stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment. The validity of these assumptions is challenged if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists. Operating entities are exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period. Therefore, additional risk tolerance levels have been established for deposit concentration and term funding maturity concentration.

The Annual Internal Liquidity Adequacy Assessment Process ('ILAAP') process aims to identify risks that are not reflected in the LFRF, and, where required, to assess additional limits required locally, and to validate the risk tolerance at the operating entity level.

The primary responsibility for managing liquidity and funding within the group's framework and risk appetite resides with ALCO. ALCO is responsible for ensuring prudent management of liquidity and funding risk and is also responsible for evaluating and communicating the impact of new liquidity regulatory requirements. These actions ensure the group adheres to HSBC liquidity and funding policies and maintains sufficient liquidity to meet day-to-day needs and local regulatory requirements. As at 31 December 2025, the group was within the risk tolerance levels applicable under the LFRF.

On 31 December 2014 the group's lead regulator, the Bermuda Monetary Authority, ('the Authority' or 'the BMA') published the 'Basel III for Bermuda Banks – Final Rule' which became effective on 1 January 2015. The Basel III rules issued by the BMA address the areas of Leverage and Liquidity. The Authority has adopted a 5% leverage ratio calculated as the ratio of Tier 1 ('T1') Capital to Total Exposure. The group is currently in excess of this requirement. The Authority adopted a LCR with a current minimum requirement of 100%. The LCR is calculated as HQLA divided by total net cash outflows over the period of the next 30 days. Total net cash outflows are calculated in accordance with rules prescribed by the regulator. The group is compliant with LCR as at 31 December 2025.

On 15 February 2018 the BMA published the 'Basel III for Bermuda Banks – November 2017 Rule Update' which became effective 1 January 2018 and adopted the Net Stable Funding Ratio ('NSFR') with a minimum requirement of 100%. The NSFR is calculated as the available stable funding divided by the required stable funding, with the available stable funding and required stable funding calculated in accordance with rules prescribed by the regulator. The group is compliant with NSFR requirements as at 31 December 2025.

### (c) Non-financial risk management

Non-financial risk (NFR) is the risk of loss resulting from people, inadequate or failed internal processes, data or systems, or external events. Non-financial risk is relevant to every aspect of our business and covers a wide spectrum of issues including in particular legal, compliance, security and fraud. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure or external events all fall within the definition of non-financial risk.

Resilience Risk is a component of NFR and is comprised of managing operational resilience such that the Bank can anticipate, prevent, adapt to, respond to, recover, and learn from operational disruptions while minimising customer and market impact. Our strategy is to understand the Bank from the customer's perspective, prepare for disruptive failure, learn from near misses externally and internally, test and assure a broad range of scenarios and collaborate externally.

Regulatory compliance risk is the risk that we fail to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to our business as a consequence. Regulatory compliance risk arises from the risks associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory requirements.

Financial crime risk is the risk that we knowingly or unknowingly help parties to commit or to further potentially financial crime activity through HSBC.

Non-financial risk is:

- measured using the risk and control assessment ('RCA') process, which assesses the level of risk and effectiveness of controls in place against them;
- regulatory compliance and financial crime risk are more specifically measured by reference to identified metrics, internal events, regulatory findings and the judgement and assessment of our Compliance Risk teams;
- monitored using key indicators and other internal control activities;
- regulatory compliance and financial crime risk is monitored against our risk appetite statement and metrics, the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections;
- managed primarily by global business and functional managers that identify and assess risks, implement controls to manage them and monitor the effectiveness of these controls utilising the risk management framework;
- regulatory compliance and financial crime risk are managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.

Responsibility for minimising non-financial risk lies with all of the group's staff. All staff are required to manage the non-financial risks of the business and operational activities for which they are responsible. The objective of our non-financial risk management is to manage and control risk in a cost effective manner within targeted levels consistent with our risk appetite.

Non-financial risk is organised as a specific risk discipline within Risk, and a formal governance structure provides oversight over its management. The operational risk function supports the Chief Risk Officer and is responsible for oversight of the risk management framework, monitoring the level of operational losses and the effectiveness of the control environment. It is also responsible for non-financial risk reporting, including the preparation of reports for consideration by the RMM.

