

# HSBC Bank Australia Limited

Pillar 3 Disclosures at 31 December 2025  
Consolidated Basis

---

## Contents

<b>2</b>	<b>Introduction</b>
2	Purpose
2	Scope of application
2	Basis of preparation
2	Capital management strategy
2	Frequency and availability of disclosures
2	Verification
2	Attestation
<b>3</b>	<b>Overview of Key Prudential Metrics</b>
<b>4</b>	<b>The Bank's Risk Management Approach</b>
<b>6</b>	<b>Overview of Risk-Weighted Assets ('RWAs')</b>
<b>7</b>	<b>Composition of Capital</b>
<b>12</b>	<b>Links Between Financial Statements and Regulatory Exposures</b>
<b>14</b>	<b>Macroprudential Supervisory Measures</b>
<b>15</b>	<b>Credit Risk</b>
<b>27</b>	<b>Counterparty Credit Risk</b>
<b>30</b>	<b>Credit Valuation Adjustment Risk</b>
<b>31</b>	<b>Securitisation</b>
<b>33</b>	<b>Market Risk</b>
<b>34</b>	<b>Operational Risk</b>
<b>37</b>	<b>Liquidity</b>
<b>38</b>	<b>Liquidity Coverage Ratio</b>
<b>39</b>	<b>Net Stable Funding Ratio</b>
<b>41</b>	<b>Interest Rate Risk in the Banking Book</b>
<b>43</b>	<b>Asset Encumbrance</b>
<b>44</b>	<b>Abbreviation</b>

---

## Presentation of information

Unless the context requires otherwise, the 'Bank' refers to 'HSBC Bank Australia Limited', and 'HSBC' and 'Group' refer to HSBC Holdings plc, the Bank's ultimate parent company, together with its subsidiaries. This document should be read in conjunction with the Annual Report and Accounts 2025, which has been published on the website at [www.hsbc.com/investors](http://www.hsbc.com/investors).

---

## Tables

<b>3</b>	KM1: Key metrics (at consolidated group level)
<b>6</b>	OV1: Overview of Risk-Weighted Assets ('RWAs')
<b>7</b>	CC1: Composition of regulatory capital
<b>10</b>	CC2: Reconciliation of regulatory capital to balance sheet
<b>10</b>	Entities excluded from the Consolidated balance sheet
<b>11</b>	Reference tables: Reconciliation between detailed capital template and regulatory balance sheet
<b>12</b>	LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories
<b>13</b>	LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements
<b>14</b>	CCyB1: Geographical distribution of credit exposures used in the calculation of the Bank-specific countercyclical capital buffer requirement
<b>16</b>	CR1: Credit quality of assets
<b>16</b>	CR2: Changes in stock of non-performing loans, debt securities and off-balance sheet exposures
<b>18</b>	CRB: Additional disclosure related to the credit quality of assets
<b>21</b>	CR3: Credit risk mitigation techniques – overview
<b>22</b>	CR4: Standardised approach – credit risk exposure and CRM effects
<b>24</b>	CR5: Standardised approach – exposures by asset classes and risk weights
<b>26</b>	Exposure amounts and CCFs applied to off-balance sheet exposures, categorised based on risk bucket of converted exposures
<b>28</b>	CCR1: Analysis of CCR exposures by approach
<b>28</b>	CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights
<b>29</b>	CCR5: Composition of collateral for CCR exposure
<b>29</b>	CCR8: Exposures to central counterparties
<b>32</b>	SEC1: Securitisation exposures in the banking book
<b>32</b>	SEC3: Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor
<b>33</b>	MR: Market risk under the standardised approach
<b>35</b>	OR1: Historical losses
<b>36</b>	OR2: Business indicator and subcomponents
<b>36</b>	OR3: Minimum required operational risk capital
<b>38</b>	LIQ1: Liquidity Coverage Ratio ('LCR')
<b>39</b>	LIQ2: Net Stable Funding Ratio ('NSFR')
<b>42</b>	IRRBB1: Quantitative information on IRRBB
<b>43</b>	ENC: Asset encumbrance

---

# Introduction

## Purpose

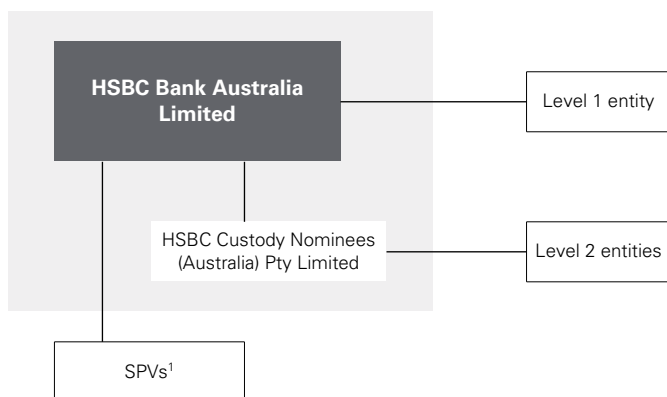
HSBC Bank Australia Limited (the 'Bank') is an Authorised Deposit-taking Institution ('ADI') regulated by the Australian Prudential Regulation Authority ('APRA'), under the authority of the Banking Act 1959.

This report has been prepared by the Bank to meet its disclosure requirements under APRA's revised prudential standard APS 330: Public Disclosure ('APS 330') effective 1 January 2025, which integrated APS 330 disclosure requirements with the Basel Committee on Banking Supervision ('BCBS Standard') titled 'Disclosure requirements', with some national specific modifications.

## Scope of application

For regulatory reporting purposes, the Bank establishes two levels of reporting; Level 1, which is the Bank on stand-alone basis, and Level 2, which is the consolidation of the Bank and all its subsidiaries ('Consolidated basis').

The Pillar 3 disclosures are based on Level 2 – Consolidated basis.



1 Special Purpose Vehicles ('SPVs') that meet APRA's operational requirements for regulatory capital relief under APRA Prudential Standard 120 Securitisation ('APS 120').

## Basis of preparation

This report has been prepared in accordance with the templates and tables as set out in the BCBS Standard, subject to the modifications specified in APS 330.

Unless otherwise stated, the amounts presented in this report are for the quarter ended 31 December 2025, and all amounts are reported in Australian dollars. The abbreviation '\$m' is used to represent millions.

## Capital management strategy

The Bank has adopted the APRA Standardised Approach for Credit, Market and Operational Risks as of 1 January 2008.

The Bank's capital management strategy aims to ensure adequate capital levels are maintained and capital is measured and managed in line with Prudential Standards issued by APRA. The Bank's Internal Capital Adequacy Assessment Process ('ICAAP') provides the framework to ensure that the Bank is capitalised to meet internal capital targets and APRA's requirements. The ICAAP is reviewed regularly and the Bank's capital position is monitored on a continuous basis.

## Frequency and availability of disclosures

The quarterly, semi-annual and annual Pillar 3 disclosures for the Bank can be viewed under the 'Financial disclosures' tab at <https://www.about.hsbc.com.au/hsbc-in-australia>.

In addition, the Bank's main features of capital instruments are updated on an ongoing basis and are available at the Regulatory Disclosures section of the Bank's website referenced in the paragraph above.

## Verification

The Pillar 3 disclosures are not required to be audited by an external auditor. However, the disclosures have been appropriately verified internally and are consistent with information that is lodged or published elsewhere or that has been already supplied to APRA.

## Attestation

As the Chief Financial Officer of the Bank, I attest that the information presented in this Pillar 3 report has been prepared by the Bank to meet its disclosure requirements set out in APRA's prudential standard APS 330 Public Disclosure ('APS 330') and has been prepared in accordance with the Bank's policy and procedure on disclosure controls and prudential disclosures.

**Lettina Evans**  
Chief Financial Officer

30 March 2026

# Overview of Key Prudential Metrics

Table KM1 provides an overview of the Bank's prudential regulatory metrics.

KM1: Key metrics (at consolidated group level)

		At				
		31 Dec 2025	30 Sep 2025	30 Jun 2025	31 Mar 2025	31 Dec 2024
		\$m	\$m	\$m	\$m	\$m
<b>Available capital (amounts)</b>						
1	Common Equity Tier 1 ('CET1')	<b>2,614.3</b>	2,686.6	2,675.8	2,602.7	2,523.1
2	Tier 1	<b>3,014.3</b>	3,086.6	3,075.8	3,002.7	2,923.1
3	Total capital	<b>3,387.4</b>	3,456.9	3,444.2	3,370.5	3,291.8
<b>Risk-weighted assets (amounts)</b>						
4	Total risk-weighted assets ('RWAs')	<b>21,940.8</b>	22,270.1	21,979.4	21,768.8	21,697.4
<b>Risk-based capital ratios as a percentage of RWAs</b>						
5	CET1 ratio (%)	<b>11.9</b>	12.1	12.2	12.0	11.6
6	Tier 1 ratio (%)	<b>13.7</b>	13.9	14.0	13.8	13.5
7	Total capital ratio (%)	<b>15.4</b>	15.5	15.7	15.5	15.2
<b>Additional CET1 buffer requirements as a percentage of RWAs</b>						
8	Capital conservation buffer requirement (2.5% from 2019) (%) <sup>1</sup>	<b>2.5</b>	2.5	2.5	2.5	2.5
9	Countercyclical buffer requirement (%)	<b>0.98</b>	0.99	0.98	0.98	0.98
10	Bank G-SIB and/or D-SIB additional requirements (%) <sup>2</sup>	<b>N/A</b>	N/A	N/A	N/A	N/A
11	Total of bank CET1 specific buffer requirements (%) (row 8 + row 9 + row 10)	<b>3.5</b>	3.5	3.5	3.5	3.5
12	CET1 available after meeting the Bank's minimum capital requirements (%) <sup>3</sup>	<b>7.4</b>	7.6	7.7	7.5	7.1
<b>Basel III Leverage ratio</b>						
13	Total Basel III leverage ratio exposure measure <sup>4</sup>	<b>N/A</b>	N/A	N/A	N/A	N/A
14	Basel III leverage ratio (%) (including the impact of any applicable temporary exemption of central bank reserves) <sup>4</sup>	<b>N/A</b>	N/A	N/A	N/A	N/A
<b>Liquidity Coverage Ratio ('LCR')</b>						
15	Total high-quality liquid assets ('HQLA')	<b>19,639.3</b>	19,640.4	20,244.1	20,155.6	18,629.5
16	Total net cash outflow	<b>11,961.6</b>	11,749.1	11,490.6	11,311.5	11,012.5
17	LCR ratio (%)	<b>164.2</b>	167.2	176.2	178.2	169.2
<b>Net Stable Funding Ratio ('NSFR')</b>						
18	Total available stable funding	<b>43,593.1</b>	44,629.3	44,348.0	44,638.4	44,841.2
19	Total required stable funding	<b>31,352.1</b>	30,918.3	30,718.3	30,443.0	30,542.6
20	NSFR ratio (%)	<b>139.0</b>	144.3	144.4	146.6	146.8

1 Total of 2.5% capital conservation buffer requirement for Standardised Approach deposit-taking institutions per APRA Prudential Standard 110 ('APS 110').

2 Not required as the Bank is not a Global Systematically Important Bank ('G-SIB') and/or Domestic Systematically Important Bank ('D-SIB').

3 Calculated as the difference between CET1 ratio and the minimum CET1 requirement of 4.5% per APS 110.

4 Not required for Standardised Approach authorised deposit-taking institutions.

# The Bank's Risk Management Approach

## Risk management framework

The Bank uses a comprehensive risk management approach across the organisation and across all material risks, underpinned by its culture and values. This is outlined in its Risk Management Framework ('RMF'), including the key principles and practices that the Bank employs in managing material risks, both financial and non-financial.

The framework fosters continuous monitoring of the risk environment and promotes risk awareness and sound operational and strategic decision making and escalation processes. It also ensures the Bank has a consistent approach to monitoring, managing and mitigating the risks that the Bank accepts and incurs in its activities, with clear accountabilities.

## Risk culture

The Bank understands the importance of a strong culture. Its risk culture sets the values, behaviours, and attitudes that shape risk awareness, decision-making, and accountability across the Bank. It is an extension of the organisational culture, guiding how the Bank identifies, assesses, escalates, mitigates, and learns from risks in line with its values and is a practical expression of the RMF.

The Bank's risk culture is supported by a Risk Culture Framework which sets out eight risk behaviours aligned to the global values that describe what good looks like. The Board of the Bank, assisted by the Board Risk Committee ('RC') and executive management, is responsible for forming a view of the risk culture within the Bank and the extent to which it supports the ability of the Bank to operate consistently within its risk appetite.

Through its oversight, the Board can also identify any desirable changes or focus areas to strengthen risk culture in the Bank, and ensures steps are taken to address these changes.

The Bank's risk culture is also reinforced by:

- A mandatory risk and compliance performance goal for individuals, including senior executives, which requires colleagues to demonstrate and promote a positive risk culture aligned with global values and good customer outcomes. This is enabled through structural mechanisms, including a behavioural gate opener, performance-based remuneration and consequence management.
- Monitoring through qualitative and quantitative indicators, targeted assessments and reviews to enable the identification of focus areas.
- A risk culture self-assessment process that enables reflection across the Bank to also support the identification of desirable changes and focus areas.

## Material risks

All material risks are disclosed to provide a comprehensive view of the Bank's risk profile. In addition to the disclosure in this document other information about material risks can be found on pages 32 to 33 of the Bank's Annual Report and Accounts 2025. The Risk Management Strategy Document ('RMS') describes the material risks in the Bank's taxonomy and the approach to managing these risks. It summarises the key risk management documents and the roles and responsibilities of the risk management function, as well as outlining the risk governance relationship between the Board and senior management with respect to the RMF.

Please see the following sections for further details on the following risks:

- Credit risk (refer to pages 15 to 26 of this document)
- Counterparty credit risk (refer to pages 27 to 29 of this document)
- Credit valuation adjustment risk (refer to page 30 of this document)
- Securitisation (refer to pages 31 to 32 of this document)
- Market risk (refer to page 33 of this document)
- Operational risk (refer to pages 34 to 36 of this document)
- Liquidity risk (refer to pages 37 to 40 of this document)
- Interest rate risk in the banking book (refer to pages 41 to 42 of this document)

## Risk governance

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

Day-to-day responsibility for risk management is delegated to accountable executives with individual accountability for decision making. All employees have a role to play in risk management. These roles are defined using the three lines of defence model, which considers the Global Business and Global Infrastructure teams. The Bank uses a defined executive risk governance structure to ensure appropriate oversight and accountability for risk, which facilitates reporting and escalation to the RMM and RC.

The Board has ultimate responsibility for the effective management of risk and approves the risk appetite. It is advised on risk-related matters by the RC, encouraging a strong risk culture shaping the Bank's attitude towards risk.

The Board and the RC oversee the maintenance and development of a strong RMF by continually monitoring the risk environment, as well as top and emerging risks facing the Bank, and mitigating actions planned and taken. The RC reviews certain risk management policies and procedures as required and advises the Board if these are appropriate for the circumstances of the Bank.

The RC reviews any revisions to the risk appetite statement at least annually and recommends any proposed changes to the Board for approval. The RC reviews management's assessment of risk against the risk appetite statement and provides scrutiny of management's proposed mitigating actions. The RC monitors the risk profiles for all the material risk categories within the Bank's business. The RC also monitors the effectiveness of the Bank's risk management framework and internal control systems.

All the Bank's activities involve, to varying degrees, the identification, assessment, monitoring and management of risk or combinations of risks.

The Bank's risk governance is supported by the RMF which provides a clear policy of risk ownership and accountability of all staff for identifying, assessing and managing risks within the scope of their assigned responsibilities. This personal accountability, reinforced by clear and consistent employee communication on risk that sets the tone from senior leadership, the governance structure, mandatory learning and remuneration policy, helps to foster a disciplined and constructive culture of risk management and control throughout the Bank.

- ▶ Further information about the Group's three lines of defence model and executive risk governance structures is available on page 31 of the Bank's Annual Report and Accounts 2025.

## Risk and Compliance function

The Group Risk and Compliance function, headed by the Group CRCO, is responsible for the Group's RMF. This includes establishing the Group policy, monitoring risk profiles, and identifying and managing forward-looking risks.

The Group Risk and Compliance function is composed of sub-teams covering all material risks to the business. It is independent from the businesses to provide challenge, appropriate oversight and balance in risk versus return decisions. The Group Risk and Compliance function operates in line with the three lines of defence model and plays an important role in reinforcing the Bank's culture and values. It focuses on creating an environment that encourages people to speak up and do the right thing. Similarly, the Bank's Risk and Compliance function, headed by the Bank's CRCO, is independent from the global businesses and responsible for the Bank's RMF.

---

## Risk appetite

Risk appetite is defined as the aggregate risk that the Bank is willing to take in pursuit of its strategic objectives as well as the risks that cannot be tolerated in order to operate effectively. Risk appetite provides a mechanism for the Board to establish the Bank's willingness to engage in certain activities within acceptable risk levels, while monitoring exposure to risks that may impact the Bank's customers, lead to sub-optimal returns to shareholders, regulatory censure, or reputational damage.

Risk appetite is expressed holistically, covering financial and non-financial risks, through various risk management mechanisms and activities. This consists of qualitative statements and quantitative metrics.

