THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH

FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2024

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH

FOR THE YEAR ENDED 31 DECEMBER 2024

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INDEPENDENT AUDITOR'S REPORT

To the Head Office Management of Hongkong and Shanghai Banking Corporation Limited – Sri Lanka Branch.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Hongkong and Shanghai Banking Corporation Limited – Sri Lanka Branch ("the Branch" or "the Bank") which comprise the statement of financial position as at 31 December 2024, and the income statement, statement of comprehensive income, statement of changes in equity, and cash flow statement for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the *Code of Ethics for Professional Accountants* issued by the Institute of Chartered Accountants of Sri Lanka ("CA Sri Lanka Code of Ethics") and we have fulfilled our other ethical responsibilities in accordance with the CA Sri Lanka Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Branch Management is responsible for the other information. The other information comprises the information included in the supplemental Basel III disclosures and other information but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Branch Management and Those Charged with Governance for the Financial Statements

Branch Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards and for such internal control as Branch management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, Branch management is responsible for assessing the Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Branch management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Branch management.

- Conclude on the appropriateness of Branch management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Branch to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the Branch Management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on legal and other regulatory requirements

Requirements of section 39 of the Banking Act No. 30 of 1988 (as amended by Banking Act No. 24 of 2024)

We have obtained all the information and explanations that were required for the audit. As far as appears from our examination, in our opinion, proper accounting records have been kept by the Bank.

In our opinion the disclosures made in the accompanying financial statements are in accordance with the requirements of Circular No. 05 2024 issued by Central Bank of Sri Lanka.

Deloitte Partners

CHARTERED ACCOUNTANTS

COLOMBO

28 February 2025

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER	Note	2024 Rs.'000	2023 Rs.'000
Interest income		**40,537,602**	44,656,669
Interest expenses		**(10,545,778)**	(9,853,680)
Net interest income	**5**	**29,991,824**	34,802,989
Fee and commission income		**7,743,570**	7,613,886
Fee and commission expenses		**(1,806,753)**	(1,891,541)
Net fee and commission income	**6**	**5,936,817**	5,722,345
Net gains from trading	**7**	**5,514,652**	9,125,014
Net fair value gains from financial instruments at fair value through profit or loss	**8**	**52,251**	22,608
Net losses from derecognition of financial assets	**9**	**(681,480)**	-
Net other operating income	**10**	**127,967**	102,578
Total operating income		**40,942,031**	49,775,534
Impairment reversal for loans and other losses	**11**	**1,949,819**	7,781,165
Net operating income		**42,891,850**	57,556,699
Personnel expenses	**12**	**(5,546,123)**	(5,808,132)
Depreciation and amortization expenses		**(688,613)**	(525,270)
Other expenses	**13**	**(14,169,191)**	(13,275,324)
Operating profit before Value Added Tax and other taxes on financial services		**22,487,923**	37,947,973
Value Added Tax and other taxes on financial services	**14.4**	**(4,709,104)**	(7,325,781)
Profit before tax		**17,778,819**	30,622,192
Income tax expense	**14.1**	**(4,639,861)**	(10,472,659)
Profit for the year		**13,138,958**	20,149,533

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes as set out on pages 9 to 93, which form an integral part of the financial statements of the Branch. The Report of the Auditor is given on pages 1 to 3.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER	Note	2024 Rs.'000	2023 Rs.'000
Profit for the year		**13,138,958**	20,149,533
Other comprehensive income/(expenses)			
Items that may be reclassified to profit or loss in subsequent periods			
Net gains on investments in debt instruments measured at fair value through other comprehensive income (net of tax)	35.2	**868,463**	834,137
Net losses from the financial statements of foreign currency operation	35.1	**(8,541,731)**	(11,124,633)
Net other comprehensive income that may be reclassified to profit or loss in subsequent periods		**(7,673,268)**	(10,290,496)
Items that may not be reclassified to profit or loss in subsequent periods			
Remeasurement of post-employment benefit obligations (net of tax)		**(231,052)**	498,560
Net gains on revaluation of land and buildings (net of tax)	35.3	**106,262**	285,783
Other comprehensive (losses)/gains that may not be reclassified to profit or loss in subsequent periods		**(124,790)**	784,343
Other comprehensive income/(expenses), net of tax		**(7,798,058)**	(9,506,153)
Total comprehensive income for the year, net of tax		**5,340,900**	10,643,380