The Risk Management Framework is our overarching approach for managing non-financial risk with a purpose to:

- identify and manage our non-financial risks in an effective manner;
- remain within the group's non-financial risk appetite, which helps the organisation understand the level of risk it is willing to accept; and
- drive forward-looking risk awareness and assist management focus.

The Risk Management Framework defines our standards and processes, and the governance structure for the management of non-financial risk in our businesses and functions. The Risk Management Framework has been codified in a high-level standards manual, supplemented with detailed policies, which describes our approach to identifying, assessing, monitoring and controlling non-financial risk and gives guidance on mitigating action to be taken when weaknesses are identified.

Business managers throughout the group are responsible for maintaining an acceptable level of internal control commensurate with the scale and nature of operations, and for identifying and assessing risks, designing controls and monitoring the effectiveness of these controls. The Risk Management Framework helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of non-financial risk loss data.

A centralised database is used to record the results of the non-financial risk management process. Non-financial risks and control assessments are input and maintained by business units. Business and Functional management monitor the progress of documented action plans to address shortcomings. To ensure that non-financial risk losses are consistently reported and monitored, reporting is required for all individual losses when the net loss is expected to be \$10,000 or more, and to aggregate all other non-financial risk losses under \$10,000. Losses are entered into the non-financial risk database and are reported to the RMM on a monthly basis.

RCAs are a key component of the Risk Management Framework which provides senior management with a point in time view of non-financial risk and helps them to determine whether their key non-financial risks are controlled within acceptable levels. RCAs are dynamically updated to remain representative of the risks faced by the entity.

RCAs are performed by individual business units and functions. The RCA process is designed to provide business areas and functions with a forward-looking view of non-financial risks and an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage non-financial risks within acceptable levels.

For regulatory reporting, the group has adopted the Standardised approach to determine its operational risk capital which is a method of calculating the operational capital requirement based on historic operational losses.

Local management is responsible for implementation of HSBC standards on non-financial risk throughout their operations and where deficiencies are evident, these are required to be rectified within a reasonable timeframe.

## Regulatory Compliance and Financial Crime Compliance

The Bank integrated its financial crime and regulatory compliance capabilities under the Compliance Function. The structure now includes the role of Chief Compliance Officer ('CCO') who has responsibility and accountability for the Compliance Function. The CCO reports to the Chief Executive Officer. Compliance provides independent, objective oversight and challenge and promotes a compliance-orientated culture, supporting the business in delivering fair outcomes for customers, maintaining the integrity of financial markets, implementing the most effective global standards to combat financial crime and achieving the group's strategic objectives. The Conduct agenda remains a priority for group, our customers, our regulators and the financial services industry.

## (d) Reputational risk management

Reputational risk is the risk of failure to meet stakeholder expectations as a result of any event, behaviour, action or inaction, either by the group itself, our employees or those with whom we are associated, that might cause stakeholders to form a negative view of the group. This may result in financial or non-financial impacts, loss of confidence, or other consequences. Primary reputational risks arise directly from an action or inaction by the group, its employees or associated parties that are not the consequence of another type of risk. Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks. There were no material changes to our policies and practices for the management of reputational risk in 2025.

Reputational risk is:

- measured by reference to our reputation as indicated by our dealings with all relevant stakeholders, including media, regulators, customers and employees;
- monitored through a reputational risk management framework that is integrated into the group's broader risk management framework; and
- managed by every member of staff and covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk, including the Reputational Risk Committee.

Reputational risk relates to stakeholders' perceptions, whether fact-based or otherwise. Stakeholders' expectations change constantly and so reputational risk is dynamic and varies between geographical regions, groups and individuals. We have an unwavering commitment to operating at the high standards we have set for ourselves in every jurisdiction. Any lapse in standards of integrity, compliance, customer service or operating efficiency represents a potential reputational risk.