The Risk Appetite Statement ('RAS') covers the Bank and includes an expression of appetite at an entity wide level and individual risk class level for all material risk classes under APRA Prudential Standard CPS 220 Risk Management ('CPS 220') at a minimum. RAS metrics include Board metrics and Key Risk Indicators that are either defined and calibrated at Group level or at a local level, to ensure full consideration of the Bank's risk profile, and in consideration of the local regulatory environment.

---

## Stress testing

The Bank operates a wide-ranging stress testing programme that supports its risk management and capital planning. It includes execution of stress tests mandated by APRA and those to meet the Bank's internal requirements. The stress testing is supported by dedicated teams and infrastructure.

The Bank's stress testing programme assesses capital and liquidity strength through a rigorous examination of resilience to external shocks. Both the internal and regulatory driven stress tests help the Bank to understand and mitigate these risks and inform decisions about capital and liquidity levels. Stress testing provides management with key insights into the impact of severely adverse events and helps provide confidence in the Bank's financial stability.

The stress testing programme is overseen by the RMM, and results are reported, where appropriate, to the RC.

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

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

---

## Risk management and internal control systems

The Board is responsible for maintaining and reviewing the effectiveness of risk management and internal control systems, and for determining the aggregate level and risk types they are willing to accept in achieving the Bank's business objectives.

On behalf of the Board, the RC has responsibility for the oversight of risk related matters and the enterprise risks impacting the Bank and risk governance, whilst the Board Audit Committee ('AC') has responsibility for oversight of matters relating to financial reporting and internal controls.

The Directors, through the RC and AC, receive regular updates and confirmation that management has taken, or is taking, the necessary actions to remediate any failings or weaknesses identified through the operation of the framework of controls.

---

## Risk measurement and reporting systems

The Bank's risk measurement and reporting systems are designed to help ensure that risks are comprehensively captured with all the attributes necessary to support well-founded decisions, that those attributes are accurately assessed, and that information is delivered in a timely manner for those risks to be successfully managed and mitigated.

Risk measurement and reporting systems are also subject to a governance framework designed to ensure that their build and implementation are fit for purpose and functioning appropriately. Risk information systems development is a key responsibility of the Risk and Compliance function, while the development and operation of risk rating and management systems and processes are ultimately subject to the oversight of the Board.

# Overview of Risk-Weighted Assets ('RWAs')

Table OV1 below presents an overview of RWAs and minimum capital requirements by risk categories and calculation approaches. The minimum capital requirement is calculated as 8% of RWAs. Further details regarding the relevant reporting items are provided in the respective tables or sections within this report.

Total RWAs decreased by \$329.3m during the December 2025 quarter, predominantly due to the implementation of an APRA approved risk-weighting methodology that differentiates between 'investment grade' and 'non-investment grade' unrated corporate exposures.

Table OV1 provides an overview of total RWAs and the corresponding minimum capital requirements.

## OV1: Overview of Risk-Weighted Assets ('RWAs')

	RWAs		Minimum capital requirements
	At 31 Dec 2025 \$m	At 30 Sep 2025 \$m	At 31 Dec 2025 \$m
1 <b>Credit risk (excluding counterparty credit risk)</b>	<b>19,492.8</b>	19,820.2	<b>1,559.5</b>
2 – of which: standardised approach ('SA')	<b>19,492.8</b>	19,820.2	<b>1,559.5</b>
6 <b>Counterparty credit risk ('CCR')</b>	<b>125.3</b>	99.6	<b>10.0</b>
7 – of which: standardised approach for counterparty credit risk ('SA-CCR')	<b>125.3</b>	99.6	<b>10.0</b>
10 <b>Credit valuation adjustment ('CVA')</b>	<b>19.8</b>	13.8	<b>1.6</b>
16 <b>Securitisation exposures in banking book</b>	<b>20.8</b>	21.1	<b>1.7</b>
19 – of which: securitisation standardised approach ('SEC-SA')	<b>20.8</b>	21.1	<b>1.7</b>
20 <b>Market risk</b>	<b>85.6</b>	118.9	<b>6.8</b>
21 – of which: standardised approach ('SA')	<b>85.6</b>	118.9	<b>6.8</b>
24 <b>Operational risk</b>	<b>2,196.5</b>	2,196.5	<b>175.7</b>
29 <b>Total</b>	<b>21,940.8</b>	22,270.1	<b>1,755.3</b>

# Composition of Capital

## Main features of regulatory capital instruments

Details can be referred to Main Features of Capital Instruments on the Bank's website (<https://www.about.hsbc.com.au/hsbc-in-australia/financial-disclosures>).

Table CC1 provides a breakdown of regulatory capital requirements and adjustment under APRA's guidance.

### CC1: Composition of regulatory capital

		Amounts	Amounts	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation	CC2 reference
		At 31 Dec 2025	At 30 Jun 2025		
		\$m	\$m		
<b>Common Equity Tier 1 capital: instruments and reserves</b>					
1	Directly issued qualifying common share (and equivalent for non-joint stock companies) capital plus related stock surplus	811.0	811.0		E1
2	Retained earnings	2,156.0	2,100.9	Table A	E3
3	Accumulated other comprehensive income (and other reserves)	(58.8)	21.3	Table B	E2
4	Directly issued capital subject to phase-out from CET1 capital (only applicable to non-joint stock companies)	—	—		
5	Common share capital issued by subsidiaries and held by third parties (amount allowed in the CET1 capital)	—	—		
6	<b>Common Equity Tier 1 capital before regulatory adjustments</b>	<b>2,908.2</b>	<b>2,933.2</b>		
<b>Common Equity Tier 1 capital: regulatory adjustments</b>					
7	Prudent valuation adjustments	—	—		
8	Goodwill (net of related tax liability)	58.7	58.7	Table C	A12
9	Other intangibles other than mortgage servicing rights ('MSR') (net of related tax liability)	—	5.9		
10	Deferred tax assets ('DTA') that rely on future profitability, excluding those arising from temporary differences (net of related tax liability)	—	—		
11	Cash flow hedge reserve	(0.2)	(0.2)		
13	Securitisation gain on sale	—	—		
14	Gains and losses due to changes in own credit risk on fair valued liabilities	—	—		
15	Defined benefit pension fund net assets	—	—		
16	Investments in own shares (if not already subtracted from paid-in capital on reported balance sheet)	—	—		
17	Reciprocal cross-holdings in common equity	—	—		
18	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued share capital (amount above 10% threshold)	—	—		
19	Significant investments in the common stock of banking, financial and insurance entities that are outside the scope of regulatory consolidation (amount above 10% threshold)	—	—		
20	Mortgage service rights (amount above 10% threshold)	—	—		
21	DTA arising from temporary differences (amount above 10% threshold, net of related tax liability)	—	—		
22	Amount exceeding the 15% threshold	—	—		
23	of which: significant investments in the common stock of financials	—	—		
24	of which: MSR	—	—		
25	of which: DTA arising from temporary differences	—	—		
26	National specific regulatory adjustments	235.4	193.0		
AU-26(a)	of which: treasury shares	—	—		
AU-26(b)	of which: offset to dividends declared due to a dividend reinvestment plan ('DRP'), to the extent that the dividends are used to purchase new ordinary shares issued by the ADI	—	—		
AU-26(c)	of which: deferred fee income	—	—		
AU-26(d)	of which: equity investments in financial institutions not reported in rows 18, 19 and 23	4.0	4.0		
AU-26(e)	of which: deferred tax assets not reported in rows 10, 21 and 25	116.6	76.9	Table E	A13
AU-26(f)	of which: capitalised expenses	108.2	112.1		
AU-26(g)	of which: investments in commercial (non-financial) entities that are deducted under APRA prudential requirements	—	—		
AU-26(h)	of which: covered bonds in excess of asset cover in pools	—	—		
AU-26(i)	of which: undercapitalisation of a non-consolidated subsidiary	—	—		
AU-26(j)	of which: other national specific regulatory adjustments not reported in rows 26(a) to 26(i)	6.6	—		

CC1: Composition of regulatory capital (continued)

		Amounts		Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation	CC2 reference
		At 31 Dec 2025	At 30 Jun 2025		
		\$m	\$m		
27	Regulatory adjustments applied to Common Equity Tier 1 capital due to insufficient Additional Tier 1 and Tier 2 capital to cover deductions	—	—		
28	<b>Total regulatory adjustments to Common Equity Tier 1 capital</b>	<b>293.9</b>	257.4		
29	<b>Common Equity Tier 1 capital ('CET1')</b>	<b>2,614.3</b>	2,675.8		
	<b>Additional Tier 1 capital: instruments</b>				
30	Directly issued qualifying additional Tier 1 instruments plus related stock surplus	400.0	400.0		
31	of which: classified as equity under applicable accounting standards	400.0	400.0		
32	of which: classified as liabilities under applicable accounting standards	—	—		
33	Directly issued capital instruments subject to phase-out from additional Tier 1 capital	—	—		
34	Additional Tier 1 instruments (and CET1 instruments not included in row 5) issued by subsidiaries and held by third parties (amount allowed in additional Tier 1 capital)	—	—		
35	of which: instruments issued by subsidiaries subject to phase-out	—	—		
36	<b>Additional Tier 1 capital before regulatory adjustments</b>	<b>400.0</b>	400.0		
	<b>Additional Tier 1 capital: regulatory adjustments</b>				
37	Investments in own additional Tier 1 instruments	—	—		
38	Reciprocal cross-holdings in additional Tier 1 instruments	—	—		
39	Investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	—	—		
40	Significant investments in the capital of banking, financial and insurance entities that are outside the scope of regulatory consolidation	—	—		
41	National specific regulatory adjustments	—	—		
AU-41(a)	of which: holdings of capital instruments in the Bank's members by other members on behalf of third parties	—	—		
AU-41(b)	of which: investments in the capital of financial institutions that are outside the scope of regulatory consolidations not reported in rows 39 and 40	—	—		
AU-41(c)	of which: other national specific regulatory adjustments not reported in rows 41(a) and 41(b)	—	—		
42	Regulatory adjustments applied to additional Tier 1 capital due to insufficient Tier 2 capital to cover deductions	—	—		
43	<b>Total regulatory adjustments to additional Tier 1 capital</b>	<b>—</b>	—		
44	<b>Additional Tier 1 capital ('AT1')</b>	<b>400.0</b>	400.0		
45	<b>Tier 1 capital (T1 = CET1 + AT1)</b>	<b>3,014.3</b>	3,075.8		
	<b>Tier 2 capital: instruments and provisions</b>				
46	Directly issued qualifying Tier 2 instruments plus related stock surplus	350.0	350.0		L8
47	Directly issued capital instruments subject to phase-out from Tier 2 capital	—	—		
48	Tier 2 instruments (and CET1 and AT1 instruments not included in rows 5 or 34) issued by subsidiaries and held by third parties (amount allowed in Tier 2)	—	—		
49	of which: instruments issued by subsidiaries subject to phase-out	—	—		
50	Provisions	23.1	18.4		Table D
51	<b>Tier 2 capital before regulatory adjustments</b>	<b>373.1</b>	368.4		
	<b>Tier 2 capital: regulatory adjustments</b>				
52	Investments in own Tier 2 instruments	—	—		
53	Reciprocal cross-holdings in Tier 2 instruments and other TLAC liabilities	—	—		
54	Investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation, where the Bank does not own more than 10% of the issued common share capital of the entity (amount above 10% threshold)	—	—		
54a	Investments in the other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation and where the Bank does not own more than 10% of the issued common share capital of the entity: amount previously designated for the 5% threshold but that no longer meets the conditions (for G-SIBs only)	—	—		
55	Significant investments in the capital and other TLAC liabilities of banking, financial and insurance entities that are outside the scope of regulatory consolidation (net of eligible short positions)	—	—		
56	National specific regulatory adjustments	—	—		
57	<b>Total regulatory adjustments to Tier 2 capital</b>	<b>—</b>	—		
58	<b>Tier 2 capital</b>	<b>373.1</b>	368.4		
59	<b>Total regulatory capital (= Tier 1 + Tier 2)</b>	<b>3,387.4</b>	3,444.2		
60	<b>Total risk-weighted assets</b>	<b>21,940.8</b>	21,979.4		

CC1: Composition of regulatory capital (continued)

		Amounts	Amounts	Source based on reference numbers/ letters of the balance sheet under the regulatory scope of consolidation	CC2 reference
		At 31 Dec 2025	At 30 Jun 2025		
		\$m	\$m		
<b>Capital adequacy ratios and buffers (%)</b>					
61	Common Equity Tier 1 capital (as a percentage of risk-weighted assets)	11.9	12.2		
62	Tier 1 capital (as a percentage of risk-weighted assets)	13.7	14.0		
63	Total capital (as a percentage of risk-weighted assets)	15.4	15.7		
64	Institution-specific buffer requirement (capital conservation buffer plus countercyclical buffer requirements plus higher loss absorbency requirement, expressed as a percentage of risk-weighted assets)	7.0	7.0		
65	of which: capital conservation buffer requirement <sup>1</sup>	2.5	2.5		
66	of which: bank-specific countercyclical buffer requirement	0.98	0.98	CCyB1	
68	Common Equity Tier 1 capital (as a percentage of risk-weighted assets) available after meeting the Bank's minimum capital requirements <sup>2</sup>	7.4	7.7		
<b>Amounts below the thresholds for deduction (before risk-weighting)</b>					
72	Non-significant investments in the capital and other TLAC liabilities of other financial entities	4.0	4.0		
73	Significant investments in the common stock of financial entities	—	—		
75	DTA arising from temporary differences (net of related tax liability)	116.6	76.9	Table E	A13
<b>Applicable caps on the inclusion of provisions in Tier 2 capital</b>					
76	Provisions eligible for inclusion in Tier 2 capital in respect of exposures subject to standardised approach (prior to application of cap)	23.1	18.4		
77	Cap on inclusion of provisions in Tier 2 capital under standardised approach	245.7	244.2		

1 Total of 2.5% capital conservation buffer requirement for Standardised Approach deposit-taking institutions per APS 110.

2 Calculated as the difference between CET1 ratio and the minimum CET1 requirement of 4.5% per APS 110.

Table CC2 provides the differences between Consolidated Balance sheet prepared in accordance with IFRS and the composition of capital disclosure template set out in CC1.

CC2: Reconciliation of regulatory capital to balance sheet

	Accounting balance sheet	Regulatory balance sheet	Accounting balance sheet	Regulatory balance sheet	Reference from CC1 Composition of regulatory capital	Reference from tables
	At 31 Dec 2025 \$m	At 31 Dec 2025 \$m	At 30 Jun 2025 \$m	At 30 Jun 2025 \$m		
<b>Assets</b>						
A1	Cash and balances at central banks	3,646.3	3,646.3	6,469.6	6,469.6	
A2	Items in the course of collection from other banks	0.1	0.1	—	—	
A3	Other financial assets mandatorily measured at FV through profit or loss	10.6	10.6	10.8	10.8	
A4	Derivative financial assets	140.5	140.5	130.0	130.0	
A5	Loans and advances to banks	16.1	16.1	20.6	20.6	
A6	Loans and advances to customers	41,829.5	39,524.0	40,502.4	37,880.9	
A7	Financial investments	15,748.7	15,748.7	14,826.5	14,826.5	
A8	Receivables from related entities	2,013.5	2,013.5	2,542.8	2,542.8	
A9	Other assets	836.2	785.4	1,084.8	1,031.2	
A10	Right-of-use assets	148.2	148.2	161.9	161.9	
A11	Property, plant and equipment	32.2	32.2	37.8	37.8	
A12	Intangible assets	63.7	63.7	64.6	64.6	Table C
A13	Net deferred tax assets	116.8	116.8	77.1	77.1	row AU-26(e) Table E
	<b>Total assets</b>	<b>64,602.4</b>	<b>62,246.1</b>	65,928.9	63,253.8	
<b>Liabilities</b>						
L1	Deposits by banks	773.2	773.2	851.3	851.3	
L2	Items in the course of transmission to other banks	29.3	29.3	70.1	70.1	
L3	Customer Accounts	51,060.5	51,060.5	51,846.5	51,846.5	
L4	Sale and repurchase agreements – non-trading	850.0	850.0	849.9	849.9	
L5	Derivative financial liabilities	84.4	84.4	129.0	129.0	
L6	Debt securities in issue	2,356.3	—	2,675.1	—	
L7	Provisions for liabilities and charges	29.9	29.9	21.9	21.9	
L8	Payables to related entities	5,488.5	5,488.5	5,522.0	5,522.0	
	of which: Qualifying Tier 2 instruments subordinated loans	350.0	350.0	350.0	350.0	row 46
L9	Other liabilities	349.3	349.3	345.5	345.5	
L10	Lease liabilities	168.5	168.5	179.5	179.5	
L11	Employee benefits	117.6	117.6	121.1	121.1	
	<b>Total liabilities</b>	<b>61,307.5</b>	<b>58,951.2</b>	62,611.9	59,936.8	
	Net assets	3,294.9	3,294.9	3,317.0	3,317.0	
<b>Equity</b>						
E1	Share capital	811.0	811.0	811.0	811.0	row 1
E2	Reserves	335.8	335.8	413.5	413.5	Table B
	of which: Qualifying Additional Tier 1 instruments	400.0	400.0	400.0	400.0	row 30 Table B
	of which: Other reserves	(64.2)	(64.2)	13.5	13.5	row 3 Table B
E3	Retained earnings	2,148.1	2,148.1	2,092.5	2,092.5	row 2 Table A
	<b>Total equity</b>	<b>3,294.9</b>	<b>3,294.9</b>	3,317.0	3,317.0	

The following table provides details of entities included in the accounting scope of consolidation and excluded from the regulatory scope of consolidation.