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes as set out on pages 9 to 93, which form an integral part of the financial statements of the Branch. The Report of the Auditors is given on pages 1 to 3.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER	Note	2024 Rs.'000	2023 Rs.'000
ASSETS			
Cash and cash equivalents	16	140,671,871	218,142,715
Balances with the Central Bank of Sri Lanka	17	35,002,199	88,040,714
Placements with banks	18	74,802,994	11,337,397
Derivative financial instruments	19	239,457	1,010,959
Financial assets measured at fair value through profit or loss	20	14,457	23,759
Financial assets at amortised cost - loans and advances	21	201,202,148	210,213,522
Financial assets measured at fair value through other comprehensive income	22	85,135,590	19,661,971
Financial assets at amortised cost - debt instruments	23	98,241	93,575
Retirement benefit obligations surplus	31	-	85,970
Property, plant and equipment	25	5,627,490	5,518,045
Deferred tax asset	26	-	1,285,651
Other assets	27	67,213,576	31,012,381
Total assets		610,008,023	586,426,659
LIABILITIES			
Due to banks	28	14,147,267	38,358,732
Derivative financial instruments	29	470,583	228,622
Financial liabilities at amortised cost - due to depositors	30	393,967,852	372,447,510
Current tax liabilities	14	1,467,199	6,348,598
Retirement benefit obligations	31	235,435	-
Deferred tax liabilities	26	266,665	-
Other liabilities and provisions	32	77,575,299	46,493,026
Total liabilities		488,130,300	463,876,488
EQUITY			
Assigned capital	33	3,152,358	3,152,358
Statutory reserve fund	34	3,152,358	3,152,358
Other reserves	35	36,423,163	44,006,117
Retained earnings		79,149,844	72,239,338
Total equity		121,877,723	122,550,171
Total equity and liabilities		610,008,023	586,426,659
Contingent liabilities and commitments	38	478,429,161	442,170,056
Memorandum Information			
Number of employees		731	747
Number of branches		11	13

The financial statements are to be read in conjunction with the related notes as set out on pages 9 to 93, which form an integral part of the financial statements of the Branch. The Report of the Auditor is given on pages 1 to 3.
The Management is responsible for the preparation and presentation of these financial statements. The financial statements have been prepared in compliance with the requirements of the Central Bank of Sri Lanka regulations and guidelines.

Approved and signed for and on behalf of the Management.

....	....
Mark Surgenor	**Angelo Pillai**
Chief Executive Officer	**Chief Financial Officer**
28 February 2025	
Colombo	

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2024	**Assigned Capital**	**Exchange Equalisation Reserve**	**FVOCI Reserve**	**SBP Reserve**	**Statutory Reserve Fund**	**Revaluation Reserve**	**Retained Earnings**	**Total Equity**
	Rs.'000	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**
Balance as at 1 January 2023	3,152,358	51,708,239	(550,416)	224,676	2,997,367	2,684,031	54,765,861	114,982,116
Profit for the year	-	-	-	-	-	-	20,149,533	20,149,533
Other comprehensive income (net of tax)	-	(11,124,633)	834,137	-	-	285,783	498,560	(9,506,153)
								-
Total comprehensive income for the year	-	(11,124,633)	834,137	-	-	285,783	20,648,093	10,643,380
Transactions with equity holders, recognised directly in equity								
Transfers to reserves during the year	-	-	-	(55,700)	154,991	-	(154,991)	(55,700)
Profit transferred to head office	-	-	-	-	-	-	(3,019,625)	(3,019,625)
Total transactions with equity holders	-	-	-	(55,700)	154,991	-	(3,174,616)	(3,075,325)
Balance as at 31 December 2023	3,152,358	40,583,606	283,721	168,976	3,152,358	2,969,814	72,239,338	122,550,171
Balance as at 1 January 2024	**3,152,358**	**40,583,606**	**283,721**	**168,976**	**3,152,358**	**2,969,814**	**72,239,338**	**122,550,171**
Profit for the year	-	-	-	-	-	-	**13,138,958**	**13,138,958**
Other comprehensive income (net of tax)	-	**(8,541,731)**	**868,463**	-	-	**106,262**	**(231,052)**	**(7,798,058)**
Total comprehensive income for the year	-	**(8,541,731)**	**868,463**	-	-	**106,262**	**12,907,906**	**5,340,900**
Transactions with equity holders, recognised directly in equity								
Transfers to reserves during the year	-	-	-	**(15,948)**	-	-	-	**(15,948)**
Profit transferred to head office	-	-	-	-	-	-	**(5,997,400)**	**(5,997,400)**
Total transactions with equity holders	-	-	-	**(15,948)**	-	-	**(5,997,400)**	**(6,013,348)**
Balance as at 31 December 2024	**3,152,358**	**32,041,875**	**1,152,184**	**153,028**	**3,152,358**	**3,076,076**	**79,149,844**	**121,877,723**