Our policies set out our risk appetite and operational procedures for all areas of reputational risk, including financial crime prevention, regulatory compliance, conduct-related concerns, environmental impacts, human rights matters and employee relations.

## (e) Credit risk management

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 also from certain 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. These limits represent the peak exposure or loss to which the group could be subjected should the customer or counterparty fail to perform its contractual obligations; and
- managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.

The group has in place standards, policies and procedures for the control and monitoring of all such risks. For Wholesale Risk there have been no material changes to policies and practices for the management of credit risk during 2025. For Retail Credit Risk, adjudication of credit applications has primarily migrated to Retail Financial Crime Risk Management on 1 October 2024. Standard credit applications are now adjudicated by this Retail underwriting team, but exceptional and complex credit lending continues to be adjudicated by Retail Credit Risk. Additional credit-related information and information to determine maximum exposure to credit risk is presented in Note 6 'Derivatives', Note 7 'Loans and advances to banks', Note 8 'Credit risk', Note 9 'Loans and advances to customers', Note 10 'Financial investments' and Note 16 'Contingent liabilities, contractual commitments and guarantees'.

For Wholesale Risk the role of independent credit control unit is fulfilled by the Risk function. For Retail Credit Risk, the role of independent credit control migrated from the Risk Function to Retail Financial Crime Risk Management on 1 October 2024. Credit approval authorities are delegated by the Board to the Chief Executive together with the authority to sub-delegate them. The Credit Risk sub-function in Risk is responsible for the key policies for managing credit risk, which includes formulating group credit policies and risk rating frameworks, guiding 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 the group a strong culture of responsible lending and a robust risk policy and control framework;
- 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.

The group's credit risk limits to counterparties in the financial and government sectors are managed centrally to optimise the use of credit availability and to avoid excessive risk concentration. Cross-border risk is controlled through the imposition of country limits, which are determined by taking into account economic and political factors, and local business knowledge, with sub-limits by maturity and type of business. Transactions with counterparties in higher risk countries are considered on a case-by-case basis. Within the overall framework of the HSBC policy, the group has an established risk management process encompassing credit approvals, the control of exposures (including those to borrowers in financial difficulty), credit policy direction to business units and the monitoring and reporting of exposures both on an individual and a portfolio basis. The group's management is responsible for the quality of its credit portfolios and follows a credit process involving delegated approval authorities and credit procedures, the objective of which is to build and maintain risk assets of high quality. Regular reviews are undertaken to assess and evaluate levels of risk concentration, including those to individual industry sectors and products. Special attention is paid to the management of problematic loans and a specialist unit has been established to provide intensive management and control to maximise recoveries of assets, which show early signs of potential impairment and to assist customers to avoid default wherever possible.

## Concentration of exposure

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

The group is responsible for the formulation of high-level credit policies based on HSBC policies. The group also reviews the application of HSBC's universal credit risk rating system. Our credit risk rating systems and processes differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. In the case of individually significant accounts that are predominantly within our wholesale businesses, risk ratings are reviewed regularly and any amendments are implemented promptly. Within our personal lending businesses, risk is assessed and managed using a wide range of risk and pricing models to generate portfolio data.

Our risk rating system includes calculation of PD and Expected Loss ('EL') and is specific to credit risk segments. For wholesale lending the Customer Risk Rating ('CRR') 10-grade scale summarises a more granular underlying 23-grade scale of obligor PD. All group customers are rated using the 10- or 23-grade scale. 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. For retail lending credit quality is based on a 12-month point-in-time probability-weighted PD. The EL 10-grade scale for personal lending business summarises a more granular underlying EL scale for this customer segment. This combines obligor and facility/product risk factors in a composite measure. For debt securities and certain other financial instruments, external ratings have been aligned to five quality classifications based upon the mapping of related CRR to external credit grade. The five credit quality classifications defined 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.

Credit quality classification definitions are highlighted below. Performing loans are sub-divided into the first three categories.

### 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 (Typically CRR1 to CRR2 portfolio).

'Good': exposures require closer monitoring and demonstrate a good capacity to meet financial commitments, with low default risk (Typically CRR3 Portfolio).