Entities excluded from the Consolidated balance sheet

Entity name	Principal activity	Total assets at 31 Dec 2025 \$m	Total assets at 30 Jun 2025 \$m
Lion Series 2020-1 Trust	Securitisation	220.8	243.0
Lion Series 2022-1 Trust	Securitisation	310.9	340.9
Lion Series 2023-1 Trust	Securitisation	513.5	578.2
Lion Series 2024-1 Trust	Securitisation	1,311.1	1,513.0
Total		2,356.3	2,675.1

The regulatory balance sheet as at 30 June 2025 has been restated to exclude exposures held in SPVs that meet APRA's operational requirements for regulatory capital relief under APS 120.

This reference table provides details for reconciliation of regulatory capital to balance sheet set out in CC2.

Reference tables: Reconciliation between detailed capital template and regulatory balance sheet

	At 31 Dec 2025 \$m	At 30 Jun 2025 \$m	Reference from CC1 Composition of regulatory capital
<b>Table A</b>			
Retained Earnings			
Total per Balance Sheet	2,148.1	2,092.5	
Add increments in General Reserve for Credit Losses deducted from retained earnings	—	—	
Add eligible deferred fee income recognised in regulatory capital	7.9	8.4	
Total Common Disclosure Template – Retained Earnings	2,156.0	2,100.9	row 2
<b>Table B</b>			
Reserves			
Total per Balance Sheet	335.8	413.5	
Less Additional Tier 1 capital loan	(400.0)	(400.0)	
Less Capital contribution reserve	1.7	3.7	
Less Equity fair value	3.7	4.2	
Total Common Disclosure Template – Other Comprehensive Income	(58.8)	21.3	row 3
<b>Table C</b>			
Goodwill & Other Intangibles			
Total per Balance Sheet	63.7	64.6	
Less capitalised software and other intangibles separately disclosed in template	(5.0)	(5.9)	
Total Common Disclosure Template – Goodwill	58.7	58.7	row 8
<b>Table D</b>			
Tier 2 Eligible Provisions			
Total included in Balance Sheet	23.1	18.4	
Exclude non-eligible provision per APRA Prudential Standard 220 Credit Risk Management ('APS 220')	—	—	
Add increments in General Reserve for Credit Losses deducted from retained earnings	—	—	
Total Common Disclosure Template – Tier 2 Eligible Provisions	23.1	18.4	row 50
<b>Table E</b>			
Net deferred tax assets			
Total included in Balance Sheet	116.8	77.1	
Less deferred tax assets adjustment on provisions of external securitisation	(0.2)	(0.2)	
Total Common Disclosure Template – Deferred tax assets	116.6	76.9	row AU-26(e)

# Links Between Financial Statements and Regulatory Exposures

The difference between accounting amounts and regulatory exposure amounts are due to SPVs below which qualify for regulatory capital relief under APS 120:

- Lion Series 2020-1 Trust
- Lion Series 2022-1 Trust
- Lion Series 2023-1 Trust
- Lion Series 2024-1 Trust

The explanation of the differences between carrying values and amounts of exposures considered for regulatory purposes can be referred to table LI2.

- ▶ Information of valuation methodologies can be referred to the Bank's Annual Report and Accounts, note 3(i) for details valuation of financial instruments on page 15.

Table LI1 identifies the differences between the scope of consolidated balance sheet prepared in accordance with IFRS and the scope of regulatory consolidation, and provides linkages of financial statements to regulatory risk categories.

LI1: Differences between accounting and regulatory scopes of consolidation and mapping of financial statement categories with regulatory risk categories

	At 31 Dec 2025						
	Carrying values of items:						Not subject to capital requirements or subject to deduction from capital
	Accounting balance sheet	Regulatory balance sheet	Subject to credit risk framework	Subject to counterparty credit risk framework	Subject to the securitisation framework	Subject to the market risk framework	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	
<b>Assets</b>							
Cash and balances at central banks	3,646.3	3,646.3	3,646.3	–	–	0.8	–
Items in the course of collection from other banks	0.1	0.1	0.1	–	–	–	–
Other financial assets mandatorily measured at FV through profit or loss	10.6	10.6	–	6.6	–	–	4.0
Derivative financial assets	140.5	140.5	–	140.5	–	62.8	–
Loans and advances to banks	16.1	16.1	16.1	–	–	12.9	–
Loans and advances to customers	41,829.5	39,524.0	39,539.4	–	–	910.5	(15.5)
Financial investments	15,748.7	15,748.7	15,748.7	–	–	1,132.3	–
Receivables from related entities	2,013.5	2,013.5	249.8	1,763.7	–	48.2	–
Other assets	836.2	785.4	219.9	565.6	–	40.7	–
Right-of-use assets	148.2	148.2	148.2	–	–	–	–
Property, plant and equipment	32.2	32.2	32.2	–	–	–	–
Intangible assets	63.7	63.7	–	–	–	–	63.7
Net deferred tax assets	116.8	116.8	–	–	–	–	116.8
<b>Total assets</b>	<b>64,602.4</b>	<b>62,246.1</b>	<b>59,600.7</b>	<b>2,476.4</b>	<b>–</b>	<b>2,208.2</b>	<b>169.0</b>
<b>Liabilities</b>							
Deposits by banks	773.2	773.2	–	–	–	–	773.2
Items in the course of transmission to other banks	29.3	29.3	–	–	–	–	29.3
Customer Accounts	51,060.5	51,060.5	–	4.2	–	6,851.5	44,204.8
Sale and repurchase agreements – non-trading	850.0	850.0	–	850.0	–	–	–
Derivative financial liabilities	84.4	84.4	–	–	–	78.5	5.9
Debt securities in issue	2,356.3	–	–	–	–	–	–
Provisions for liabilities and charges	29.9	29.9	–	–	–	–	29.9
Payables to related entities	5,488.5	5,488.5	–	963.0	–	396.7	4,133.6
Other liabilities	349.3	349.3	–	–	–	–	349.3
Lease liabilities	168.5	168.5	–	–	–	–	168.5
Employee benefits	117.6	117.6	–	–	–	–	117.6
<b>Total liabilities</b>	<b>61,307.5</b>	<b>58,951.2</b>	<b>–</b>	<b>1,817.2</b>	<b>–</b>	<b>7,326.7</b>	<b>49,812.1</b>

## Explanation of differences between accounting and regulatory exposure amounts

Table LI2 below presents the main differences between the accounting carrying amounts under the scope of regulatory consolidation and the exposure amounts used for regulatory purposes. The regulatory exposures include the following additional components:

- Off-balance sheet amounts: Exposures subject to credit risk framework include undrawn commitments, various trade finance commitments, guarantees and securities financing transactions. Credit conversion factors ('CCFs') are applied to these exposures based on their nature to determine the regulatory exposure amount.
- Securitisations with risk transfer: Legal entities that are special purpose vehicles under securitisation framework.
- Valuation differences: The regulatory valuation of derivatives which can differ from the accounting valuation. The regulatory valuation reflects the inclusion of potential future exposure amounts and exposures to central counterparties under counterparty credit risk framework.
- Credit risk mitigation ('CRM') techniques: The differences consist of eligible collateral recognised to mitigate regulatory exposures and reduce capital requirements in accordance to APRA Prudential Standard 112 Capital Adequacy: Standardised Approach to Credit Risk ('APS 112').
- Securities Financing Transaction ('SFT') collateral mitigation and adjustments: This adjustment relates to the application of collateral to SFT exposures after the assessment of regulatory haircuts.

LI2: Main sources of differences between regulatory exposure amounts and carrying values in financial statements

		At 31 Dec 2025				
		Items subject to:				
		Total	Credit risk framework	Counterparty credit risk framework	Securitisation framework	Market risk framework
		\$m	\$m	\$m	\$m	\$m
1	Asset carrying value amount under scope of regulatory consolidation (as per Template LI1)	62,077.1	59,600.7	2,476.4	—	2,208.2
2	Liabilities carrying value amount under regulatory scope of consolidation (as per Template LI1)	9,139.1	—	1,817.2	—	7,326.7
3	<b>Total net amount under regulatory scope of consolidation</b>	<b>52,938.0</b>	<b>59,600.7</b>	<b>659.2</b>	<b>—</b>	<b>(5,118.5)</b>
4	Off-balance sheet amounts	11,028.7	11,028.7	—	—	—
5	Differences in valuations	1,563.8	—	1,563.8	—	—
6	Differences due to different netting rules, other than those already included in row 2	—	—	—	—	—
7	Differences due to consideration of provisions	—	—	—	—	—
8	Differences due to prudential filters	—	—	—	—	—
9	Differences due to securitisation with risk transfer	138.5	—	—	138.5	—
10	Differences due to the use of CRMs	(3,728.9)	(3,728.9)	—	—	—
11	SFT collateral mitigation and adjustments	(448.4)	—	(448.4)	—	—
12	Other differences	—	—	—	—	—
	<b>Exposure amounts considered for regulatory purposes</b>	<b>61,491.7</b>	<b>66,900.5</b>	<b>1,774.6</b>	<b>138.5</b>	

# Macroprudential Supervisory Measures

CCyB1 table provides an overview of the geographical distribution of private sector credit exposures relevant for the calculation of the countercyclical capital buffer.

CCyB1: Geographical distribution of credit exposures used in the calculation of the Bank-specific countercyclical capital buffer requirement

Geographical breakdown <sup>1</sup>	At 31 Dec 2025				
	Countercyclical capital buffer rate	Exposure values and/or RWAs used in the computation of the countercyclical capital buffer <sup>2</sup>		Bank-specific countercyclical capital buffer rate <sup>3</sup>	Countercyclical capital buffer amount <sup>4</sup>
		Exposure values	RWAs		
	%	\$m	\$m	%	\$m
Australia	1.00	46,838.2	18,486.3		
France	1.00	31.7	23.8		
Hong Kong	0.50	11.3	10.1		
United Kingdom	2.00	216.6	187.5		
Netherlands	2.00	21.5	16.8		
Luxembourg	0.50	—	—		
Germany	0.75	8.6	5.0		
Korea, Rep of (South)	1.00	1.3	1.1		
Belgium	1.00	0.8	0.7		
Ireland	1.50	2.0	1.7		
Denmark	2.50	55.1	42.7		
Sweden	2.00	2.3	1.8		
Spain	0.50	1.6	1.2		
Others (with jurisdictional buffer)	(blend of jurisdictional buffers)				
<b>Sum of countries where countercyclical capital buffer rate applies</b>		<b>47,191.0</b>	<b>18,778.7</b>		
Others (with no jurisdictional buffer)	—	1,110.5	604.1		
<b>Total of Geographical breakdown</b>		<b>48,301.5</b>	<b>19,382.8</b>	<b>0.98</b>	<b>215.6</b>

At 30 Jun 2025					
Australia	1.00	45,644.6	18,445.8		
France	1.00	24.0	18.0		
Hong Kong	0.50	14.4	14.6		
United Kingdom	2.00	231.9	216.1		
Netherlands	2.00	15.5	13.9		
Luxembourg	0.50	0.5	0.5		
Germany	0.75	10.5	6.5		
Korea, Rep of (South)	1.00	1.3	1.3		
Belgium	1.00	0.8	0.8		
Ireland	1.50	2.0	2.0		
Denmark	2.50	85.3	67.7		
Others (with jurisdictional buffer)	(blend of jurisdictional buffers)		—	—	
<b>Sum of countries where countercyclical capital buffer rate applies</b>		<b>46,030.8</b>	<b>18,787.2</b>		
Others (with no jurisdictional buffer)	—	1,258.9	638.7		
<b>Total of Geographical breakdown</b>		<b>47,289.7</b>	<b>19,425.9</b>	<b>0.98</b>	<b>216.2</b>

1 Represents country of ultimate risk.

2 Represents total private sector (excludes sovereign and bank) credit and specific market risk exposure and RWAs.

3 Calculated as a sum of each country's share of total private sector credit and specific market risk RWAs multiplied by the jurisdictional CCyB of each country.

4 Countercyclical capital buffer amount is calculated as Bank-specific countercyclical capital buffer rate times total RWAs reported in OV1.

# Credit Risk

## Overview and responsibilities

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 including retail lending, trade finance and leasing business, but also from other products, such as guarantees and credit derivatives.

Credit risk is measured as the amount that could be lost if a customer or counterparty fails to make repayments. It is monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated credit approval authorities. It is managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance for risk managers.

The Bank formally articulates the risk appetite through the RAS, which is approved by the Board. Performance against the RAS is reported to the RMM and the RC alongside Key Risk Indicators to support targeted insight and discussion on breaches of risk appetite and any associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture.

The Bank's people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account the business and functional structures.

## Credit Risk Function

Credit risk represents the Bank's largest regulatory capital requirement. The principal objectives of its credit risk management sub-function are:

- to maintain a strong culture of responsible lending and a robust credit risk policy and control framework across the Bank;
- to both partner and challenge the Bank's global businesses in defining, implementing and continually re-evaluating the credit risk appetite under actual and stress scenario conditions; and
- to ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Wholesale Credit Risk Management, and International Wealth and Premier Banking Credit Risk Management are the Bank's Risk function that support the CRCO in overseeing credit risks. Their major duties comprise undertaking independent review of credit proposals, overseeing the large exposure policy and reporting on the wholesale and retail credit risk management disciplines. They also own the credit policy and credit system programmes, oversee portfolio management and report on risk matters to senior executive management and to regulators.

These credit risk teams work closely with other parts of the Bank's Risk function, for example, with Operational Risk on the internal control framework and with Enterprise Risk Management ('ERM') on the risk appetite process. In addition, they work jointly with Risk Strategy and Finance on stress testing.

They fulfil an essential role as independent risk control units distinct from global business line management in providing objective scrutiny of risk rating assessments, credit proposals for approval and other risk matters.

## Credit risk management

The Bank has established credit risk management processes. The Bank continues to assess the impact of economic developments in key markets on specific customers, customer segments or portfolios. As credit conditions change, the Bank takes mitigating actions, including the revision of credit policies, risk appetites or limits and tenors, as appropriate. In addition, the Bank continues to evaluate the terms under which the Bank provides credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and local market position.

The Bank's exposure to credit risk arises from a wide range of customer types and products, and the risk rating systems in place to measure and monitor these risks are correspondingly diverse. Senior management receive reports on the Bank's credit risk exposures, including expected credit losses, total exposures and RWAs, as well as updates on specific portfolios that are considered to have heightened credit risk.

Credit risk exposures are generally measured and managed in portfolios of either customer types or product categories. Risk rating systems are designed to assess the probability of default ('PD') and loss given default ('LGD') associated with distinct customers who are typically managed as individual relationships or, in the case of retail business exposures, on a product portfolio basis.

Risk rating systems for retail exposures are generally quantitative in nature, applying techniques such as behavioural analysis across product portfolios comprising large numbers of homogeneous transactions.

Rating systems for individually managed relationships typically use customer financial statements and market data analysis, but also qualitative elements and a final judgemental overlay to reflect any relevant risk drivers not captured in the rating system.

A fundamental principle of the Bank's policy and approach is that analytical risk rating systems and scorecards are valuable management tools that are fully embedded within the credit risk management framework, ensuring compliance with the regulatory use test requirements.

The credit process requires a review of the internal rating at least annually or more frequently as required by circumstances such as the emergence of adverse risk factors.

The Bank seeks to continually improve the quality of its risk management. Information technology systems that process credit risk data continue to be enhanced to deliver both comprehensive management information in support of business strategy and solutions to evolving regulatory reporting requirements.

Like other facets of risk management, analytical risk rating systems are not static. They are subject to review and modification in light of the changing economic environment, changing regulatory requirements and any deficiencies identified through internal and external review. Structured processes and metrics are in place to capture relevant data and feed this into continuous model improvement.

## Concentration of exposure

Concentrations of credit risk arise when a number of counterparties or exposures have comparable economic or behavioural 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. The Bank uses a number of controls and measures to minimise undue concentration of exposure in its portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

## Credit quality

The Bank's risk rating system facilitates an internal assessment of credit quality. Its wholesale risk rating systems assess obligor PD against either a 10-band Customer Risk Rating ('CRR') scale or a more granular 23-band scale, depending on the degree of sophistication of the ratings approach adopted for the exposure.

Each CRR band is mapped to an equivalent External Credit Assessment Institutions ('ECAI') external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

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

Table CR1 provides a comprehensive view of the credit quality of the on-balance and off-balance sheet assets.

### CR1: Credit quality of assets

		At 31 Dec 2025						
		Gross carrying values of			of which: ECL accounting provisions for credit losses on SA exposures		of which: ECL accounting provisions for credit losses on IRB exposures	Net Value
		Non-performing exposures <sup>1</sup>	Performing exposures	Allowances/ impairments	Allocated in regulatory category of Specific <sup>2</sup>	Allocated in regulatory category of General		
		\$m	\$m	\$m	\$m	\$m	\$m	\$m
1	Loans	534.5	39,386.8	34.7	27.5	7.2	—	39,886.6
2	Debt Securities	—	15,844.7	0.4	—	0.4	—	15,844.3
3	Off-balance sheet exposures <sup>3</sup>	31.0	20,962.7	12.7	9.3	3.4	—	20,981.0
4	<b>Total</b>	<b>565.5</b>	<b>76,194.2</b>	<b>47.8</b>	<b>36.8</b>	<b>11.0</b>	<b>—</b>	<b>76,711.9</b>
		At 30 Jun 2025						
1	Loans	604.9	38,439.2	57.3	48.0	9.3	—	38,986.8
2	Debt Securities	—	14,928.7	0.4	—	0.4	—	14,928.3
3	Off-balance sheet exposures <sup>3</sup>	9.8	20,619.1	3.1	3.1	—	—	20,625.8
4	<b>Total</b>	<b>614.7</b>	<b>73,987.0</b>	<b>60.8</b>	<b>51.1</b>	<b>9.7</b>	<b>—</b>	<b>74,540.9</b>

1 'Non-performing exposures' as defined in APS 220.