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes as set out on pages 9 to 93, which form an integral part of the financial statements of the Branch. The Report of the Auditor is given on pages 1 to 3.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 DECEMBER	Note	2024 Rs.'000	2023 Rs.'000
Cash flows from operating activities			
Interest received		**41,100,554**	45,462,794
Interest paid		**(10,613,213)**	(11,123,915)
Net fees and commission received		**5,936,817**	5,722,345
Net receipts from trading activities		**6,401,976**	8,322,337
Payments to employees		**(5,675,264)**	(5,589,302)
VAT and NBT on financial services		**(2,997,411)**	(6,281,621)
Receipts from other operating activities		**128,999**	118,216
Payments to other operating activities		**(14,500,786)**	(13,276,087)
Operating profit before changes in operating assets and liabilities		**19,781,672**	23,354,767
(Increase)/decrease in operating assets			
Balances with Central Bank of Sri Lanka		**(761,485)**	(77,077,541)
Financial assets at amortised cost - loans and advances		**10,167,399**	19,504,159
Treasury bills and bonds		**(65,412,309)**	29,579,018
Other assets		**(99,483,366)**	(13,741,004)
		(155,489,761)	(41,735,368)
Increase/(decrease) in operating liabilities			
Financial liabilities at amortised cost - due to depositors		**21,520,342**	(95,818,606)
Financial liabilities at amortised cost - due to other borrowers		**(24,211,465)**	3,363,043
Other liabilities		**29,395,314**	6,159,867
		26,704,191	(86,295,696)
Net cash used in operating activities before income tax		**(109,003,898)**	(104,676,297)
Income tax paid		**(8,260,827)**	(9,198,458)
Net cash used in operating activities		**(117,264,725)**	(113,874,755)
Cash flows from investing activities			
Acquisition of property, plant and equipment		**(350,137)**	(324,890)
Proceeds from the sale and maturity of financial investments		**872,757**	-
Net cash generated from/(used in) investing activities		**522,620**	(324,890)
Cash flows from financing activities			
Lease payments in lieu of leases with >1 year contract period		**(143,607)**	(147,626)
Profit transferred to Head Office		**(5,997,400)**	-
Net cash used in financing activities		**(6,141,007)**	(147,626)
Net decrease in cash and cash equivalents		**(122,883,112)**	(114,347,271)
Cash and cash equivalents at the beginning of period*	**16**	**303,376,128**	343,532,418
Movement of exchange equalisation reserve		**(8,541,731)**	(11,124,633)
Effects of exchange rate changes		**126,139**	115,614
Cash and cash equivalents at the end of the period*	**16**	**172,077,424**	303,376,128

* Cash and cash equivalent comprises of cash in hand, balances and short term placements with other banks, and short term placements with the Central Bank of Sri Lanka.
Cash and cash equivalent balances are presented gross of impairment.

Figures in brackets indicate deductions.

The financial statements are to be read in conjunction with the related notes as set out on pages 9 to 93, which form an integral part of the financial statements of the Branch. The Report of the Auditors is given on pages 1 to 3.

1. CORPORATE INFORMATION

1.1 Domicile and legal form

The Hongkong and Shanghai Banking Corporation Limited is a public limited liability company incorporated in Hong Kong SAR. It carries out banking activities in Sri Lanka through HSBC Sri Lanka Branch ("the Branch"/ "HSBC"/ "the Bank") a licensed commercial bank registered under the Banking Act No 30 of 1988 as amended by the Banking Amendment Act No 33 of 1995 and Banking (Amendment) Act No. 24 of 2024. The registered office of HSBC Sri Lanka Branch is located at No. 24, Sir Baron Jayatilaka Mawatha, Colombo 1.

1.2 Principal activities and nature of operations

The principal activities of the Branch, which is carrying out banking activities through its branches, remained unchanged during the year. The primary banking services include Wholesale Banking (WSB) including Global Trade Services (GTS), Wealth and Personal Banking (WPB) and Global Banking and Markets (GBM).