'Satisfactory': exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk (Typically CRR4 and CRR5 portfolio).

'Sub-standard': exposures require varying degrees of special attention and default risk is of greater concern (CRR6 to CRR8 Portfolio).

'Credit Impaired': exposures have been assessed as impaired, as described in Note 2(I). These also include personal accounts that are delinquent by more than 90 days, unless individually they have been assessed as not impaired; and renegotiated loans that have met the requirements to be disclosed as impaired and have not yet met the criteria to be returned to the unimpaired portfolio (CRR9 to CRR10 portfolio).

## Credit quality of forbore loans

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 forbore loan. For retail lending, where a material payment-related concession has been granted, the loan will be classified as credit impaired. In isolation, non-payment forbearance measures may not result in the loan being classified as credit impaired unless combined with other indicators of credit impairment. These are classed as performing forbore loans.

Wholesale and retail forbore 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. For wholesale and retail, any forbore loans not considered credit impaired will remain forbore for a minimum of two years from the date that credit impairment no longer applies. Any forbearance measures granted on any loan already classed as forbore results in customer being classed as credit impaired.

## Forbore loans and recognition of expected credit losses

Forbore 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, forbore 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 forbore loans.

## (f) Capital management

### Regulatory Capital

The group's lead regulator, the BMA, sets and monitors capital requirements for the group as a whole under the Banks and Deposit Companies Act 1999. The group does not have any banking operations outside of Bermuda.

The Basel III capital framework issued by the BMA, which became effective on 1 January 2015, adopts the Common Equity Tier 1 Capital ('CET1') as the main form of regulatory capital. Minimum Basel III capital ratios will be CET1 at least 4.5% of Risk Weighted Assets ('RWAs'), Tier 1 Capital at least 6.0% of RWAs and Total Capital at least 8.0% of RWAs. Through Pillar 2 capital ratio add-ons, which form part of the Authority's Prudential Supervision, the Authority has prescribed a total minimum capital ratio in excess of the minimum Basel III requirements. The group has at all times maintained a capital ratio in excess of the minimum regulatory requirement and it is well placed to continue to exceed regulatory requirements in the future.

In addition to the minimum capital ratios and Pillar 2 related add-ons prescribed by the Authority the Basel III rules also provide for the following capital requirements:

- Capital Conservation Buffer ('CCB'): Ultimately set at 2.5% of RWAs and is composed of CET1 eligible capital.
- Countercyclical Buffer: To be comprised of CET1 eligible capital. The Authority will assess the need for a buffer of up to 2.5% of RWAs during periods of excessive credit or periods exhibiting other macroeconomic pressures.
- Capital Surcharge for Domestic Systemically Important Banks ('D-SIB'): Can range from 0.5% to 3.0% and is related to factors such as size, interconnectedness, substitutability and complexity. The D-SIB buffer has been determined by the Authority in conjunction with the CARP process in 2016.

## Notes on the consolidated financial statements (In US dollar thousands)

The group is required to comply with the provisions of the Basel III framework in respect of regulatory capital. Basel III is structured around three 'pillars': Pillar 1, 'minimum capital requirements', Pillar 2, 'supervisory assessment process' and Pillar 3, 'market discipline'. The 'Revised Framework for Regulatory Capital Assessment' and 'Basel III for Bermuda Banks – Final Rule' are the means by which Basel III is implemented in Bermuda.

The group's total banking regulatory capital is analysed into two tiers: (i) Tier 1 Capital: Called up share capital, share premium, retained earnings, additional tier 1 capital; and (ii) Tier 2 Capital: Allowable Loan Loss Provisions.

Various limits are applied to elements of the capital base. Total Tier 2 capital is limited to 100% of the Tier 1 capital. There are also restrictions on the level of allowance for expected credit losses that may be included in Tier 2 capital.

The group's policy is to maintain a strong capital base and our approach to managing group capital is designed to ensure that we exceed current regulatory requirements and are well placed to meet those expected in the future so as to maintain creditor and market confidence and to sustain future development of the business. We monitor capital adequacy by the use of capital ratios, which measure capital relative to a regulatory assessment of risks taken, and by the leverage ratio, which measures capital relative to exposure. The group has complied with all external imposed capital requirements throughout the period. There have been no material changes in the group's management of capital during the year.