2 'Regulatory category of specific provisions' include expected credit loss ('ECL') accounting provisions for credit losses held against stage 2 and 3.

3 'Off-balance sheet exposures' are gross of any CCF or CRM techniques.

Table CR2 provides the changes in the stock of non-performing exposures, the flows between performing and non-performing exposure categories and reductions in the stock of non-performing exposures due to write-offs.

### CR2: Changes in stock of non-performing loans, debt securities and off-balance sheet exposures

		6 months to 31 Dec 2025	6 months to 30 Jun 2025
		\$m	\$m
1	Non-performing loans, debt securities and off-balance sheet exposures <sup>1</sup> at end of the previous reporting period	614.7	592.1
2	Loans and debt securities that are non-performing since the last reporting period	179.6	213.6
3	Returned to performing status	110.2	169.6
4	Amounts written off	29.2	10.9
5	Other changes <sup>2</sup>	(89.4)	(10.5)
6	<b>Non-performing loans, debt securities and off-balance sheet exposures at end of the reporting period</b>	<b>565.5</b>	<b>614.7</b>

1 'Non-performing exposures' as defined in APS 220.

2 Other changes primarily include repayments and other movements in the respective balances during the period.

## Credit quality of assets

HSBC's classification of non-performing exposures, past due and restructured are in accordance with APS 220 as provided below.

### Non-performing exposures

Credit exposures are classified as non-performing when they are in default. Default is considered to have occurred with regards to a particular borrower or counterparty when either:

- the Bank considers they are unlikely to pay their credit obligations to the Bank in full, without recourse by the Bank to actions such as realising available security; and/or
- the borrower is 90 calendar days or more past due on a credit obligation to the Bank.

A credit exposure that has been classified as non-performing may be reclassified to performing when all of the following criteria are met:

- the borrower or counterparty does not have any credit exposure 90 days or more past-due;
- the borrower's or counterparty's situation has improved so that full repayment of the credit exposure is likely;
- repayments have been made when due over a continuous repayment period of at least 90 calendar days, or at least six months for restructured exposures; and
- no individually assessed provision is held.

### Past due exposures

A credit exposure is considered past-due from the first day of a missed payment and includes any amount due under the contract (including principal, interest, fees or any other amount). A credit exposure subject to a regular repayment schedule is considered 90 days past-due when:

- at least 90 calendar days have elapsed since the due date of a contractual payment which has not been met in full; and
- the total amount unpaid outside contractual arrangements is equivalent to at least 90 days' worth of contractual payments.

### Restructured exposures

Restructured exposures occur where the Bank grants a borrower or counterparty concessions due to financial difficulty which would not usually be offered to borrowers or counterparties in good standing under normal market conditions. Concession means a modification of the previous terms and conditions that the borrower is considered unable to comply with due to its financial difficulty or a partial or total refinancing or restructuring of a contract that would not be granted if the customer were not experiencing (or about to experience) financial difficulty. Concessions may be payment related, where there are modifications that affect cash flows in the customer's favour (i.e. the amount and/or the timing of payments contractually due, and/or the form in which the cashflow is to be received by the Bank), or they may be non-payment related such as easing of financial covenants or restructuring collateral (whilst not directly affecting the amount and/or timing of payments contractually due). Concessions are only granted where the Bank is satisfied that the modified terms can be met.

A restructuring involving payment-related concessions, or unlikelihood to pay indicators, is treated as non-performing. A restructuring involving non-payment related concessions and which do not exhibit any other default indicators, is treated as performing.

## Accounting provisions for credit losses

APRA APS 220 requires provisions to be adequate and consistent with the objectives of Australian Accounting Standards. The Bank assesses and measures credit losses in accordance with AASB 9 Financial Instruments ('AASB 9'). The AASB 9 ECL model applies to all financial assets measured at amortised cost, debt securities measured at fair value through other comprehensive income, finance lease receivables, loan commitments and financial guarantee contracts not measured at fair value through profit or loss. The model uses a three-stage approach to recognition of expected credit losses. Financial assets migrate through these stages based on changes in credit risk since origination:

- **Stage 1 – 12 months ECL – Performing loans**  
These financial assets are unimpaired and without a significant increase in credit risk. A 12-month allowance for ECL is recognised.
- **Stage 2 – Lifetime ECL – Performing loans that have experienced a significant increase in credit risk**  
A significant increase in credit risk has been experienced on these financial assets since initial recognition. A lifetime ECL is recognised.
- **Stage 3 – Lifetime ECL – Non-performing loans**  
There is objective evidence of impairment and the financial assets are therefore considered to be in default or otherwise credit impaired. A lifetime ECL is recognised.

ECL is a probability weighted expected credit loss estimated by evaluating a range of possible outcomes and taking into account the time value of money, past events, current conditions and forecasts of future economic conditions.

Credit losses for financial assets in Stage 1 and Stage 2 are assessed for impairment collectively, whilst those in Stage 3 are subjected to individual assessment of ECL.

A monthly assessment is undertaken to assess the quality of the credit portfolio to determine the loan impairment expense and provisions.

### Collective provisions

The Bank uses the internally developed AASB 9 collective provisioning models in calculating ECL for both Retail and Non-Retail lending portfolios.

For each significant portfolio, ECL is calculated as a product of the Exposure at default ('EAD'), PD and LGD. Credit risk factors of PD and LGD used in the ECL calculation are point-in-time estimates based on current conditions and adjusted to include the impact of multiple probability weighted future forecast economic scenarios.

### Individually Assessed Provisions

Defaulted secured retail exposures and defaulted non-retail exposures are assessed for impairment through an Individually Assessed Provisions ('IAP') process. Impairment provisions on these exposures are calculated directly as the difference between the defaulted asset's carrying value and the present value of expected future cash flows including cash flows from realisation of collateral, where applicable.

For the standardised capital approach, collective provisions on performing exposures are categorised as general provisions; specific provision balances include accounting collective provisions on non-performing exposures in addition to individually assessed provisions.

Table CRB provides a breakdown of geographical areas, industry, residual maturity and ageing analysis for credit quality of assets. It also shows a breakdown for non-performing exposures and related accounting provisions.

CRB: Additional disclosure related to the credit quality of assets

	At 31 Dec 2025			
	Gross carrying values of			
	Loans \$m	Debt Securities \$m	Off-balance sheet exposures \$m	Total \$m
<b>By geographical areas<sup>1</sup></b>				
Australia	36,586.7	14,514.8	19,159.9	70,261.4
Hong Kong	1,013.0	—	287.6	1,300.6
China	667.5	—	300.8	968.3
United Kingdom	283.3	—	76.8	360.1
Singapore	334.0	44.1	263.6	641.7
United States	331.5	1,138.3	156.2	1,626.0
Other countries	705.3	147.5	748.8	1,601.6
<b>Total</b>	<b>39,921.3</b>	<b>15,844.7</b>	<b>20,993.7</b>	<b>76,759.7</b>
<b>By industry<sup>2</sup></b>				
Retail lending	36,731.5	—	8,839.1	45,570.6
Accommodation and food services	0.7	—	44.7	45.4
Administrative and support services	4.7	—	89.2	93.9
Agriculture, forestry and fishing	11.4	—	1.2	12.6
Arts and recreation services	2.6	—	0.1	2.7
Education and training	0.7	—	33.7	34.4
Electricity, gas, water and waste services	53.5	—	448.4	501.9
Finance Insurance Other	165.1	—	500.7	665.8
Financial and insurance services-ADIs	275.3	531.5	2,071.0	2,877.8
Financial and insurance services-RBAs	—	—	1,319.9	1,319.9
Health care and social assistance	83.0	—	65.7	148.7
Information media and telecommunications	21.4	—	196.3	217.7
Manufacturing	575.7	—	1,872.6	2,448.3
Mining	167.3	—	652.6	819.9
Non-residential building construction	—	—	100.5	100.5
Other construction	3.4	—	496.3	499.7
Other Services	25.0	—	1,011.8	1,036.8
Professional, scientific and technical services	242.9	—	1,086.1	1,329.0
Public administration and safety	0.3	15,313.2	18.6	15,332.1
Rental, hiring and real estate services	447.4	—	211.9	659.3
Residential building construction	0.1	—	15.1	15.2
Retail trade	121.1	—	213.2	334.3
Transport, postal and warehousing	135.3	—	438.3	573.6
Wholesale trade	852.9	—	1,266.7	2,119.6
<b>Total</b>	<b>39,921.3</b>	<b>15,844.7</b>	<b>20,993.7</b>	<b>76,759.7</b>
<b>By residual maturity<sup>3</sup></b>				
Less than 1 year	2,832.6	7,110.8	7,386.9	17,330.3
1 to 5 years	933.8	7,414.0	3,188.1	11,535.9
Over 5 years	36,154.9	1,319.9	10,418.7	47,893.5
<b>Total</b>	<b>39,921.3</b>	<b>15,844.7</b>	<b>20,993.7</b>	<b>76,759.7</b>

CRB: Additional disclosure related to the credit quality of assets (continued)

	At 31 Dec 2025								
	Non-performing exposures <sup>4</sup>				of which: ECL accounting provisions for credit losses				
	Loans	Debt Securities	Off-balance sheet exposures	Total	Loans	Debt Securities	Off-balance sheet exposures	Total	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
<b>By geographical areas</b>									
Australia	482.4	—	31.0	513.4	12.0	—	4.2	16.2	
Hong Kong	9.8	—	—	9.8	0.1	—	—	0.1	
China	6.4	—	—	6.4	0.1	—	—	0.1	
United Kingdom	1.7	—	—	1.7	—	—	—	—	
Singapore	2.4	—	—	2.4	—	—	—	—	
United States	6.8	—	—	6.8	4.1	—	—	4.1	
Other countries	25.0	—	—	25.0	3.8	—	—	3.8	
<b>Total</b>	<b>534.5</b>	<b>—</b>	<b>31.0</b>	<b>565.5</b>	<b>20.1</b>	<b>—</b>	<b>4.2</b>	<b>24.3</b>	
<b>By industry</b>									
Retail lending	514.8	—	6.0	520.8	10.4	—	—	10.4	
Accommodation and food services	—	—	—	—	—	—	—	—	
Administrative and support services	—	—	—	—	—	—	—	—	
Agriculture, forestry and fishing	—	—	—	—	—	—	—	—	
Arts and recreation services	—	—	—	—	—	—	—	—	
Education and training	—	—	—	—	—	—	—	—	
Electricity, gas, water and waste services	—	—	—	—	—	—	—	—	
Finance Insurance Other	—	—	—	—	—	—	—	—	
Financial and insurance services-ADIs	13.2	—	—	13.2	3.7	—	—	3.7	
Financial and insurance services-RBAs	—	—	—	—	—	—	—	—	
Health care and social assistance	—	—	—	—	—	—	—	—	
Information media and telecommunications	—	—	—	—	—	—	—	—	
Manufacturing	—	—	—	—	—	—	—	—	
Mining	—	—	—	—	—	—	—	—	
Non-residential building construction	—	—	—	—	—	—	—	—	
Other construction	—	—	4.4	4.4	—	—	1.5	1.5	
Other Services	—	—	—	—	—	—	—	—	
Professional, scientific and technical services	—	—	3.3	3.3	—	—	—	—	
Public administration and safety	—	—	—	—	—	—	—	—	
Rental, hiring and real estate services	—	—	—	—	—	—	—	—	
Residential building construction	—	—	—	—	—	—	—	—	
Retail trade	—	—	0.7	0.7	—	—	—	—	
Transport, postal and warehousing	—	—	—	—	—	—	—	—	
Wholesale trade	6.5	—	16.6	23.1	6.0	—	2.7	8.7	
<b>Total</b>	<b>534.5</b>	<b>—</b>	<b>31.0</b>	<b>565.5</b>	<b>20.1</b>	<b>—</b>	<b>4.2</b>	<b>24.3</b>	

	At 31 Dec 2025								
	Gross carrying values of				Non-performing exposures				
	Loans	Debt Securities	Off-balance sheet exposures	Total	Loans	Debt Securities	Off-balance sheet exposures	Total	
\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
30-89 days past due	104.2	—	4.4	108.6	61.1	—	—	61.1	
90 days past due	156.7	—	1.3	158.0	156.7	—	—	156.7	

- 1 Geographical areas list the top six countries with highest exposures. Geographical areas are based on country of residence of borrowers.
- 2 Industry has listed retail lending that includes residential mortgages, cards and other personal loans.
- 3 Residual maturity less than 1 year included undated maturity.
- 4 Included \$193.4m restructured exposures that are defined under APS 220.

## Credit risk under standardised approach

### Credit risk mitigation

The Bank's approach to granting credit facilities is on the basis of capacity to repay, rather than placing primary reliance on CRMs. Depending on a customer's standing and the type of product, unsecured facilities may be provided.

Mitigation of credit risk is a key aspect of effective risk management and takes many forms. The Bank's general policy is to promote the use of CRM, justified by commercial prudence and capital efficiency.

Detailed policies cover the acceptability, structuring and terms relating to the availability of CRM such as in the form of collateral security. These policies, together with the setting of suitable valuation parameters, are subject to regular review to ensure that they are supported by empirical evidence and continue to fulfil their intended purpose.

### Collateral

The most common method of mitigating credit risk is to take a charge over collateral. In the retail residential and commercial real estate ('CRE') businesses, a mortgage over the property is usually taken to help secure claims. Physical collateral is also taken in various forms of specialised lending and leasing transactions where income from the physical assets that are financed is also the principal source of facility repayment. In the commercial and industrial sectors, charges are created over business assets such as premises, stock and debtors.

### Financial collateral

In the institutional sector, trading facilities are supported by charges over financial instruments, such as cash, debt securities and equities. Financial collateral in the form of marketable securities is used in much of the derivatives activities such as repos, reverse repos, securities lending and borrowing. Netting is used extensively and is a prominent feature of market standard documentation.

In the banking book, the Bank provides customers with working capital management products. In some cases, these products combine loans and advances to customers with customer accounts over which the Bank has right of offset, which comply with the regulatory requirements for on-balance sheet netting.

### Other forms of credit risk mitigation

The Bank uses other forms of credit risk mitigation to manage the credit risk in its portfolios, with the goal of reducing concentrations in individual names, sectors or portfolios. The techniques in use include credit default swap ('CDS') purchases, structured credit notes and securitisation structures. Buying credit protection creates credit exposure against the protection provider, which is monitored as part of the overall credit exposure to them. Where applicable, the transaction is entered into directly with a central clearing house counterparty; otherwise the Bank's exposure to CDS protection providers is diversified among mainly banking counterparties with strong credit ratings.

In the corporate lending, the Bank also takes guarantees from banks, corporates and export credit agencies ('ECA'). Corporates would normally provide guarantees as part of a parent and subsidiary or common parent relationship and would span a number of credit grades. The ECAs will normally be investment grade.

### Policy and procedures

Policies and procedures cover the end to end credit lending process including the governance of the protection of the position from the commencement of a customer relationship; for instance, in requiring standard terms and conditions or specifically agreed documentation permitting the offset of credit balances against debt obligations, and through controls over the integrity, current valuation and, if necessary, realisation of collateral security.

### Valuing collateral

Valuation strategies are established to monitor collateral mitigants to ensure that they will continue to provide the anticipated secure secondary repayment source. The frequency of valuation increases with the volatility of the collateral. For market trading activities such as collateralised over-the-counter ('OTC') derivatives and SFTs, the Bank typically carries out daily valuations. In the residential mortgage business, the policy prescribes revaluation of the portfolio at intervals of up to three years, or more frequently as the need arises; for example, where market conditions are subject to significant change, and for non-performing loans on a regular basis (at least annually). Residential property collateral values are determined through a combination of professional appraisals, house price indices or statistical analysis.

For CRE, where the facility exceeds regulatory threshold requirements, the policy requires an independent review of the valuation at least every three years, or more frequently as the need arises. Revaluations are sought where, for example, material concerns arise in relation to the performance of the collateral. CRE revaluation also occurs commonly in circumstances where an obligor's credit quality has declined sufficiently to cause concern that the principal payment source may not fully meet the obligation.

### Recognition of risk mitigation under the standardised approach

Where CRM is available in the form of an eligible guarantee, non-financial collateral or a credit derivative, the exposure is divided into covered and uncovered portions. The covered portion is determined after applying an appropriate 'haircut' for currency and maturity mismatches (and for omission of restructuring clauses in credit derivatives, where appropriate) to the amount of the protection provided and attracts the Risk weight ('RW') of the protection provider. The uncovered portion attracts the RW of the obligor.

The value of exposure fully or partially covered by eligible financial collateral is adjusted under the financial collateral comprehensive method using supervisory volatility adjustments (including those for currency mismatch) which are determined by the specific type of collateral (and its credit quality, in the case of eligible debt securities) and its liquidation period. The adjusted exposure value is subject to the risk rating of the obligor.