1.3 Parent company and ultimate parent company

The immediate parent entity is the Hongkong and Shanghai Banking Corporation Limited incorporated in Hongkong and the ultimate parent entity is HSBC Holding plc. (Incorporated in Great Britain and registered in England and Wales). The ultimate parent is listed, and shares are traded on the following stock markets:

- London Stock Exchange
- Hong Kong Stock Exchange
- New York Stock Exchange
- Bermuda Stock Exchange

2. BASIS OF PREPARATION

2.1 Statement of compliance

The financial statements of the Branch have been prepared in accordance with Sri Lanka Accounting Standards, which comprise Sri Lanka Financial Reporting Standards ("SLFRS"s), Sri Lanka Accounting Standards ("LKAS"s), relevant interpretations of the Standing Interpretations Committee ("SIC") and International Financial Reporting Interpretations Committee ("IFRIC"). Sri Lanka Accounting Standards further comprises of Statements of Recommended Practices (SoRPs), Statements of Alternate Treatments (SoATs) and Financial Reporting Guidelines issued by the Institute of Chartered Accountants of Sri Lanka. These financial statements have been prepared under the historical cost convention except for the items referred to in note 2.1.2. The preparation of financial statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires Branch management to exercise its judgment in the process of applying the Bank's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the Bank's financial statements are disclosed in note 4 to the financial statements.

2. BASIS OF PREPARATION (CONTD)

2.2 Basis of measurement

The financial statements have been prepared on the historical cost basis and applied consistently with no adjustments being made for inflationary factors affecting the financial statements, except for the following;

- Financial instruments measured at fair value through profit or loss, including derivative financial instruments;
- Financial instruments measured at fair value through other comprehensive income;
- Defined benefit obligations and the related Plan assets are measured at fair value;
- Freehold land and buildings are measured at fair value.

2.3 Use of estimates and judgement

The preparation of financial statements in conformity with Sri Lanka Accounting Standards require the use of certain critical accounting estimates. It also requires the management to exercise its judgement in the process of applying the Branch's accounting policies.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period of which the estimate is revised and in any future period affected. The areas involving a higher degree of judgement or complexity, or areas where assumptions are material to the Branch financial statements are disclosed in note 4.

2.4 Changes in accounting standards

The following amendments to the Sri Lanka Accounting Standards that are relevant for the preparation of the Group's financial statements have been adopted by the Branch (a) new standards and amendments that are effective for the first time for periods commencing on or after 1 January 2024 (i.e. year ending 31 December 2024) and (b) forthcoming requirements, being standards and amendments that will become effective on or after 1 January 2025.

(a) New accounting standards, amendments and interpretations – applicable from 1 January 2024

In the current year, the branch has applied a number of amendments to Sri Lanka Accounting Standards issued by CA Sri Lanka that are mandatorily effective for an accounting period that begins on or after 1 January 2024. Their adoption has not had any material impact on the disclosures or on the amounts reported in these financial statements.

Amendments to LKAS 7 Statement of Cash Flows and SLFRS 7 Financial Instruments: Disclosures on Supplier Finance Arrangements

The Branch has adopted the amendments to LKAS 7 Statement of Cash Flows and SLFRS 7 Financial Instruments: Disclosures on Supplier Finance Arrangements for the first time in the current year.

The amendments add a disclosure objective to LKAS 7 stating that an entity is required to disclose information about its supplier finance arrangements that enables users of financial statements to assess the effects of those arrangements on the entity's liabilities and cash flows. In addition, SLFRS 7 is amended to add supplier finance arrangements as an example within the requirements to disclose information about an entity's exposure to concentration of liquidity risk.

2. BASIS OF PREPARATION (CONTD)

2.4 Changes in accounting standards (contd)

(a) New accounting standards, amendments and interpretations – applicable from 1 January 2024 (contd)

Amendments to SLFRS 16 Leases—Lease Liability in a Sale and Leaseback

The Branch has adopted the amendments to SLFRS 16 for the first time in the current year.

The amendments to SLFRS 16 add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in SLFRS 15 Revenue from Contracts with Customers to be accounted for as a sale. The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognise a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognised by the seller-lessee relating to the partial or full termination of a lease. Without these new requirements, a seller-lessee may have recognised a gain on the right of use it retains solely because of a remeasurement of the lease liability (for example, following a lease modification or change in the lease term) applying the general requirements in SLFRS 16. This could have been particularly the case in a leaseback that includes variable lease payments that do not depend on an index or rate.

A seller-lessee applies the amendments retrospectively in accordance with LKAS 8 to sale and leaseback transactions entered into after the date of initial application, which is defined as the beginning of the annual reporting period in which the entity first applied SLFRS 16.

Most of the amendments listed above did not have any impact on the amounts recognised in prior periods and are not expected to significantly affect the current or future periods.