The group's consolidated regulatory capital position under Basel III at 31 December was as follows:

### Composition of regulatory capital

	Notes	2025	2024
<b>Tier 1 capital</b>			
Called up share capital	23	30,027	30,027
Share premium		388,652	388,652
Retained earnings		85,932	214,666
Additional tier1 capital		118,800	—
<b>Total Tier 1 capital</b>		<b>623,411</b>	633,345
Tier 2 capital			
Stage 1 Allowance for ECL on loans and advances to customers	8	2,932	3,494
<b>Total regulatory capital</b>		<b>626,343</b>	636,839

### Pillar 1

Basel III applies three approaches of increasing sophistication to the calculation of Pillar 1 credit risk capital requirements. The most basic level, the standardised approach, requires banks to use external credit ratings to determine the risk weightings applied to rated counterparties. Other counterparties are grouped into broad categories and standardised risk weightings are applied to these categories. The next level, the internal ratings-based ('IRB') foundation approach, allows banks to calculate their credit risk capital requirements on the basis of their internal assessment of counterparty's PD, but subjects their quantified estimates of exposure at default ('EAD') and loss given default ('LGD') to standard supervisory parameters. Finally, the IRB advanced approach allows banks to use their own internal assessment in both determining PD and quantifying EAD and LGD. For credit risk, the group has adopted the standardised approach for consolidated reporting.

Basel III includes capital requirements for operational risk. Effective 1 January 2023 the BMA implemented the revised standardised approach methodology which is based off operational losses using the following components: the Business Indicator; the Business Indicator Component and the Internal Loss Multiplier.

The group is not required to report under market risk methodologies as its trading book does not exceed the de minimis threshold, resulting in an exemption as defined in the BMA Framework.

### Pillar 2

The second pillar of Basel III, supervisory assessment process, involves both the group and the Authority to assess and agree the appropriate capital necessary to mitigate the impact of risks not fully captured by the credit risk measures ('Pillar 1'). The annual Supervisory Revaluation Process ('SREP'), undertaken by the Authority, aims to assess the group's risk profile and self-assessment as documented in the Capital Assessment and Risk Profile ('CARP'). The completion of the CARP formed the basis for the final agreements on new statutory minimum capital requirements for the group going forward. The group has complied with all minimum capital requirements prescribed by the Authority in 2025 and 2024.

### Pillar 3

The third pillar of Basel III, market discipline, complements the minimum capital requirements and the supervisory review process. Its aim is to develop disclosures by banks which allow market participants to assess the scope of application of Basel III, capital, particular risk exposures and risk assessment processes, and hence the capital adequacy of the institution. Under the Pillar 3 framework all material risks must be disclosed, enabling a comprehensive view of the institution's risk profile. Disclosures consist of both quantitative and qualitative information and are provided at the consolidated level. The most recent disclosure of the group, 'Capital and Risk Management Pillar 3 Disclosures', is published on the group's internet website: [www.about.hsbc.bm/hsbc-in-bermuda](http://www.about.hsbc.bm/hsbc-in-bermuda).

### Capital allocation

Although maximisation of return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the group to particular operations or activities, it is not the sole basis used for decision-making. Account is also taken of synergies, and the fit of the activity within the group's longer-term strategic objectives.

## (g) Model risk

### Overview

Model risk is the potential for adverse consequences from business decisions informed by models, which can be exacerbated by errors in methodology, design or the way they are used. Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.

### Governance and structure

Model Risk Governance committees at the Group, business and functional levels provide oversight of model risk. The Group-level Model Risk Committee is chaired by the Group Chief Risk. Regional Model Risk Management team support and advise all areas of the group.