Table CR3 provides a breakdown of unsecured and secured exposures and the amount of risk exposure which is mitigated by APRA defined eligible collateral, guarantees or credit derivatives.

### CR3: Credit risk mitigation techniques – overview

		At 31 Dec 2025				
		Exposures unsecured: carrying amount <sup>1</sup>	Exposures to be secured <sup>2</sup>	Exposures secured by collateral <sup>3</sup>	Exposures secured by financial guarantees	Exposures secured by credit derivatives
		\$m	\$m	\$m	\$m	\$m
1	Loans	2,578.7	37,307.9	37,300.0	8.2	—
2	Debt securities	15,844.3	—	—	—	—
3	<b>Total</b>	<b>18,423.0</b>	<b>37,307.9</b>	<b>37,300.0</b>	<b>8.2</b>	<b>—</b>
4	of which: Non-performing	23.3	492.6	492.6	—	—

		At 30 Jun 2025				
1	Loans	3,501.3	35,485.5	35,458.8	26.7	—
2	Debt securities	14,928.3	—	—	—	—
3	<b>Total</b>	<b>18,429.6</b>	<b>35,485.5</b>	<b>35,458.8</b>	<b>26.7</b>	<b>—</b>
4	of which: Non-performing	33.0	532.1	532.1	—	—

1 Total carrying amount of exposures are net of allowances/impairments.

2 Includes exposures partly or totally secured by collateral, financial guarantees, or credit derivatives.

3 Includes physical security over mortgages that benefit from reduced capital requirements on risk weights.

## Use of external credit ratings under the standardised approach for credit risk

All wholesale obligors are assigned an internal CRR using the internal credit risk systems, supplemented by wholesale credit approver judgement. External credit ratings from an ECAI may be referred to as part of the credit risk rating process.

For credit risk exposures assessed under the Standardised Approach, where ECAI ratings are eligible, both short-term and long-term external ratings have been consistently applied in determining risk-weights. These ratings are used at both the issuer level (for counterparties) and the issue-specific level (for financial instruments).

ECAI risk assessments are used as part of the determination of risk weightings for the following classes of exposure:

- Sovereign exposures comprising:
  - all exposures to Australian and international central and subnational governments (with subnational governments defined as those with authority to raise revenue and borrow funds);
  - all exposures to the Reserve Bank of Australia and other central banks (entities responsible for monetary policy implementation); and
  - exposures to institutions and multilateral development banks qualifying for a zero per cent risk weight under APS 112 Attachment B.
- Corporates exposures as defined in APS 112 Attachment B.
- Covered bond exposures with an issue-specific external credit rating have standardised risk weights applied where they meet the requirements set out in paragraphs 15 and 16 of APS 112 Attachment B.

For Banks however, ECAI ratings are not applied in determining the risk weighting as some bank ECAI ratings available to the Bank have implicit government support and so do not meet the requirements of APS 112 Attachment B. Bank exposures are therefore unrated.

The Bank has nominated three ECAIs for this purpose – Moody's Investor Service ('Moody's'), Standard and Poor's Rating Services ('S&P') and Fitch Ratings ('Fitch'). In addition to this, the Bank uses Morningstar DBRS ratings ('DBRS') specifically for securitisation positions. The Bank has not nominated any ECAs.

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

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

Credit quality step	Moody's assessment	S&P's assessment	Fitch's assessment
1	Aaa to Aa3	AAA to AA-	AAA to AA-
2	A1 to A3	A+ to A-	A+ to A-
3	Baa1 to Baa3	BBB+ to BBB-	BBB+ to BBB-
4	Ba1 to Ba3	BB+ to BB-	BB+ to BB-
5	B1 to B3	B+ to B-	B+ to B-
6	Caa1 and below	CCC+ and below	CCC+ and below

Table CR4 provides on-balance sheet and off-balance sheet exposures before and after CCF and CRM, as well as RWAs and RWA density under the standardised approach.

The table excludes counterparty credit risk and securitisation exposures.

CR4: Standardised approach – credit risk exposure and CRM effects

Asset classes		At 31 Dec 2025					
		Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWAs and RWA density	
		On-balance sheet amount \$m	Off-balance sheet amount \$m	On-balance sheet amount \$m	Off-balance sheet amount \$m	RWAs \$m	RWA density %
1	Sovereigns and their central banks	18,952.5	869.7	18,952.5	7.9	—	—
2	Non-central government public sector entities	—	—	—	—	—	—
3	Multilateral development banks	—	—	—	—	—	—
4	Banks	527.2	2,726.1	527.2	220.5	229.9	30.8
5	Covered bonds	531.5	—	531.5	—	53.1	10.0
6	Corporates	1,793.8	8,051.8	1,552.8	3,288.9	4,377.4	90.4
	of which: specialised lending	37.1	11.7	37.1	4.7	46.0	110.0
7	Subordinated debt, equity and other capital	—	—	—	—	—	—
8	Retail	506.6	1,167.7	506.6	466.8	736.7	75.7
9	Real estate	36,566.4	8,129.2	36,546.6	3,543.4	13,318.2	33.2
	of which: residential property owner occupied and principal and interest standard	22,231.6	4,719.6	22,229.3	1,887.7	6,634.4	27.5
	of which: residential property other standard	13,441.0	2,860.5	13,437.6	1,414.4	5,619.4	37.8
	of which: residential property non-standard other	44.7	69.4	41.6	27.8	69.3	100.0
	of which: commercial property dependent non-standard	0.3	—	0.3	—	0.4	150.0
	of which: commercial property dependent standard	74.6	23.1	74.6	9.4	66.6	79.3
	of which: commercial property not dependent cash flows non-standard	—	6.0	—	5.1	5.0	100.0
	of which: commercial property not dependent cash flows standard	774.1	405.5	763.1	178.8	892.7	94.8
	of which: land acquisition, development and construction	0.1	45.1	0.1	20.2	30.4	150.0
10	Non-performing exposures	514.4	26.9	514.2	9.6	542.5	103.6
11	Other assets	230.1	9.6	230.1	1.9	235.0	101.3
12	<b>Total</b>	<b>59,622.5</b>	<b>20,981.0</b>	<b>59,361.5</b>	<b>7,539.0</b>	<b>19,492.8</b>	<b>29.1</b>

CR4: Standardised approach – credit risk exposure and CRM effects (continued)

Asset classes	At 30 Jun 2025						
	Exposures before CCF and CRM		Exposures post-CCF and post-CRM		RWAs and RWA density		
	On-balance sheet amount \$m	Off-balance sheet amount \$m	On-balance sheet amount \$m	Off-balance sheet amount \$m	RWAs \$m	RWA density %	
1	Sovereigns and their central banks	20,623.6	866.0	20,623.6	6.4	—	—
2	Non-central government public sector entities	—	—	—	—	—	—
3	Multilateral development banks	—	—	—	—	—	—
4	Banks	525.6	2,910.9	525.6	194.6	232.8	32.3
5	Covered bonds	739.7	—	739.7	—	74.0	10.0
6	Corporates	2,763.2	7,329.4	2,431.6	2,972.2	4,664.8	86.3
	of which: specialised lending	65.1	6.4	65.1	2.5	74.4	110.0
7	Subordinated debt, equity and other capital	—	—	—	—	—	—
8	Retail	519.0	1,286.4	518.9	515.5	784.1	75.8
9	Real estate	34,658.2	8,214.1	34,628.0	3,672.6	12,902.3	33.7
	of which: residential property owner occupied and principal and interest standard	21,127.2	4,521.5	21,124.7	1,808.5	6,355.3	27.7
	of which: residential property other standard	12,600.0	2,997.4	12,595.6	1,563.9	5,368.8	37.9
	of which: residential property non-standard other	41.9	70.4	38.7	28.2	66.8	100.0
	of which: commercial property dependent non-standard	0.3	—	0.3	—	0.4	150.0
	of which: commercial property dependent standard	69.7	5.1	69.6	2.1	55.0	76.8
	of which: commercial property not dependent cash flows non-standard	13.0	43.1	13.0	20.0	33.0	100.0
	of which: commercial property not dependent cash flows standard	736.6	517.7	716.6	226.7	884.0	93.7
	of which: land acquisition, development and construction	69.5	58.9	69.5	23.2	139.0	150.0
10	Non-performing exposures	565.1	8.3	565.0	2.7	588.3	103.6
11	Other assets	313.1	10.7	313.2	2.1	316.8	100.5
12	Total	60,707.5	20,625.8	60,345.6	7,366.1	19,563.1	28.9

Table CR5 provides the breakdown of credit risk exposures under the standardised approach by asset class and risk weight.

CR5: Standardised approach – exposures by asset classes and risk weights

\$m	At 31 Dec 2025																													
	Credit exposure amount (post-CCF and post-CRM)																													
	0%	10%	20%	25%	30%	35%	38%	40%	45%	50%	55%	60%	65%	68%	70%	75%	80%	85%	90%	95%	98%	100%	105%	110%	113%	120%	150%	250%	Total	
1 Sovereigns and their central banks	18,960	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	18,960	
2 Non-central government public sector entities	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
3 Multilateral development banks	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
4 Banks	–	–	480	–	–	–	–	–	–	268	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	748	
5 Covered bonds	–	532	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	532	
6 Corporates <sup>1</sup>	–	–	4	–	–	–	–	–	–	104	–	–	–	–	–	290	–	3,123	–	–	–	–	–	–	–	–	–	–	4,842	
of which: specialised lending	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	42	
7 Subordinated debt, equity and other capital	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
8 Retail	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	948	–	–	–	–	–	–	–	–	–	–	–	–	973	
9 Real estate	–	–	7,517	8,741	8,568	5,173	20	3,696	3,225	544	81	156	1,221	18	147	–	–	14	17	–	11	893	17	11	–	–	20	–	40,090	
of which: residential property owner occupied and principal and interest standard	–	–	7,517	5,143	5,392	5,173	7	385	2	394	81	–	–	–	18	–	–	6	–	–	–	–	–	–	–	–	–	–	24,118	
of which: residential property other standard	–	–	–	3,598	3,176	–	13	3,311	3,223	150	–	33	1,221	18	73	–	–	8	–	–	11	–	17	–	–	–	–	–	14,852	
of which: residential property non-standard other	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	69	–	–	–	–	–	–	69	
of which: commercial property dependent non-standard	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	
of which: commercial property dependent standard	–	–	–	–	–	–	–	–	–	–	–	–	–	–	56	–	–	–	17	–	–	–	–	–	–	–	–	–	84	
of which: commercial property not dependent cash flows non-standard	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	5	–	–	–	–	–	–	5	
of which: commercial property not dependent cash flows standard	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	942	
of which: land acquisition, development and construction	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	20	–	20	
10 Non-performing exposures	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	40	–	–	8	–	351	–	–	–	–	118	7	–	524
11 Other assets	10	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	–	9	232

1 For unrated performing general corporate exposures, the updated risk-weight methodology is based on 'investment grade' and 'non-investment grade' classifications, as approved by APRA.

CR5: Standardised approach – exposures by asset classes and risk weights (continued)

		At 30 Jun 2025																												
		Credit exposure amount (post-CCF and post-CRM)																												
\$m		0%	10%	20%	25%	30%	35%	38%	40%	45%	50%	55%	60%	65%	68%	70%	75%	80%	85%	90%	95%	98%	100%	105%	110%	113%	120%	150%	250%	Total
1	Sovereigns and their central banks	20,630	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	20,630
2	Non-central government public sector entities	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
3	Multilateral development banks	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
4	Banks	—	—	424	—	—	—	—	—	—	296	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	720
5	Covered bonds	—	740	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	740
6	Corporates	—	—	794	—	—	—	—	—	—	88	—	—	—	—	—	268	—	—	—	—	—	—	4,187	—	68	—	—	—	5,404
	of which: specialised lending	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	68	—	—	—	68	
7	Subordinated debt, equity and other capital	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
8	Retail	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	1,003	—	—	—	—	—	29	—	—	3	—	—	—	1,034
9	Real estate	—	—	6,865	8,196	8,315	5,027	14	3,628	3,067	530	91	153	1,241	7	137	—	—	10	1	—	5	895	14	12	—	—	93	—	38,301
	of which: residential property owner occupied and principal and interest standard	—	—	6,865	4,875	5,221	5,027	2	437	3	391	91	—	—	—	17	—	—	4	—	—	—	—	—	—	—	—	—	—	22,933
	of which: residential property other standard	—	—	—	3,321	3,094	—	12	3,191	3,064	139	—	5	1,241	7	61	—	—	6	—	—	5	—	14	—	—	—	—	—	14,160
	of which: residential property non-standard other	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	67	—	—	—	—	—	—	67
	of which: commercial property dependent non-standard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—
	of which: commercial property dependent standard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	59	—	—	—	—	—	—	—	—	—	12	—	—	—	72
	of which: commercial property not dependent cash flows non-standard	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	33	—	—	—	—	—	—	33
	of which: commercial property not dependent cash flows standard	—	—	—	—	—	—	—	—	—	—	—	148	—	—	—	—	—	—	—	—	—	795	—	—	—	—	—	—	943
	of which: land acquisition, development and construction	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	93	—	93	
10	Non-performing exposures	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	44	—	—	10	—	371	—	—	—	139	4	—	568
11	Other assets	9	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	—	299	—	—	—	—	—	7	315

Exposure amounts and CCFs applied to off-balance sheet exposures, categorised based on risk bucket of converted exposures

Risk weight		At 31 Dec 2025			
		On-balance sheet exposure	Off-balance sheet exposure (pre-CCF)	Weighted average CCF <sup>1</sup>	Exposure (post-CCF and post-CRM)
		\$m	\$m	%	\$m
1	Less than 40%	47,538.2	9,314.7	26.5	50,001.4
2	40–70%	8,331.4	2,013.2	56.2	9,462.2
3	75–80%	616.3	1,617.9	40.9	1,277.8
4	85%	881.7	5,054.8	44.6	3,137.0
5	90–100%	1,554.5	1,122.4	19.3	1,515.6
6	105–130%	690.6	1,787.9	43.7	1,470.6
7	150%	3.1	60.5	39.9	27.3
8	250%	6.7	9.6	20.0	8.6
9	400%	—	—	—	—
10	1250%	—	—	—	—
11	<b>Total exposures</b>	<b>59,622.5</b>	<b>20,981.0</b>	<b>35.9</b>	<b>66,900.5</b>
		At 30 Jun 2025			
1	Less than 40%	48,651.6	9,276.8	25.5	51,014.1
2	40–70%	7,995.4	2,094.4	59.4	9,238.6
3	75–80%	695.1	1,515.8	40.9	1,314.4
4	85%	10.7	0.3	40.0	10.4
5	90–100%	3,049.2	7,646.8	40.6	5,795.3
6	105–130%	226.8	22.0	40.0	234.8
7	150%	73.7	58.9	39.3	96.9
8	250%	5.1	10.7	20.0	7.2
9	400%	—	—	—	—
10	1250%	—	—	—	—
11	Total exposures	60,707.6	20,625.7	35.7	67,711.7

1 Weighting is based on off-balance sheet exposure (pre-CCF).

# Counterparty Credit Risk

## Counterparty credit risk management

Counterparty credit risk ('CCR') arises for derivatives (including long settlement transactions) and SFTs. It is calculated in both the trading and banking books, and is the risk that a counterparty may default before final settlement, for cases where there is a bilateral risk of loss.

From a risk management perspective, products are subject to regulatory asset class add-ons and daily monitoring of credit limit utilisation.

Limits for CCR exposures, including to central counterparties ('CCPs') are assigned within the overall credit risk management process. The credit risk team assigns a limit against each counterparty to cover exposure that may arise as a result of a counterparty default. The magnitude of this limit will depend on the overall risk appetite, type of derivatives and type of SFT trading undertaken with a counterparty.

Models and methodologies used in the calculation and management of CCR are overseen and monitored by the Regional Traded Risk Model Oversight Forum. Models are subject to ongoing monitoring and validation. Additionally, they are subject to independent review at inception and on an ongoing basis.

## Collateral arrangements

The Bank's policy is to revalue all traded transactions and associated collateral positions on a daily basis. The regional collateral management team is responsible for the collateral process, including pledging collateral, receiving collateral, investigating disputes and following up on non-receipts.

Collateral types are controlled under a policy to ensure price transparency, price stability, liquidity, enforceability, independence, reusability and eligibility for regulatory purposes. Valuation 'haircut' policy reflects the fact that collateral may fall in value between the date the collateral was called and the date of liquidation or enforcement. A very high proportion of collateral held as variation margin under credit support annex ('CSAs') agreements is composed of either cash or liquid government securities.

## Central counterparties

While exchange traded derivatives have been cleared through CCPs for many years, recent regulatory initiatives designed to reduce systemic risk in the banking system are directing increasing volumes of OTC derivatives to also be cleared through CCPs.

To manage the concentration of risk in CCPs that results from this, the Group has established a specific set of limits for individual CCPs across HSBC entities.

## Wrong-way risk

Wrong-way risk occurs when a counterparty's exposures are adversely correlated with its credit quality.

There are two types of wrong-way risk:

- general wrong-way risk occurs when the probability of counterparty default is positively correlated with general risk factors, such as where a counterparty is resident and/or incorporated in a higher-risk country and seeks to sell a non-domestic currency in exchange for its home currency; and
- specific wrong-way risk occurs in self-referencing transactions. These are transactions in which exposure is driven by capital or financing instruments issued by the counterparty and occurs where exposure from HSBC's perspective materially increases as the value of the counterparty's capital or financing instruments referenced in the contract decreases. It is HSBC policy that specific wrong-way transactions are approved on a case-by-case basis.