(b) New accounting standards and amendments but not adopted in 2024

At the date of authorisation of these financial statements, the Branch has not applied the following new and revised SLFRS Accounting Standards that have been issued but are not yet effective.

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability

The amendments specify how to assess whether a currency is exchangeable, and how to determine the exchange rate when it is not.

The amendments state that a currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

2. BASIS OF PREPARATION (CONTD)

(b) New accounting standards and amendments but not adopted in 2024 (contd)

Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability (contd)

An entity assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

The assessment of whether a currency is exchangeable into another currency depends on an entity's ability to obtain the other currency and not on its intention or decision to do so.

When a currency is not exchangeable into another currency at a measurement date, an entity is required to estimate the spot exchange rate at that date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

The amendments do not specify how an entity estimates the spot exchange rate to meet that objective. An entity can use an observable exchange rate without adjustment or another estimation technique.

The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted. An entity is not permitted to apply the amendments retrospectively. Instead, an entity is required to apply the specific transition provisions included in the amendments.

Amendments to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system. These amendments further clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion.

These amendments add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

The amendments are effective for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted.

2. BASIS OF PREPARATION (CONTD)

(b) New accounting standards and amendments but not adopted in 2024 (contd)

IFRS 18 Presentation and Disclosures in Financial Statements

IFRS 18 replaces IAS 1, carrying forward many of the requirements in IAS 1 unchanged and complementing them with new requirements. In addition, some IAS 1 paragraphs have been moved to IAS 8 and IFRS 7. Furthermore, the IASB has made minor amendments to IAS 7 and IAS 33 Earnings per Share.

IFRS 18 introduces new requirements to:
• present specified categories and defined subtotals in the statement of profit or loss
• provide disclosures on management-defined performance measures (MPMs) in the notes to the financial statements
• improve aggregation and disaggregation.

An entity is required to apply IFRS 18 for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. The amendments to IAS 7 and IAS 33, as well as the revised IAS 8 and IFRS 7, become effective when an entity applies IFRS 18. IFRS 18 requires retrospective application with specific transition provisions.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 permits an eligible subsidiary to provide reduced disclosures when applying IFRS Accounting Standards in its financial statements.

A subsidiary is eligible for reduced disclosures if it does not have public accountability and its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

IFRS 19 Subsidiaries without Public Accountability: Disclosures

IFRS 19 is optional for subsidiaries that are eligible and sets out the disclosure requirements for subsidiaries that elect to apply it.

An entity is only permitted to apply IFRS 19 if, at the end of the reporting period:

• it is a subsidiary (this includes an intermediate parent)
• it does not have public accountability, and
• its ultimate or any intermediate parent produces consolidated financial statements available for public use that comply with IFRS Accounting Standards.

Eligible entities can apply IFRS 19 in their consolidated, separate or individual financial statements. An eligible intermediate parent that does not apply IFRS 19 in its consolidated financial statement may do so in its separate financial statements.

The new standard is effective for reporting periods beginning on or after 1 January 2027 with earlier application permitted.

2. BASIS OF PREPARATION (CONTD)

(b) New accounting standards and amendments but not adopted in 2024 (contd)

Annual improvements to IFRS – Volume 11

Annual improvements are limited to changes that either clarify the wording in an Accounting Standard or correct relatively minor unintended consequences, oversights or conflicts between the requirements in the Accounting Standards. The 2024 amendments are to the following standards:
IFRS 1 First-time Adoption of International Financial Reporting Standards;
IFRS 7 Financial Instruments: Disclosures and its accompanying Guidance on implementing IFRS 7;
IFRS 9 Financial Instruments;
IFRS 10 Consolidated Financial Statements; and
IAS 7 Statement of Cash Flows.

These annual improvements are effective for annual periods beginning on or after 1 January 2026 with earlier application permitted.

2.5 Rounding of amounts

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand Sri Lankan Rupees unless otherwise stated.

3. MATERIAL ACCOUNTING POLICY INFORMATION

This note provides a list of the significant accounting policies adopted in the preparation of these financial statements. These policies have been consistently applied in all years presented, unless otherwise stated.

3.1 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary environment in which the Branch operates. The financial statements are presented in Sri Lankan Rupees, which is the Branch's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in the income statement

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(iii) Functional and presentation currency

Items included in the financial statements are measured using the currency of the primary environment in which the Branch operates. The financial statements are presented in Sri Lankan Rupees, which is the Branch's functional and presentation currency.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.1 Foreign currency translation (contd)

(iv) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year-end exchange rates are generally recognised in the income statement.