### Key risk management processes

HSBC use a variety of modelling approaches, including regression, simulation, sampling, machine learning and judgemental scorecards for a range of business applications, in activities such as customer selection, product pricing, financial crime transaction monitoring, creditworthiness evaluation and financial reporting. Global responsibility for managing model risk is delegated from the RMM to the Group Model Risk Committee, which is chaired by the Group Chief Risk Officer. This committee regularly reviews our model risk management policies and procedures, and requires 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 on a regular basis through the use of the risk map, risk appetite metrics and top and emerging risks.

HSBC regularly review the effectiveness of these processes, including the model oversight committee structure, to help ensure appropriate understanding and ownership of model risk is embedded in the businesses and functions.

## (h) Resilience Risk

### Overview

Resilience risk is the risk that the group is unable to provide critical services to its customers, affiliates and counterparties, as a result of sustained and significant operational disruption. Resilience risk arises from failures or inadequacies in processes, people, systems or external events.

Resilience Risk is:

- measured using a range of metrics with defined maximum acceptable impact tolerances, 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.

### Resilience risk management

The Operational and Resilience Risk sub-function provides robust non-financial risk steward oversight of the management of risk by the group businesses, functions and legal entities. It also provides effective and timely independent challenge. During the year, the group carried out a number of initiatives to keep pace with geopolitical, regulatory and technology changes to strengthen the management of resilience risk:

- Focused on enhancing our understanding of our risk and control environment, by updating our risk taxonomy and control libraries, and refreshing risk and control assessments.
- Implemented heightened monitoring and reporting of cyber, third-party, business continuity and payment/sanctions risks resulting from the Russia-Ukraine war, and enhanced controls and key processes where needed.
- Provided analysis and reporting of non-financial risks providing easy-to-access risk and control information and metrics that enable management to focus on non-financial in their decision making and appetite setting.
- Further strengthened our non-financial risk governance and senior leadership, and improved our coverage and risk steward oversight for data privacy and change execution.

The group prioritises its efforts on material risks and areas undergoing strategic growth, aligning its location strategy to this need.

### Governance and structure

The Operational and Resilience Risk target operating model provides a globally consistent view across resilience risks, strengthening the group's risk management oversight while operating effectively as part of a simplified non-financial risk structure. The group views resilience risk across nine sub-risks types related to failure to manage third parties; technology and cyber security; transaction processing; failure to protect people and places from physical malevolent acts; business interruption and incident risk; data risk; change execution risk; building unavailability; and workplace safety.

Risk appetite and key escalations for resilience risk are reported to the Non-Financial Risk Management Board, chaired by the group Chief Risk and Compliance Officer, with an escalation path to the group RMM. and group Risk Committee.

### Key risk management processes

Operational resilience is the group's ability to anticipate, prevent, adapt, respond to, recover and learn from operational disruption while minimising customer and market impact. Resilience is determined by assessing whether the group is able to continue to provide its most important services, within an agreed level. The group accepts it will not be able to prevent all disruption but it prioritises investment to continually improve the response and recovery strategies for its most important business services.

### Business operations continuity

The group continues to monitor the situation with Russia and Ukraine and remain ready to take measures to help ensure business continuity, should the situation require. There has been no significant to our services in nearby markets where the group operates.

## 21 Litigation

HSBC Bank Bermuda Limited and its subsidiaries are parties to legal proceedings and regulatory matters in a number of jurisdictions arising out of their normal business operations. Apart from the matters described below, HSBC Bank Bermuda Limited considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note 2.

### Bernard L. Madoff Investment Securities LLC

Various HSBC companies, including HSBC Bank Bermuda subsidiaries that provided custodial, administration and similar services to a number of funds whose assets were invested with Bernard L. Madoff Investment Securities LLC ('Madoff Securities') have been named as defendants in lawsuits arising out of Madoff Securities' fraud.

Trustee litigation: The Madoff Securities trustee (the 'Trustee') has brought lawsuits in the US against various HSBC companies and others seeking recovery of alleged transfers from Madoff Securities to the HSBC companies in the amount of \$508m (plus interest). In September 2025, the US Bankruptcy Court for the Southern District of New York dismissed all claims against HSBC Private Bank (Suisse) SA in the amount of \$292m and certain claims against HSBC Bank USA N.A. ('HSBC Bank USA') in the amount of \$32m. The Trustee has appealed. The Trustee's remaining claims, which include a claim against an HSBC Bank Bermuda subsidiary, amount to \$184m, are pending.