The Bank uses a range of tools to monitor and control wrong-way risk, including requiring the business to obtain prior approval before undertaking wrong-way risk transactions outside pre-agreed guidelines.

The regional Traded Risk function is responsible for the control and monitoring process within an overarching Group framework including a limit framework.

## Credit rating downgrade

A credit rating downgrade clause in a Master Agreement or a credit rating downgrade threshold clause in a CSA is designed to trigger an action if the credit rating of the affected party falls below a specified level. These actions may include the requirement to pay or increase collateral, the termination of transactions by the non-affected party or the assignment of transactions by the affected party.

As at 31 December 2025, the value of the additional collateral pertaining to International Swaps and Derivatives Association CSA downgrade thresholds that the Bank would potentially need to post with counterparties in the event of one-notch and two-notch downgrade was \$0m.

Table CCR1 provides a comprehensive view of the methods used to calculate counterparty credit risk regulatory requirements and the main parameters used within each method.

CCR1: Analysis of CCR exposures by approach

		At 31 Dec 2025					
		Replacement cost	Potential future exposure	Effective Expected Positive Exposure ('EPE')	Alpha used for computing regulatory EAD	EAD post-CRM	RWAs <sup>1</sup>
		\$m	\$m	\$m		\$m	\$m
1	SA-CCR (for derivatives)	152.6	456.6		1.4	811.2	94.9
2	Internal Model Method (for derivatives and SFTs)			—	—	—	—
3	Simple Approach for credit risk mitigation (for SFTs)					—	—
4	Comprehensive Approach for credit risk mitigation (for SFTs)					15.0	—
5	Value-at-risk ('VaR') for SFTs					—	—
6	<b>Total</b>						<b>94.9</b>

		At 30 Jun 2025					
1	SA-CCR (for derivatives)	130.0	115.8		1.4	339.0	91.2
2	Internal Model Method (for derivatives and SFTs)			—	—	—	—
3	Simple Approach for credit risk mitigation (for SFTs)					—	—
4	Comprehensive Approach for credit risk mitigation (for SFTs)					—	—
5	Value-at-risk ('VaR') for SFTs					—	—
6	<b>Total</b>						<b>91.2</b>

1 The amount excludes exposures to CCPs, which are reported in CCR8.

Table CCR3 provides a breakdown of counterparty credit risk exposures calculated according to the standardised approach: by portfolio (type of counterparties) and by risk weight (riskiness attributed according to standardised approach).

CCR3: Standardised approach – CCR exposures by regulatory portfolio and risk weights

		At 31 Dec 2025										Total credit exposure <sup>1</sup>
Risk weight		0%	10%	20%	50%	75%	85%	100%	110%	150%	Others	\$m
<b>Regulatory portfolio</b>												
Sovereigns		—	—	—	—	—	—	—	—	—	—	—
Non-central government public sector entities		—	—	—	—	—	—	—	—	—	—	—
Multilateral development banks		—	—	—	—	—	—	—	—	—	—	—
Banks		—	—	613.0	39.9	—	—	—	—	—	—	652.9
Securities firms		—	—	—	—	—	—	—	—	—	—	—
Corporates <sup>2</sup>		—	—	—	—	—	103.5	8.4	46.4	—	—	158.3
Regulatory retail portfolios		—	—	—	—	—	—	—	—	—	—	—
Other assets		—	—	—	—	—	—	—	—	—	—	—
<b>Total</b>		—	—	613.0	39.9	—	103.5	8.4	46.4	—	—	811.2
		At 30 Jun 2025										
Sovereigns		—	—	—	—	—	—	—	—	—	—	—
Non-central government public sector entities		—	—	—	—	—	—	—	—	—	—	—
Multilateral development banks		—	—	—	—	—	—	—	—	—	—	—
Banks		—	—	148.5	44.4	—	—	—	—	—	—	192.9
Securities firms		—	—	—	—	—	—	—	—	—	—	—
Corporates		—	—	—	—	—	—	146.1	—	—	—	146.1
Regulatory retail portfolios		—	—	—	—	—	—	—	—	—	—	—
Other assets		—	—	—	—	—	—	—	—	—	—	—
<b>Total</b>		—	—	148.5	44.4	—	—	146.1	—	—	—	339.0

1 Total credit exposure: the amount relevant for the capital requirements calculation, having applied CRM techniques.

2 For unrated performing general corporate exposures as at 31 December 2025, the updated risk-weight methodology is based on 'investment grade' and 'non-investment grade' classifications, as approved by APRA.

Table CCR5 provides a breakdown of all types of collateral posted or received by banks to support or reduce the counterparty credit risk exposures related to derivative transactions or to SFTs, including transactions cleared through a CCP.

CCR5: Composition of collateral for CCR exposure

\$m	At 31 Dec 2025					
	Collateral used in derivative transactions				Collateral used in SFTs	
	Fair value of collateral received		Fair value of posted collateral		Fair value of collateral received	Fair value of posted collateral
	Segregated	Unsegregated	Segregated	Unsegregated		
Cash	—	497.1	—	565.6	—	—
Domestic sovereign debt	—	—	—	—	1,736.6	1,303.0
Other sovereign debt	—	—	—	—	—	—
Government agency debt	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Equity securities	—	—	—	—	—	—
Other collateral	—	—	—	—	—	—
<b>Total</b>	—	<b>497.1</b>	—	<b>565.6</b>	<b>1,736.6</b>	<b>1,303.0</b>

At 30 Jun 2025						
Cash	—	5.1	—	—	—	—
Domestic sovereign debt	—	—	—	—	2,375.5	854.1
Other sovereign debt	—	—	—	—	—	—
Government agency debt	—	—	—	—	—	—
Corporate bonds	—	—	—	—	—	—
Equity securities	—	—	—	—	—	—
Other collateral	—	—	—	—	—	—
<b>Total</b>	—	<b>5.1</b>	—	—	<b>2,375.5</b>	<b>854.1</b>

Table CCR8 provides a comprehensive picture of the Bank's exposures to central counterparties and its corresponding RWAs.

CCR8: Exposures to central counterparties

		At 31 Dec 2025	
		EAD (post-CRM) \$m	RWAs \$m
1	<b>Exposures to QCCPs (total)</b>		<b>30.4</b>
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	<b>319.5</b>	<b>6.4</b>
3	(i) OTC derivatives	—	—
4	(ii) Exchange-traded derivatives	<b>319.5</b>	<b>6.4</b>
5	(iii) Securities financing transactions	—	—
6	(iv) Netting sets where cross-product netting has been approved	—	—
7	Segregated initial margin	—	—
8	Non-segregated initial margin	<b>565.6</b>	<b>11.3</b>
9	Pre-funded default fund contributions	<b>63.4</b>	<b>12.7</b>
10	Unfunded default fund contributions	—	—
11	<b>Exposures to non-QCCPs (total)</b>		
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	—	—
13	(i) OTC derivatives	—	—
14	(ii) Exchange-traded derivatives	—	—
15	(iii) Securities financing transactions	—	—
16	(iv) Netting sets where cross-product netting has been approved	—	—
17	Segregated initial margin	—	—
18	Non-segregated initial margin	—	—
19	Pre-funded default fund contributions	—	—
20	Unfunded default fund contributions	—	—

At 30 Jun 2025			
1	Exposures to QCCPs (total)		16.6
2	Exposures for trades at QCCPs (excluding initial margin and default fund contributions); of which	737.2	16.6
3	(i) OTC derivatives	737.2	16.6
4	(ii) Exchange-traded derivatives	—	—
5	(iii) Securities financing transactions	—	—
6	(iv) Netting sets where cross-product netting has been approved	—	—
7	Segregated initial margin	—	—
8	Non-segregated initial margin	—	—
9	Pre-funded default fund contributions	—	—
10	Unfunded default fund contributions	—	—
11	Exposures to non-QCCPs (total)		
12	Exposures for trades at non-QCCPs (excluding initial margin and default fund contributions); of which	—	—
13	(i) OTC derivatives	—	—
14	(ii) Exchange-traded derivatives	—	—
15	(iii) Securities financing transactions	—	—
16	(iv) Netting sets where cross-product netting has been approved	—	—
17	Segregated initial margin	—	—
18	Non-segregated initial margin	—	—
19	Pre-funded default fund contributions	—	—
20	Unfunded default fund contributions	—	—

# Credit Valuation Adjustment Risk

## Definition

Credit Valuation Adjustment ('CVA') represents the risk of mark-to-market losses on the expected counterparty risk to OTC derivatives and SFTs that are subject to fair-value accounting.

---

## CVA risk management

CVA risk is managed by the regional x-Value Adjustment ('xVA') desk, which is responsible for hedging and mitigating risks arising from CVA risk for transactions from over-the-counter derivatives business, under no or imperfect CSA.

The main risks being hedged include credit, funding, interest rates ('IR') and foreign exchange ('FX'). For credit, the desk uses a combination of both single-name CDS and credit indices to achieve

both precise and broad-based risk coverage. Interest rates and FX risks are hedged via IR and FX derivatives. All these risk mitigation activities are executed as per the hedging strategies defined as part of the desk's mandate.

The desk, acting as the first line of defence on xVA risks management, actively manages these risks on a daily basis in order to protect xVA Profit and Loss ('P&L') from adverse market movements, and limits losses incurred by the Bank in the case of counterparty default.

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

# Securitisation

## Securitisation strategy

The Bank acts as originator, sponsor, liquidity provider and derivative counterparty to its originated and sponsored securitisations, as well as those of third parties. The Bank's strategy is to use securitisation to meet its needs for aggregate funding or capital management, to the extent that market, regulatory treatments and other conditions are suitable, and for customer facilitation.

---

## Securitisation activity

The Bank's roles in the securitisation process can include the following:

- Originator: where the Bank originates the assets being securitised;
- Sponsor: where the Bank establishes and manages a securitisation programme that purchases exposures from third parties; and
- Investor: where the Bank invests in a securitisation transaction directly or provides derivatives or liquidity facilities to a securitisation.

The Bank does not allow exposure to resecuritisation transactions.

## The Bank as originator

The Bank uses special purpose entities ('SPEs') to securitise customer loans and advances and other debt that the Bank has originated in order to diversify the sources of funding for asset origination and for capital efficiency purposes. In such cases, the Bank transfers the loans and advances to the SPEs for cash, and the SPEs issue debt securities to investors to fund the cash purchases. The Lions Series is the Bank's securitisation programme of the Bank's originated residential mortgages, including the self-securitisation transaction Lion Series 2009-1 as well as other traditional securitisations where significant credit risk transfer has been achieved.

## The Bank as sponsor

There were no outstanding underlying exposures in securitisation transactions where the Bank acted as a sponsor.

## The Bank as investor

The Bank has no other outstanding exposure to third-party securitisations.

---

## Monitoring of securitisation positions

Securitisation positions are monitored by Wholesale Credit Risk Management team that uses a combination of market standard systems and third-party data providers to monitor performance data and manage market and credit risks.

Liquidity risk of securitised assets is consistently managed as part of the liquidity and funding risk management framework.

## Securitisation accounting treatment

For accounting purposes, the Bank consolidates structured entities (including SPEs) when the substance of the relationship indicates that the Bank controls them; that is, the Bank is exposed, or has rights, to variable returns from the involvement with the structured entity and has the ability to affect those returns through the power over the entity.

The Bank enters into transactions in the normal course of business by which it transfers financial assets to structured entities. Depending on the circumstances, these transfers may either result in these financial assets being fully or partly derecognised, or continuing to be recognised in their entirety.

Full derecognition occurs when the Bank transfers its contractual right to receive cash flows from the financial assets, or assume an obligation to pass on the cash flows from the assets, and transfer substantially all the risks and rewards of ownership. Only in the event that derecognition is achieved are sales and any resultant gains recognised in the financial statements.

Partial derecognition occurs when the Bank sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred and control is retained. These financial assets are recognised on the balance sheet to the extent of continuing involvement and an associated liability is also recognised. The net carrying amount of the financial asset and associated liability will be based on the measurement basis of the financial asset, either the amortised cost or the fair value of the rights and obligations retained by the entity. The Bank's Lion Series programme as such is consolidated.

---

## Securitisation regulatory treatment

For regulatory purposes, any reduction in RWAs that would be achieved by its originated securitisations must satisfy the requirements of APS 120. If achieved, the associated SPEs and underlying assets transferred to SPEs are not consolidated but exposures to them, including derivatives or liquidity facilities, are risk-weighted as securitisation positions. There are policies and procedures in place to ensure significant credit risk transfer has been achieved and capital relief only taken when this is maintained.

For the securitised banking book positions, the Bank uses either the Securitisation External Ratings-Based Approach ('SEC-ERBA') or SEC-SA to calculate the credit risk for securitisation exposures. The Bank has no securitisation positions in the trading book.

The Bank used S&P, Moody's and Fitch as the ECAs for securitisation exposures with credit risk calculated under the SEC-ERBA approach.

Table SEC1 provides the breakdown of securitisation exposures in banking book by underlying asset type.

**SEC1: Securitisation exposures in the banking book**

		At 31 Dec 2025										
		Bank acts as originator <sup>1</sup>				Bank acts as sponsor				Bank acts as investor		
		of which simple, transparent and comparable ('STC')				of which STC				of which STC		
\$m		Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total	Traditional	Synthetic	Sub-total		
1	<b>Retail (total) – of which:</b>	<b>8,858.5</b>	–	<b>8,858.5</b>	–	–	–	–	–	–	–	–
2	residential mortgage	<b>8,858.5</b>	–	<b>8,858.5</b>	–	–	–	–	–	–	–	–
3	credit card	–	–	–	–	–	–	–	–	–	–	–
4	other retail exposures	–	–	–	–	–	–	–	–	–	–	–
5	re-securitisation	–	–	–	–	–	–	–	–	–	–	–
At 30 Jun 2025												
1	Retail (total) – of which:	9,940.9	–	9,940.9	–	–	–	–	–	–	–	–
2	residential mortgage	9,940.9	–	9,940.9	–	–	–	–	–	–	–	–
3	credit card	–	–	–	–	–	–	–	–	–	–	–
4	other retail exposures	–	–	–	–	–	–	–	–	–	–	–
5	re-securitisation	–	–	–	–	–	–	–	–	–	–	–

1 Bank acts as originator reflects securitisation activities in which the Bank securitises its own assets. This includes internal securitisation and funding only securitisation transactions where the Bank retains all notes issued by Lion Series 2009-1 Trust.

Table SEC3 provides securitisation exposures in the banking book by risk weight and by regulatory approach when the Bank acts as originator or sponsor and the associated capital requirements.

**SEC3: Securitisation exposures in the banking book and associated regulatory capital requirements – bank acting as originator or as sponsor**

		At 31 Dec 2025														
		Exposure values (by risk weight bands)				Exposure values (by regulatory approach)				RWAs (by regulatory approach)				Capital charge after cap		
		>100% to <1250 % RW				SEC-ERBA and SEC-IRBA				SEC-ERBA and SEC-IRBA				SEC-ERBA and SEC-IRBA		
\$m		≤20% to 50%	>50% to 100%	>100% to <1250 % RW	SEC-IRBA 1,250%	SEC-IRBA	SEC-SA 1,250%	SEC-IRBA	SEC-IRBA	SEC-SA 1,250%	SEC-IRBA	SEC-IRBA	SEC-SA 1,250%	SEC-IRBA	SEC-IRBA	SEC-SA 1,250%
1	<b>Total exposures</b>	<b>138.5</b>	–	–	–	–	–	<b>138.5</b>	–	–	–	<b>20.8</b>	–	–	–	<b>1.7</b>
2	Traditional securitisation	<b>138.5</b>	–	–	–	–	–	<b>138.5</b>	–	–	–	<b>20.8</b>	–	–	–	<b>1.7</b>
3	of which: securitisation	<b>138.5</b>	–	–	–	–	–	<b>138.5</b>	–	–	–	<b>20.8</b>	–	–	–	<b>1.7</b>
4	of which: retail underlying	<b>138.5</b>	–	–	–	–	–	<b>138.5</b>	–	–	–	<b>20.8</b>	–	–	–	<b>1.7</b>
At 30 Jun 2025																
1	Total exposures	149.2	–	–	–	–	–	149.2	–	–	–	22.4	–	–	–	1.8
2	Traditional securitisation	149.2	–	–	–	–	–	149.2	–	–	–	22.4	–	–	–	1.8
3	of which: securitisation	149.2	–	–	–	–	–	149.2	–	–	–	22.4	–	–	–	1.8
4	of which: retail underlying	149.2	–	–	–	–	–	149.2	–	–	–	22.4	–	–	–	1.8

# Market Risk

## Overview of market risk

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

## Exposure to market risk

Exposure to market risk arises from both trading portfolios and banking portfolios:

- Trading portfolios: these comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.
- Banking portfolios: these comprise positions that primarily arise from the interest rate management of the retail and commercial banking assets and liabilities, financial investments measured at fair value through other comprehensive income, and debt instruments measured at amortised cost.

Where appropriate, the Bank applies similar risk management policies and measurement techniques to both trading and banking portfolios. The Bank's objective is to manage and control market risk exposures to optimise return on risk while maintaining a market risk profile consistent with the established risk appetite.