Foreign exchange gains and losses are presented in the income statement under net gains from trading with customers and others.

The results and financial position of foreign currency operation (Foreign Currency Banking Unit) that have a functional currency different from the presentation currency are translated into the presentation currency as follows;

- assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- income and expenses for each income statement and statement of comprehensive income are translated at spot exchange rates; and
- all resulting exchange differences are recognised in other comprehensive income.
- Forward exchange contracts are valued at the forward market rates ruling on the reporting date. Both unrealised losses and gains are reflected in the income statement.

3.2 Revenue recognition

(i) Interest

Interest income and expense is recognised in income statement using the effective interest rate (EIR) method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Branch estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.
The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include

incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.

Interest income and expense presented in the income statement include interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.2 Revenue recognition (contd)

(i) Interest (contd)

Interest income and expense presented in the Income Statement include:

- Interest on financial assets measured at amortised cost (AC) calculated using EIR method;
- Interest on financial assets measured at fair value through other comprehensive income (FVOCI) calculated using EIR method;
- Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

(ii) Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on financial asset or liability are included in the measurement of the effective interest rate. Other fees and commissions are recognised in the period in which the services are rendered. The fees and commissions for services relating to periods after the reporting date is deferred in the statement of financial position.

Other fees and commission income, including account servicing fees, trade fees are recognised as the related services are performed. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

The following table provides information about the nature and timing of the satisfaction of performance obligations in contract with customers, including significant payment terms, and the related revenue recognition policies.

Type of service	Nature and timing of satisfaction of performance obligations including significant payment terms	Revenue recognition under SLFRS 15
WPB and Services	The Branch provides banking services to WPB and WSB customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees. Fees for ongoing account management are charged to the customer's account on a monthly basis. The Branch sets the rates separately for WPB and WSB customers in each jurisdiction on an annual basis. Transactions based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place. Servicing fees are charged on a monthly basis and are based on fixed rates reviewed annually by the Bank.	Revenue from account servicing is recognised overtime as the services provided. Revenue related to transactions are recognised at the point in time when the transaction takes place.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.3 Taxation

Current tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the Tax authorities. The tax rates and tax laws used to compute the amounts are those that are enacted or substantively enacted, in the country of operation, as at the reporting date. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate. Current tax assets and Current tax liabilities are offset, if a legally enforceable right exists to set off and when the Current taxes relate to the same taxable entity and payable to the same taxation authority. Management has used its judgment on the application of tax laws & regulations.

Relevant details are disclosed in the notes to the financial statements.

Deferred tax

Deferred tax is provided in full using the balance sheet method on all temporary differences between the tax bases of assets and liabilities and their accounting carrying amounts at the reporting date. Deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss.

Deferred tax assets are recognised for all deductible temporary differences, tax credits and tax losses carried forward, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carried-forward tax credits and tax losses can be utilised. The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised.

Deferred tax is determined using Income tax rates and laws that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred tax asset is realised or the deferred tax liability is settled.

Similar to Current Tax, Deferred tax assets and deferred tax liabilities can be offset if a legally enforceable right exists to set off, that is, when the taxes relate to the same taxable entity and owed to the same taxation authority.

Current and deferred tax is recognised in the income statement, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.4 Leases

The Branch recognises a right-of-use asset and a lease liability at the lease commencement date. The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove any improvements made to branches or office premises.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the end of the lease term. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Branch's incremental borrowing rate. Generally, the Branch uses its incremental borrowing rate as the discount rate.

3.5 Financial assets and financial liabilities

3.5.1 Classification

The branch classifies its financial assets in the following measurement categories;

- Those to be measured subsequently at fair value (either through other comprehensive income (OCI) or profit or loss)
- Those to be measured at amortised cost.

The classification depends on the Branch's business model for managing the financial assets and the contractual terms on the cash flows. For assets measured at fair value, gains or losses will either be recorded in the profit or loss or OCI. The Branch reclassifies debt instruments only when its business model for managing those assets changes.

3.5.2 Recognition and de-recognition

Regular way purchases and sales of financial assets are recognised on trade date, being the date on which the Branch commits to purchase or sell the asset.

Derecognition - financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when the rights to receive cash flows from the financial asset have expired. The Branch also derecognises the financial asset if it has both transferred the financial asset and the transfer qualifies for derecognition.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.5 Financial assets and financial liabilities (contd)

3.5.2 Recognition and de-recognition (contd)

Derecognition - financial assets (contd)

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the income statement.