The Trustee has filed a claim against various HSBC companies, including an HSBC Bank Bermuda subsidiary in the High Court of England and Wales seeking recovery of alleged transfers from Madoff Securities to the HSBC companies. The claim has not yet been served and the amount claimed has not been specified.

Fairfield Funds litigation: Fairfield Sentry Limited, Fairfield Sigma Limited and Fairfield Lambda Limited (each in liquidation and together, the 'Fairfield Funds') have brought lawsuits in the US against various HSBC companies, including HSBC Bank Bermuda and its subsidiaries and others seeking recovery of alleged transfers from the Fairfield Funds to the HSBC companies (that acted as nominees for clients) in the amount of \$382m (plus interest). In August 2025, the US Court of Appeals for the Second Circuit confirmed the dismissal of Fairfield Funds' claims against all HSBC companies. Fairfield Funds may appeal.

Alpha Prime Fund Limited ('Alpha Prime') litigation: Various HSBC companies, including HSBC Bank Bermuda and its subsidiaries, are defending an action brought by Alpha Prime in the Luxembourg District Court seeking restitution of securities and \$1bn (plus interest) in supplementary damages or, alternatively, damages in the amount of \$3.3bn (plus interest). This matter is currently pending before the Luxembourg District Court.

In November 2024, Alpha Prime served various HSBC companies, including HSBC Bank Bermuda and its subsidiaries, with a lawsuit filed in the Bermuda Supreme Court seeking damages for unspecified amounts for alleged breach of contract and negligence. This claim is currently stayed.

Based on the facts currently known, it is not practicable at this time for HSBC Bank Bermuda to predict the resolution of these matters, including the timing or any possible impact on the HSBC Bank Bermuda group, which could be significant.

## 22 Related party transactions

Related parties of the group include subsidiaries, associates, post-employment benefit plans for group employees, Key Management Personnel, close family members of Key Management Personnel and entities which are controlled or jointly controlled by Key Management Personnel or their close family members.

Key Management Personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the group. The group classifies the Directors of the Bank and members of the Executive Management Committee as the Key Management Personnel of the group.

Particulars of transactions, arrangements and agreements entered into by the group with its Key Management Personnel, connected persons and companies controlled by them or the group are as follows:

	Loans and mortgages	Deposits
Balance at 1 Jan 2024	2,941	19,298
Advances and transfers in during the year	—	9,133
Repayments and transfers out during the year	(1,027)	(14,740)
Balance at 31 Dec 2024	1,914	13,691
Advances and transfers in during the year	—	<b>6,945</b>
Repayments and transfers out during the year	<b>(192)</b>	<b>(2,307)</b>
<b>Balance at 31 Dec 2025</b>	<b>1,722</b>	<b>18,329</b>

## Notes on the consolidated financial statements (In US dollar thousands)

The above transactions were made in the ordinary course of business and substantially on the same terms, including interest rates and security, as for comparable transactions with other employees of the group which are at favourable rates. Normal banking risks are associated with these transactions.

### Compensation of Key Management Personnel

	2025	2024
Short-term employee benefits	5,000	5,399
Post-employment benefits	266	261
Other long-term employee benefits	98	113
Share-based payments	209	175
	<b>5,573</b>	<b>5,948</b>

### Amounts included in consolidated balance sheet due from HSBC affiliated companies

	2025	2024
Loans and advances to banks	2,390,562	1,352,948
Reverse repurchase agreements	—	182,720
Derivatives	7,137	17,123
Prepayments and accrued income	5,396	2,680
Other assets	—	358

### Amounts included in consolidated balance sheet due to HSBC affiliated companies

	2025	2024
Deposits by banks	29,570	43,844
Other equity instrument	118,800	—
Derivatives	22,573	21,268
Customer accounts	22,145	6,890
Accruals and deferred income	4,578	4,259

### Amounts in income statement received from HSBC affiliated companies

	2025	2024
Interest income	70,667	78,717
Fee income	1,533	1,414

### Amounts in income statement paid to HSBC affiliated companies

	2025	2024
Interest expense	—	—
Fee expense	1,590	1,399
General and administrative expenses	37,776	34,211

There are no individually assessed expected credit losses in respect of outstanding balances in 2025 (2024: \$NIL). No expected credit losses were recognised during the year in respect of financial assets with related parties (2024: \$NIL).