## Market risk governance and structure

Markets and Securities Services manage market risk within overall trading VaR and stressed VaR ('SVaR') risk limits set by the Traded Risk team, approved by the RMM. The Traded Risk team is responsible for measuring, monitoring and reporting market risk exposures against limits on a daily basis. Traded Risk also enforces the controls around trading in approved permissible instruments as well as changes that follow the approval of new products.

## Market risk measures

### Sensitivity analysis

The Bank uses sensitivity measures to monitor the market risk positions within each asset class and risk type. Granular sensitivity limits are set for each trading desk taking into consideration market liquidity, customer demand and capital constraints, amongst other factors.

### Value at risk

VaR is a technique that estimates the potential mark-to-market losses on derivatives, securities and money market positions in the trading and banking portfolios as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is an integral part of the market risk management framework and is calculated for a scope of trading and banking positions.

MR table provides the components of the capital requirements under the standardised approach for market risk.

MR: Market risk under the standardised approach

		At 31 Dec 2025	At 30 Jun 2025
		Capital requirement (in terms of risk-weighted assets) for:	Capital requirement (in terms of risk-weighted assets) for:
		\$m	\$m
1	Interest rate risk	83.0	73.6
	of which: general market risk	83.0	73.6
2	Equity position risk	—	—
3	Foreign exchange risk	2.6	2.0
4	Commodity risk	—	—
5	<b>Total</b>	<b>85.6</b>	<b>75.6</b>

The Bank's models are predominantly based on historical simulation, and VaR is calculated at a 99% confidence level for a one-day holding period.

The Bank's VaR model uses historical series of market rates and prices, implicitly taking into account inter-relationships between different markets and rates such as interest rates and FX rates.

The primary categories of risk factors driving market risk are summarised below:

Risk factor	Description
FX	Risk arising from changes in FX rates and volatilities.
Interest rate	Risk arising from changes in the level of interest rates that may impact prices of interest rate sensitive assets such as interest rate swaps.
Credit	Risk arising from changes in the level of credit spreads that may impact prices of credit spread sensitive assets.

The Bank's models aggregate general and specific risk and allow for diversification across them. The Bank uses the past two years as the historical data set in the VaR model and the scenarios are updated at least on a weekly basis. These scenarios are then applied to the market baselines and positions on a daily basis.

The nature of the VaR model means that an increase in observed market volatility will lead to an increase in VaR even without any changes in the underlying positions.

## VaR model limitations

Although a valuable guide to risk, VaR is used with awareness of its limitations, for example:

- The use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to sufficiently reflect a change in the market regime.
- The use of a 1-day holding period for risk management purposes of trading book assumes that this short period is sufficient to hedge or liquidate all positions.
- The use of a 99% confidence level, by definition does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at close of business and therefore does not necessarily reflect intra-day exposures.

## Market risk capital calculation

For regulatory purposes, the trading book comprises all positions in financial instruments held with trading intent and positions where it can be demonstrated that they hedge positions in the trading book. Trading book positions must either be free of any restrictive covenants on their tradability or be capable of being hedged.

Market risk capital is calculated using the standardised approach.

# Operational Risk

## General qualitative information on the Bank's operational risk framework

Non-financial risk (often referred to as 'operational risk') is the risk of loss resulting from people, inadequate or failed internal processes, data or system, or external events. Sound non-financial risk management is central to achieving good outcomes for the customers, grow the business safely and maintain orderly and transparent operation of financial markets. Non-financial risk is relevant to every aspect of the business and is broadly managed through the RMF. Non-financial risk covers a wide spectrum of areas, such as resilience risk, financial crime risk, regulatory compliance risk, financial reporting risk, and people risk. Losses arising from breaches of regulation and law, unauthorised activities, error, omission, inefficiency, fraud, systems failure, or external events all fall within the definition of non-financial risk.

### Operational risk capital requirements

Operational risk is part of non-financial risk. The Bank uses the Standardised Measurement Approach to determine the operational risk capital requirement.

### Organisation and responsibilities

The RMF sets out the Bank's approach to governance, risk management and the principles for the management of non-financial risks and associated controls. Responsibility for managing non-financial risk lies with the Bank's people. The Bank continues to enhance the framework and tools for strengthening the control environment and to improve practices in the management of non-financial risk.

The effectiveness of first line of defence risk and control owners, and second line of defence risk stewards in managing the Bank's non-financial risk processes and practices are reported through the RMM. The RMM is chaired by the Bank's CRCO; it is a formal governance meeting which oversees all risk which includes the management of the Bank's non-financial risk profile.

Non-financial risk is organised as a specific risk discipline within the Enterprise Risk team and is headed by the Head of ERM. The Head of ERM is responsible for monitoring the effectiveness of the first line of defence in its management of non-financial risk. The Head of ERM is accountable to the Bank's CRCO in respect of this element of the overall RMF.

- ▶ Further information about the Group's three lines of defence model and executive risk governance structures is available on page 31 of the Bank's Annual Report and Accounts 2025.

### Measurement and monitoring

The RMF is written as a high-level standard, supplemented by detailed policies. These policies explain the Bank's approach to identifying, assessing, monitoring, and controlling non-financial risk, and give guidance on mitigating actions to be taken when weaknesses are identified.

To drive risk awareness in a more forward-looking manner, the Bank sets out the risk appetite and then regularly monitors non-financial risk exposure against that risk appetite. This assists management in determining whether further action is required.

Risk scenario analysis across the Bank provides a top down, forward looking assessment of risks to help determine whether they are being effectively managed within the risk appetite or whether further management action is required. In the Bank, the first line of defence is responsible for maintaining an appropriate level of internal control, commensurate with the scale and nature of operations. They are responsible for identifying and assessing risks, designing controls, and monitoring the effectiveness of these controls. The RMF helps managers to fulfil these responsibilities by defining a standard risk assessment methodology and providing a tool for the systematic reporting of operational loss data.

### Risk and control assessment approach

Non-financial risk and control assessments are performed by the first line of defence. The risk and control assessment process is designed to provide the first line of defence with a view of non-financial risks, 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. Appropriate means of mitigation and controls are considered. These include making specific changes to strengthen the internal control environment, and investigating whether cost-effective insurance cover is available to mitigate the risk.

### Recording

The Bank uses a Group-wide risk management system to record the results of the non-financial risk management process. Non-financial risk and control assessments, as described above, are input, and maintained by the first line of defence. The first line of defence monitors and follows up the progress of documented action plans. Operational risk losses are entered into the Bank-wide risk management system and reported to RMM. Loss capture thresholds are in line with industry standards.

Table OR1 provides aggregate operational losses incurred over the past 10 years based on the accounting date of the incurred losses.

OR1: Historical losses

		At										
		2024	2023	2022	2021	2020	2019	2018	2017	2016	2015	Ten-year average
Using \$30,000 threshold												
1	Total amount of operational losses net of recoveries (no exclusions) (\$m)	7.1	16.0	5.2	11.0	4.1	22.2	2.8	9.6	1.2	1.6	8.1
2	Total number of operational risk losses	40	40	54	48	37	46	16	27	9	17	33
3	Total amount of excluded operational risk losses (\$m)	—	—	—	—	—	—	—	—	—	—	—
4	Total number of exclusions	—	—	—	—	—	—	—	—	—	—	—
5	Total amount of operational losses net of recoveries and net of excluded losses (\$m)	7.1	16.0	5.2	11.0	4.1	22.2	2.8	9.6	1.2	1.6	8.1
Using \$150,000 threshold												
6	Total amount of operational losses net of recoveries (no exclusions) (\$m)	5.2	13.8	2.5	8.8	2.6	20.0	2.5	8.3	0.8	0.7	6.5
7	Total number of operational risk losses	18	8	12	12	10	17	10	10	2	3	10
8	Total amount of excluded operational risk losses (\$m)	—	—	—	—	—	—	—	—	—	—	—
9	Total number of exclusions	—	—	—	—	—	—	—	—	—	—	—
10	Total amount of operational losses net of recoveries and net of excluded losses (\$m)	5.2	13.8	2.5	8.8	2.6	20.0	2.5	8.3	0.8	0.7	6.5
Details of operational risk capital calculation												
11	Are losses used to calculate the Internal loss multiplier ('ILM') (yes/no)?	No										
12	If 'no' in row 11, is the exclusion of internal loss data due to non-compliance with the minimum loss data standards (yes/no)?	No										
13	Loss event threshold: \$30,000 or \$150,000 for the operational risk capital calculation if applicable	No										

Table OR2 provides the business indicator ('BI') and its subcomponents, which inform the operational risk capital calculation.

**OR2: Business indicator and subcomponents**

BI and its subcomponents		At		
		31 Dec 2024	31 Dec 2023	31 Dec 2022
		\$m	\$m	\$m
1	Interest, lease and dividend component	983.0		
1a	Interest and lease income	2,665.1	2,234.9	1,150.0
1b	Interest and lease expense	1,532.1	1,240.6	328.2
1c	Interest earning assets	52,737.1	46,808.3	43,642.6
1d	Dividend income	—	—	—
2	Services component	319.1		
2a	Fee and commission income	180.1	180.2	180.8
2b	Fee and commission expense	84.0	68.1	55.8
2c	Other operating income	135.0	133.9	147.2
2d	Other operating expense	17.3	13.9	4.5
3	Financial component	162.2		
3a	Net P&L on the trading book	172.7	193.9	114.5
3b	Net P&L on the banking book	0.6	2.7	2.3
4	BI	1,464.3		
5	Business indicator component ('BIC')	175.7		
Disclosure on the BI:				
6a	BI gross of excluded divested activities	—		
6b	Reduction in BI due to excluded divested activities	—		

Table OR3 provides the BIC used for calculating minimum regulatory capital requirements for operational risk and associated RWAs.

**OR3: Minimum required operational risk capital**

		At	
		31 Dec 2024	31 Dec 2023
		\$m	\$m
1	Business indicator component ('BIC')	175.7	155.3
2	Internal loss multiplier ('ILM')	1.0	1.0
3	Minimum required operational risk capital ('ORC')	175.7	155.3
4	Operational risk RWAs	2,196.5	1,940.8

# Liquidity

## Liquidity risk management

Management oversight of the Bank's liquidity and funding risk is ensured through governance arrangements aligned with the RMM. Liquidity and funding risk within the Group is managed at the operating entity level to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the Group, while adhering to globally consistent policies, procedures and reporting standards.

To this end, the Bank maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is complemented with a portfolio of highly liquid assets diversified by maturity which are held to enable the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

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

The Board is responsible for the sound and prudent management of liquidity risk, approving the liquidity risk tolerance and ensuring there is an appropriate framework in place for managing this risk. The Chief Financial Officer ('CFO') with the assistance of the Asset, Liability and Capital Management ('ALCM') team is responsible for implementing the liquidity and funding risk management framework and associated elements (strategies, policies and procedures) for maintaining and planning liquidity and funding.

Compliance with liquidity and funding requirements is monitored by the Bank's Asset-Liability Committee ('ALCO'), RMM and Operating Committee ('OpCo') on a regular basis. Liquidity and funding risk management processes include:

- maintaining compliance with relevant regulatory requirements;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;

- monitoring liquidity and funding ratios against internal and regulatory requirements;
- managing term funding profile where appropriate;
- maintaining debt financing plans where appropriate;
- monitoring of depositor and maturity concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile; and
- maintaining and testing liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

Funding and liquidity plans form part of the financial resource plan (and funding strategy) that is approved by the Board. The Board-level risk appetite measures are the liquidity coverage ratio ('LCR'), internal liquidity metric ('ILM') and net stable funding ratio ('NSFR').

### LCR

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.

### NSFR

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.

### ILM

The ILM is HSBC's internal liquidity risk measurement and management tool.

# Liquidity Coverage Ratio

The LCR aims to ensure that a bank has sufficient HQLA to meet its liquidity needs in a 30-calendar day severe liquidity stress scenario. The Bank follows guidelines set by APRA and is compliant with the minimum coverage ratio requirement of 100%. The Bank reported a weighted average LCR of 164.2% in the quarter ended 31 December 2025.

The Bank maintains a well-diversified and high-quality liquid asset portfolio to support regulatory and internal requirements. Average liquid assets for the quarter were \$19,639.3m. The Bank's mix of liquid assets consist of cash, deposits with the Reserve Bank of Australia ('RBA'), Australian semi government and Commonwealth government securities.

Funding sources to support business lending are primarily from customer deposits.

LCR Net Cash Outflows ('NCOs') represent the net cash inflows and outflows that could potentially occur from on and off-balance sheet activities within a 30-day severe liquidity stress scenario. The cash flows are calculated by applying APRA prescribed run-off factors to maturing debt, deposits and off-balance sheet exposures offset by inflows from assets based on prescribed run-off factors. Higher run-off factors are applied to sophisticated investors and depositors including long term and short-term debt holders, financial institution,

and corporate depositors. Lower run-off factors are applied to deposits less likely to be withdrawn in a period of severe stress. These include deposits from retail customers and corporate and financial institutions, which are considered to be operational in nature.

Cash outflows arising from business activities that create contingent funding and collateral requirements, such as repo funding and derivatives and the extension of credit and liquidity facilities to customers, are also captured within the LCR calculation along with an allowance for debt buyback requests.

The Bank manages its LCR position on a daily basis, ensuring a buffer is maintained over the minimum regulatory requirement and the Board's risk appetite.

During the period of September 2025 to December 2025, the average LCR ratio has decreased by 3.0% from 167.2% to 164.2%. This was mainly due to an increase in net cash outflows of \$212.5m, which in turn was mainly driven by increased secured wholesale funding of \$189.8m.

The Bank monitors the LCR for its material currencies. Limits are set to ensure that outflows can be met. This continuous monitoring helps with overall management of currency exposures, in line with the internal framework.

## LIQ1: Liquidity Coverage Ratio ('LCR')

		At 31 Dec 2025		At 30 Sep 2025	
		Total unweighted value (average)	Total weighted value (average)	Total unweighted value (average)	Total weighted value (average)
		\$m	\$m	\$m	\$m
<b>Liquid assets</b>					
1	High-quality liquid assets ('HQLA')		19,639.3		19,640.4
AU-1(a)	Alternative liquid assets ('ALA')		—		—
AU-1(b)	Reserve Bank of New Zealand ('RBNZ') securities		—		—
<b>Cash outflows</b>					
2	<b>Retail deposits and deposits from small business customers, of which:</b>	21,962.8	1,884.5	22,621.7	1,969.2
3	– stable deposits	10,619.9	531.0	10,823.2	541.2
4	– less stable deposits	11,342.9	1,353.5	11,798.5	1,428.0
5	<b>Unsecured wholesale funding, of which:</b>	21,657.6	8,505.2	20,798.3	8,448.8
6	– operational deposits (all counterparties) and deposits in networks for cooperative banks	11,294.9	2,718.2	10,678.5	2,566.0
7	– non-operational deposits (all counterparties)	10,331.0	5,755.3	10,059.1	5,822.1
8	– unsecured debt	31.7	31.7	60.7	60.7
9	<b>Secured wholesale funding</b>		189.8		—
10	<b>Additional requirements, of which:</b>	9,708.9	1,192.2	9,596.9	1,193.8
11	– outflows related to derivatives exposures and other collateral requirements	393.3	393.3	400.6	400.6
12	– outflows related to loss of funding on debt products	0.8	0.8	0.7	0.7
13	– credit and liquidity facilities	9,314.8	798.1	9,195.6	792.5
14	<b>Other contractual funding obligations</b>	275.2	269.9	273.4	268.3
15	<b>Other contingent funding obligations</b>	4,180.3	475.0	3,930.0	379.7
16	<b>Total cash outflows</b>		12,516.6		12,259.8
<b>Cash inflows</b>					
17	<b>Secured lending (e.g. reverse repos)</b>	1,211.7	—	1,917.3	—
18	<b>Inflows from fully performing exposures</b>	882.4	540.5	823.4	494.5
19	Other cash inflows	14.5	14.5	16.2	16.2
20	<b>Total cash inflows</b>	2,108.6	555.0	2,756.9	510.7
			<b>Total adjusted value</b>		<b>Total adjusted value</b>
21	<b>Total HQLA</b>		19,639.3		19,640.4
22	<b>Total net cash outflows</b>		11,961.6		11,749.1
23	<b>Liquidity Coverage Ratio (%)</b>		164.2		167.2

The LCR Disclosure Template reflects the Basel standards and is calculated based on simple averages of daily observations over the previous quarter excluding weekends and public holidays.

# Net Stable Funding Ratio

The NSFR is a regulatory metric that requires that Available Stable Funding ('ASF') be sufficient to cover Required Stable Funding ('RSF'). It 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 NSFR seeks to encourage ADIs to fund their business activities with more stable sources of funding on an ongoing basis, and thereby promote greater balance sheet resilience.

The Bank actively manages its NSFR position ensuring a buffer is maintained over the minimum regulatory requirement of 100% and the Board's risk appetite.

As at 31 December 2025, the Bank's NSFR was 139.0%, down by 5.3% from September 2025. This was mainly attributable to decreased ASF of \$1,036.2m and increased RSF of \$433.6m.

The main sources of ASF as at December 2025 were retail deposits at 61%, wholesale funding at 31% and capital at 8% of the total ASF.

The majority of the Bank's RSF as at December 2025 was driven by mortgages at 82% and lending to non-financial customers at 7% of the total RSF.

The tables below display the NSFR for the Bank as at 31 December 2025 and 30 September 2025.

Table LIQ2 provides details of the Bank's NSFR and selected details of its NSFR components.