3.5.3 Measurement

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the branch recognises the difference as a trading gain or loss at inception (a 'day 1 gain or loss'). In case the market data is not observable, the entire day 1 gain or loss is deferred, subject to thresholds, and income is recognized when the market data becomes observable when the tenor reduces.

The fair value of financial instruments is generally measured on an individual basis. However, in cases where the branch manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the SLFRS offsetting criteria.

The majority of valuation techniques employ only observable market data. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgmental. An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, greater than 5% of the instrument's valuation is driven by unobservable inputs. 'Unobservable' in this context means that there is little or no current market data available from which to determine the price at which an arm's length transaction would be likely to occur. It generally does not mean that there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.5 Financial assets and financial liabilities (contd)

3.5.3 Measurement (contd)

3.5.3.1 Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to branches and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost.

The branch accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs. If the initial fair value is lower than the cash amount advanced, such as in the case of some leveraged finance and syndicated lending activities, the difference is deferred and recognised over the life of the loan through the recognition of interest income.
The branch may commit to underwriting loans on fixed contractual terms for specified periods of time. When the loan arising from the lending commitment is expected to be held for trading, the commitment to lend is recorded as a derivative. When the branch intends to hold the loan, the loan commitment is included in the impairment calculations (Refer note 04).

3.5.3.2 Non-trading reverse repurchase, repurchase and similar agreements

When debt securities are sold subject to a commitment to repurchase them at a predetermined price (‘repos’), they remain on the statement of financial position and a liability is recorded in respect of the consideration received. Securities purchased under commitments to resell (‘reverse repos’) are not recognised on the statement of financial position and an asset is recorded as reverse repos in respect of the initial consideration paid. Non-trading repos and reverse repos are measured at amortised cost. The difference between the sale and repurchase price or between the purchase and resale price is treated as interest and recognised in net interest income over the life of the agreement.

Contracts that are economically equivalent to reverse repo or repo agreements (such as sales or purchases of debt securities entered into together with total return swaps with the same counterparty) are accounted for similarly to, and presented together with, reverse repo or repo agreements.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.5 Financial assets and financial liabilities (contd)

3.5.3 Measurement (contd)

3.5.3.3 Financial assets measured at fair value through other comprehensive income

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at fair value through other comprehensive income ('FVOCI'). These comprise primarily debt securities. They are recognised on the trade date when HSBC enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Gains or losses' from financial instruments. Financial assets measured at FVOCI are included in the impairment calculations set out below in note 22.2 and impairment is recognised through Fair Value through Other Comprehensive Income (FVOCI) reserve.

3.5.3.4 Financial instruments designated at fair value through profit or loss

Financial instruments, which are held as part of held for trading category get designated at Fair value through P&L. Currently these instruments are LKR denominated T-bills and Government bonds held by Global Markets business for market making. These instruments get revalued on a daily basis based on the market levels observed for the instruments. The mark to market movement will then flow through profit or loss.

3.5.3.5 Derivatives

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, interest rates or other indices. Derivatives are recognized initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

3.5.3.6 Equity instruments

The branch subsequently measures all the equity instruments at fair value, where the Branch's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification at fair value gains and losses to income statement following the derecognition of the investment. Dividends from such investments continue to be recognised in income statement as other income when the Branch's right to receive is established. Changes in the fair value of financial assets at FVPL are recognised in other gains or losses in the income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.5 Financial assets and financial liabilities (contd)

3.5.3 Measurement (contd)

3.5.3.7 Assigned capital

Assigned capital of the Branch represent the capital contributions made to the Branch by the Head Office. The increase in equity on the receipt of capital contributions is normally recorded as the residual after recording the recognition or de-recognition of assets or liabilities arising on the share issue (the proceeds of issue) and after deducting directly attributable transaction costs.

Distributions to holders of equity, which include profits transferred to head office are debited directly to equity at the date of payment.

3.6 Assets and bases of their valuation

Property, plant and equipment

Initial measurement

The property, plant and equipment are recorded at cost or revaluation. The cost of property, plant and equipment is the cost of purchase or construction together with any incidental expenses thereon and valuation is carried out once a year for land and building by an independent valuer. The property, plant and equipment are stated at cost or valuation (land, freehold buildings and improvements to buildings are carried at revalued amounts) less accumulated depreciation, which is provided for on the bases specified below and impairment losses. All property and equipment costing less than USD 1,000 and maintenance and repairs to machinery are charged to the income statement. All major renovations and renewals are capitalised.