## 23 Called up share capital and other equity instruments

### (a) Called up share capital and share premium

The total number of authorised ordinary shares at 31 December 2025 was 140,000,000 (2024: 140,000,000) with a par value of \$1 per share (2024: \$1 per share). The total number of shares issued and fully paid at 31 December 2025 was 30,026,671 (2024: 30,026,671). These figures and amounts are exact (not rounded or shown to the nearest thousand). Share premium comprises additional paid in capital in excess of the par value. Share premium is not ordinarily available for distribution. The holders of ordinary shares are entitled to receive dividends as declared from time to time, and are entitled to one vote per share at meetings of the Bank.

### (b) Dividends

A final dividend of \$73,000,000 (\$2.43 per ordinary share) was declared by the Board on 27 February 2025 in respect of the 2024 financial year. Interim dividends were declared by the Board of Directors on:

- 29 May 2025 in respect of the period 1 January 2025 to 31st March 2025, for \$57,000,000 (\$1.90 per ordinary share);
- 29 May 2025 a special dividend of \$120,000,000 (\$3.99 per ordinary share) and paid on 20 October 2025 in respect of the acceptance of an Additional Tier 1 capital issuance ("AT1 Capital") in the form of a subordinated loan from the Bank's Shareholder;
- 24 July 2025 in respect of the period 1 April 2025 to 30 June 2025, for \$66,000,000 (\$2.20 per ordinary share);
- 30 October 2025 in respect of the period 1 July 2025 to 30 September 2025, for \$61,000,000 (\$2.03 per ordinary share);

The directors declared after the end of the year, a fourth interim dividend in respect to the financial year ended 31 December 2025 for \$59,000,000 (\$1.96 per ordinary share). The dividend will be payable on or before 31 March 2026 to the holders of ordinary shares of record on 1 January 2026. No liability was recorded in the financial statements in respect of the fourth interim dividend for 2025.

These figures and amounts are exact (not rounded or shown to the nearest thousand).

## (c) Other Equity Instruments

### HSBC Bank Bermuda Limited Additional tier 1 instrument

	2025	2024
\$120m FRN Undated subordinated Floating Rate Additional Tier 1 instrument issued 2025	118,800	—

1 Interest is floating, based on SOFR + 3.39%. Carrying amount is net-off directly attributable transaction cost \$1,200.

The instrument is held by HSBC Bank plc. Interest on the instrument will be due and payable only at the sole discretion of the Bank, and the Bank has sole and absolute discretion at all times and for any reason to cancel (in whole or in part) any interest payment that would otherwise be payable on any date. There are limitations on the payment of principal, interest or other amounts if such payments are prohibited under Bermuda banking regulations, or other requirements, if the Bank has insufficient distributable reserves or if the Bank fails to satisfy the solvency condition as defined in the instrument's terms.

The instrument is undated and repayable, at the option of the Bank, in whole or in part together with any accrued but unpaid interest thereon on any 'Optional Early Repayment Date(s)' which is 20 October 2030 and every interest payment date thereafter. In addition, the instrument is repayable at the option of the Bank in whole for certain regulatory or tax reasons. Any repayments require prior supervisory consent and in case the repayment falls before the fifth anniversary of the drawdown date it should be complied with the regulatory preconditions. The instrument ranks ahead of ordinary shares. The instrument will be written down in whole, together with any accrued but unpaid interest if Bank's consolidated Common Equity Tier 1 Capital Ratio falls below 7.00%.

## 24 Events after the balance sheet date

Other than the dividends declared after the balance sheet date (Note 23 above), there are no subsequent events.



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