## LIQ2: Net Stable Funding Ratio ('NSFR')

		At 31 Dec 2025					
		Unweighted value by residual maturity				Weighted value	
		No maturity	< 6 months	6 months to < 1 year	≥ 1 year		
		\$m	\$m	\$m	\$m	\$m	
<b>Available stable funding ('ASF') item</b>							
1	Capital:	3,331.3	—	—	—	3,331.3	
2	– Regulatory capital	3,331.3	—	—	—	3,331.3	
4	Retail deposits and deposits from small business customers:	19,916.7	8,948.5	—	—	26,632.9	
5	– Stable deposits	9,897.4	3,189.2	—	—	12,432.2	
6	– Less stable deposits	10,019.3	5,759.3	—	—	14,200.7	
7	Wholesale funding:	20,952.5	4,849.5	2,159.1	2,356.3	13,318.0	
8	– Operational deposits	11,994.0	—	—	—	5,997.0	
9	– Other wholesale funding	8,958.5	4,849.5	2,159.1	2,356.3	7,321.0	
11	Other liabilities:	—	983.6	284.5	168.6	310.9	
12	– NSFR derivative liabilities	—	—	—	—	—	
13	– All other liabilities and equity not included in the above categories	—	983.6	284.5	168.6	310.9	
14	Total ASF					43,593.1	
<b>Required stable funding ('RSF') item</b>							
15	Total NSFR high-quality liquid assets ('HQLA')					760.6	
AU-15(a)	Alternative liquid assets ('ALA')					—	
AU-15(b)	Reserve Bank of New Zealand ('RBNZ') securities					—	
17	Performing loans and securities:	812.2	3,629.6	310.7	38,944.9	28,669.5	
18	– Performing loans to financial institutions secured by Level 1 HQLA	—	1,764.8	—	—	176.5	
19	– Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	82.6	169.1	—	281.1	389.0	
20	– Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and Public sector entities ('PSEs'), of which:	729.6	1,360.1	202.9	847.4	2,121.9	
22	– Performing residential mortgages, of which:	—	11.0	0.2	37,719.4	25,683.4	
23	– Standard residential property loans to individuals with a Loan-to-Value Ratio ('LVR') of 80 per cent or below	—	1.1	0.2	33,646.6	21,871.1	
24	– Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	—	324.7	107.6	97.0	298.6	
26	Other assets:	616.0	105.7	10.1	668.6	1,399.4	
28	– Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties	—	—	6.6	—	5.6	
29	– NSFR derivative assets	—	—	56.1	—	56.1	
30	– NSFR derivative liabilities before deduction of variation margin posted	—	—	6.1	—	6.1	
31	– All other assets not included in the above categories	616.0	36.8	10.1	668.6	1,331.5	
32	Off-balance sheet items	—	—	—	13,835.1	522.6	
33	<b>Total RSF</b>					31,352.1	
34	Net Stable Funding Ratio (%)					139.0	

LIQ2: Net Stable Funding Ratio ('NSFR') (continued)

At 30 Sep 2025

	Unweighted value by residual maturity				Weighted value \$m	
	No maturity \$m	< 6 months \$m	6 months to < 1 year \$m	≥ 1 year \$m		
Available stable funding ('ASF') item						
1	Capital:	3,374.4	—	—	250.0	3,624.4
2	– Regulatory capital	3,374.4	—	—	250.0	3,624.4
4	Retail deposits and deposits from small business customers:	20,322.5	8,724.4	—	—	26,796.2
5	– Stable deposits	9,998.0	3,081.3	—	—	12,425.4
6	– Less stable deposits	10,324.5	5,643.1	—	—	14,370.8
7	Wholesale funding:	20,129.4	4,305.8	2,338.0	3,104.9	14,008.0
8	– Operational deposits	11,897.2	—	—	—	5,948.6
9	– Other wholesale funding	8,232.2	4,305.8	2,338.0	3,104.9	8,059.4
11	Other liabilities:	—	1,010.8	51.5	174.9	200.7
12	– NSFR derivative liabilities	—	—	1.4	—	—
13	– All other liabilities and equity not included in the above categories	—	1,009.4	51.5	174.9	200.7
14	Total ASF	—	—	—	—	44,629.3
Required stable funding ('RSF') item						
15	Total NSFR high-quality liquid assets ('HQLA')	—	—	—	—	757.2
AU-15(a)	Alternative liquid assets ('ALA')	—	—	—	—	—
AU-15(b)	Reserve Bank of New Zealand ('RBNZ') securities	—	—	—	—	—
17	Performing loans and securities:	1,044.2	3,396.2	582.5	37,993.5	28,341.3
18	– Performing loans to financial institutions secured by Level 1 HQLA	—	1,496.2	—	—	149.6
19	– Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions	105.1	353.0	—	211.3	369.4
20	– Performing loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs ('Public sector entities'), of which:	939.1	1,365.1	232.3	896.3	2,358.7
22	– Performing residential mortgages, of which:	—	7.4	0.9	36,737.6	25,075.6
23	– Standard residential property loans to individuals with a Loan-to-Value Ratio ('LVR') of 80 per cent or below	—	1.3	0.9	32,618.2	21,203.2
24	– Securities that are not in default and do not qualify as HQLA, including exchange-traded equities	—	174.5	349.3	148.4	388.0
26	Other assets:	560.7	14.8	10.5	699.7	1,284.6
28	– Assets posted as initial margin for derivative contracts and contributions to default funds of central counterparties	—	—	6.8	—	5.8
29	– NSFR derivative assets	—	—	—	—	—
30	– NSFR derivative liabilities before deduction of variation margin posted	—	—	8.0	—	8.0
31	– All other assets not included in the above categories	560.7	—	10.5	699.7	1,270.9
32	Off-balance sheet items	—	—	—	13,775.0	535.2
33	Total RSF	—	—	—	—	30,918.3
34	Net Stable Funding Ratio (%)	—	—	—	—	144.3

# Interest Rate Risk in the Banking Book

## IRRBB risk management objectives and policies

Interest rate risk in the banking book ('IRRBB') is the potential adverse impact of changes in interest rates on earnings and capital. It is generated by the non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for either trading intent or to hedge positions held with trading intent. The component of IRRBB that can be economically neutralised in the market is transferred to the Markets Treasury team to manage, in accordance with internal transfer pricing rules. Hedging is generally executed through interest rate derivatives (often as part of accounting hedge relationships) or fixed-rate government bonds classified as Hold to Collect and Sell ('HTC&S').

In its management of IRRBB, the Bank aims to balance the potential adverse effect of future interest rate movements on the Banking Net Interest Income ('NII') against the cost of hedging. A core element of this approach is the ongoing monitoring of projected NII and Economic Value of Equity ('EVE') sensitivities across varying interest rate scenarios, alongside regular assessment of hedge effectiveness.

## Risk management and governance

ALCM measures, monitors and manages IRRBB and is subject to independent oversight and challenge from Treasury Risk. This includes reviewing and challenging the interest rate risk management impacts of proposed new products and the related behavioural assumptions used for hedging activities. ALCM is also responsible for maintaining and updating the transfer pricing framework, informing ALCO of the Bank's overall banking book interest rate risk exposure, and managing the balance sheet. EVE and NII sensitivities are monitored against set thresholds.

At the Bank, stress testing also forms a key part of its risk management framework. The Bank runs various internal and regulatory stress tests during the year. These help to identify the exposure to key economic risks and how they impact financial and capital positions in the event of a severe economic shock. Identifying these risks allows the Bank to actively assess and implement effective risk management strategies to help mitigate risks before they occur. This also helps to ensure that the Bank has adequate capital and liquidity to withstand severe but plausible hypothetical economic shocks, as defined in the stress scenarios, and helps determine the Bank's capital requirements under ICAAP, including assessment for IRRBB.

ALCO defines the transfer pricing curve and reviews and recommends for approval to the CFO who subsequently approves the transfer pricing policy, including behavioural assumptions used for products where there is either no defined maturity or customer optionality exists.

ALCO is also responsible for monitoring and reviewing the overall structural interest rate risk position. Structural hedge demand is determined as per the Group's Benchmark Structural Hedge methodology and is reviewed by ALCO on a semi-annual basis. Banking book assets and liabilities are transferred to Markets Treasury based on their repricing and maturity characteristics. Markets Treasury manages the banking book interest rate positions transferred to it within the Market Risk limits.

## Sensitivity of economic value of equity

$\Delta$ EVE as disclosed in the table 'IRRBB1 – Quantitative information on IRRBB' is the extent to which the EVE will change due to a pre-specified movement in interest rates, where all other economic

variables are held constant. Variations in market interest rates can affect the economic value of assets, liabilities and off-balance sheet positions. The economic value of an instrument represents an assessment of the present value of its expected net cash flows, discounted to reflect market rates. The economic value perspective reflects this sensitivity. It provides a more comprehensive view of the potential long-term effects of changes in interest rates. EVE is calculated on a quarterly basis.

## Sensitivity of net interest income

$\Delta$ NII as disclosed in the table 'IRRBB1 – Quantitative information on IRRBB' is the sensitivity of expected NII applying varying interest rate scenarios, where all other economic variables are held constant. The sensitivity of NII reflects the Bank's sensitivity of earnings due to changes in market interest rates. The impact on earnings is assessed over the next 12 months and calculated on a quarterly basis.

## Key modelling assumptions

Key modelling and parametric assumptions used in calculating  $\Delta$ EVE and  $\Delta$ NII in Table IRRBB1 include:

- for  $\Delta$ EVE, commercial margins and other spread components have been excluded from the interest cash flows calculation, and all balance sheet items are discounted at risk free rates back to the reporting date;
- all the positions captured are assumed to run to maturity and slotted into the appropriate time bands based on structural hedge maturity profile for material exposures;
- structural hedge demand assessment of non-maturity products, the extent of which can be driven by:
  - the amount of the current balance that can be assessed as stable under business-as-usual conditions; and
  - for managed rate balances the historic market interest rate repricing behaviour observed; or
  - for non-interest bearing balances the duration for which the balance is expected to remain under business-as-usual conditions. This assessment is often driven by the re-investment tenors available to Market Treasury to neutralise the risk through the use of fixed rate government bonds or interest rate derivatives, and for derivatives the availability of cash flow hedging capacity.
- internal measurements consider aggregated results of all currencies translated at spot rate at reporting date;
- negative rate flooring is set at -1%.

Both internally monitored metrics are consistent with modelling assumptions set out in SRP31: IRRBB under the Basel framework.

## Quantitative information on IRRBB

As at 31 December 2025, the maximum decline in EVE is in the 'Parallel Up' shock at \$183.5m. This translates to 6.1% of Tier 1 capital. The average and the longest repricing maturity for Non-maturity deposits ('NMDs') as of 31 December 2025 was 29 months and 60 months respectively.

The most adverse NII sensitivity scenario over the next 12 months is the 'Parallel Down' shock, resulting in a decrease in projected NII of \$357.9m as at 31 December 2025.

Table IRRBB1 provides information on the changes in the equity and interest income under each of the prescribed interest rate shock scenarios.

**IRRBB1: Quantitative information on IRRBB**

Period	ΔEVE		ΔNII	
	At 31 Dec 2025 \$m	At 31 Dec 2024 \$m	At 31 Dec 2025 \$m	At 31 Dec 2024 \$m
Parallel up	(183.5)	(237.8)	206.6	131.2
Parallel down	217.2	286.0	(357.9)	(366.9)
Steepener	55.2	26.9		
Flattener	(88.5)	(72.8)		
Short rate up	(151.8)	(160.7)		
Short rate down	174.7	180.4		
Maximum	(183.5)	(237.8)	(357.9)	(366.9)
Period	At 31 Dec 2025		At 31 Dec 2024	
Tier 1 capital	3,014.3		2,923.1	

# Asset Encumbrance

Table ENC provides the amount of encumbered and unencumbered assets.

ENC: Asset encumbrance

Assets of the reporting institution	At 31 Dec 2025		
	Encumbered assets	Unencumbered assets	Total
	\$m	\$m	\$m
Loans on demand	—	3,652.3	3,652.3
Equity instruments	—	10.7	10.7
Debt securities <sup>1</sup>	1,320.0	14,422.0	15,742.0
of which: covered bonds	—	529.4	529.4
of which: securitisations	—	—	—
of which: issued by general governments	1,320.0	13,892.7	15,212.7
of which: issued by financial corporations	—	529.4	529.4
of which: issued by non-financial corporations	—	—	—
Loans and advances other than loans on demand	2,928.5	41,398.2	44,326.7
of which: mortgage loans	2,356.3	36,822.5	39,178.8
Other assets	—	870.7	870.7
<b>Total</b>	<b>4,248.5</b>	<b>60,353.9</b>	<b>64,602.4</b>

	At 30 Jun 2025		
Loans on demand	—	6,559.4	6,559.4
Equity instruments	—	9.1	9.1
Debt securities <sup>1</sup>	856.5	13,965.0	14,821.5
of which: covered bonds	—	710.1	710.1
of which: securitisations	—	—	—
of which: issued by general governments	856.5	12,154.3	13,010.8
of which: issued by financial corporations	—	1,810.7	1,810.7
of which: issued by non-financial corporations	—	—	—
Loans and advances other than loans on demand	3,474.2	40,278.8	43,753.0
of which: mortgage loans	2,675.1	35,016.0	37,691.1
Other assets	—	785.9	785.9
<b>Total</b>	<b>4,330.7</b>	<b>61,598.2</b>	<b>65,928.9</b>

1 Debt securities include Reserve Bank of Australia repurchase agreement.

# Abbreviation

The following abbreviated terms are used throughout this document.

<b>A</b>		<b>M</b>	
AASB	Australian Accounting Standards Board	Moody's	Moody's Investors Service
ABN	Australian Business Number	<b>N</b>	
AC	Audit Committee	NII	Net Interest Income
ADI	Authorised Deposit-taking Institution	NMD	Non-maturity deposit
AFSL	Australian Financial Services Licence	<b>O</b>	
ALA	Alternative Liquid Asset	OpCo	Operating Committee
ALCM	Asset, Liability and Capital Management	OTC	Over-the-Counter (derivatives)
ALCO	Asset and Liability Committee	<b>P</b>	
APRA	Australian Prudential Regulation Authority	P&L	Profit and Loss
APS	APRA Prudential Standard	PD	Probability of Default
AUD	Australian Dollar	PSE	Public sector entities
<b>B</b>		<b>Q</b>	
BCBS	Basel Committee on Banking Supervision	QCCP	Qualifying Central Counterparty
<b>C</b>		<b>R</b>	
CCF	Credit Conversion Factor	RAS	Risk Appetite Statement
CCP	Central Counterparty	RBA	Reserve Bank of Australia
CCR	Counterparty Credit Risk	RBNZ	Reserve Bank of New Zealand
CDS	Credit Default Swap	RC	Risk Committee
CRA	Credit Risk Assessment	RMF	Risk Management Framework
CRCO	Chief Risk & Compliance Officer	RMM	Risk Management Meeting
CRM	Credit Risk Mitigation	RW	Risk weight
CRR	Customer Risk Rating	RWA	Risk-Weighted Assets
CSA	Credit Support Annex	<b>S</b>	
CVA	Credit Valuation Adjustment	SA-CCR	Standardised Approach for Counterparty Credit Risk
<b>D</b>		SEC-ERBA	Securitisation External Ratings-Based Approach
DBRS	Morningstar DBRS ratings	SEC-IAA	Securitisation Internal Assessment Approach
DVA	Debit Valuation Adjustment	SEC-IRBA	Securitisation Internal Ratings-Based Approach
<b>E</b>		SEC-SA	Securitisation Standardised Approach
EAD	Expected at default	STC	Simple, transparent and comparable
ECAI	External Credit Assessment Institution	SFT	Securities Financing Transaction
ECL	Expected Credit Loss	SRP	Supervisory Review Process
EPE	Expected Positive Exposure	SRP31	SRP31: Interest Rate Risk in the Banking Book
ERM	Enterprise Risk Management	SVaR	Stressed Value at Risk
EVE	Economic Value of Equity	S&P	Standard and Poor's Ratings Services
<b>F</b>		<b>T</b>	
Fitch	Fitch Ratings	The Bank	HSBC Bank Australia Limited
FVA	Funding Valuation Adjustment	The Group	HSBC Holdings together with its subsidiary undertakings
FX	Foreign Exchange	<b>U</b>	
<b>H</b>		USD	United States Dollar
HQLA	High Quality Liquid Assets	<b>V</b>	
HSBC	HSBC Holdings together with its subsidiary undertakings	VaR	Value at Risk
HTC&S	Hold to Collect and Sell	<b>X</b>	
<b>I</b>		xVA	Various Valuation Adjustments (e.g., CVA, DVA, FVA)
ICAAP	Internal Capital Adequacy Assessment Process	<b>Δ</b>	
ILM	Internal liquidity metric	ΔEVE	Change in Economic Value of Equity
IR	Interest Rate	ΔNII	Change in Net Interest Income
IRB	Internal Ratings-Based	<b>L</b>	
IRRBB	Interest Rate Risk in the Banking Book	LCR	Liquidity Coverage Ratio
<b>L</b>		LGD	Loss Given Default
LVR	Loan-to-Value Ratio	<b>L</b>	

**HSBC Bank Australia Limited**

ABN 48 006 434 162 AFSL 232595

Head Office:

Level 36, Tower 1 - International Towers Sydney  
100 Barangaroo Avenue,  
Sydney, NSW Australia 2000  
[www.hsbc.com.au](http://www.hsbc.com.au)