Depreciation

The provision for depreciation is calculated on the cost or valuation of property, plant and equipment has been provided on a straight-line basis over the periods appropriate to estimated useful lives of the different types of property, plant and equipment as shown below. The Freehold land is not depreciated.

Assets	No of Years
Freehold buildings and improvements to buildings	over 50 years
Fixed assets relating to Head Office refurbishment project	over 10 years / over 20 years
Office machinery	over 5 years
Furniture and equipment	over 5 years
ATM machines	over 7 years
Computer equipment including AS 400 system	over 5 years
Computer terminals	over 5 years
Personal computers and local area networks	over 4 years

In addition to the above, refurbishments on office furniture and equipment carried out for lease hold properties will be depreciated based on the remaining lease term.

Depreciation is charged on monthly basis from the date of acquisition throughout its useful life.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.6 Assets and bases of their valuation (contd)

Property, plant and equipment (contd)

Disposals

Gain or loss on disposal of property, plant and equipment have been accounted for in the income statement by considering sales proceeds, cost and accumulated depreciation of such disposed item of property, plant and equipment.

Impairment of non-financial assets

Non-financial assets consist of property, plant and equipment, software and right-of-use assets. They are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGU is considered as the smallest cash generating unit level (CGU) which is the customer group level as defined by the HSBC group. Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use.

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU. Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount.

VIU impairment assessment was carried out for the non-financial assets held by HSBC Sri Lanka and was concluded as NIL impairment requirement for 2024.

3.7 Import/export bills negotiated and discounted

The import/export bills are shown in the books at their face values. Import/Export bills in foreign currencies are converted at the year-end exchange rates. The resulting gain or loss is dealt within income statement.

3.8 Cash and cash equivalents

Cash and short-term funds are regarded as cash and cash equivalents as these are funds held for the purpose of meeting short term cash commitments. Cash and cash equivalents include notes and coins on hand, standard deposits with Central Bank of Sri Lanka, unrestricted balances held with central bank, and highly liquid financial assets with original maturities of three months or less from the date of the acquisition that are subject to and insignificant risk of changes in their fair value, and are used by the Branch in the management of its short term commitments.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.9 Statutory deposits with the Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka to maintain a reserve against all deposit liabilities denominated in Sri Lankan Rupees. As at the year end the reserve requirement is to maintain an amount equal to 2% of the total of such rupee deposit liabilities.

3.10 Employee share plans

Discretionary awards of shares granted under HSBC Group share plans which aligns the interests of employees with those of shareholders.

3.10.1 Discretionary awards

In line with the HSBC Group share awards system, the Branch has entered into equity-settled share-based payment arrangements with its employees as compensation for services provided by employees. Equity-settled share-based payment arrangements entitle employees to receive equity instruments of HSBC Holdings plc.

The cost of equity-settled share-based payment arrangements with employees is measured by reference to the fair value of equity instruments on the date they are granted and recognised as an expense on a straight-line basis over the vesting period, with a corresponding credit to Capital contribution. As the shares are issued by HSBC Holdings Plc, an annual invoice is issued to reimburse Holdings for the issued shares, which is funded by the accrual accumulated on the SBP Liability account. This is posted as Dr Capital contribution / Cr SBP Liability and is measured at market value.

Upon settlement of the annual invoice the invoiced amount needs to be reclassified from SBP Liability to Interco Payable and then settled. If the invoiced amount is different to what have been accrued on the SBP Liability for the awards with the vesting dates specified on the invoice, the difference between the accrual and the invoiced amount needs to be reclassified to Retained earnings. As a result, the SBP Liability account would only hold accruals for the yet unvested and the vested but not yet invoiced awards.

The Capital contribution account will show the FV/MV difference for the awards, this however should only be for the yet unvested awards, and so on a monthly basis the FV/MV difference for the vested awards would need to be reclassified to Retained earnings.

Fair value is determined by using appropriate valuation models, taking into account the terms and conditions of the award. Vesting conditions include service conditions and performance conditions; any other features of the arrangement are non-vesting conditions. Market performance conditions and non-vesting conditions are taken into account when estimating the fair value of the award at the date of grant, so that an award is treated as vesting irrespective of whether these conditions are satisfied, provided all other vesting conditions are satisfied.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.11 Financial guarantees

In the ordinary course of business, the Branch gives financial guarantees, consisting of letter of credit, guarantees and acceptances. The financial guarantee liability is initially measured at fair value and subsequently at the higher of: the amount determined in accordance with the expected credit loss model under IFRS 9 Financial Instruments and; the amount initially recognised less, where appropriate, the cumulative amount of income recognised in accordance with the principles of IFRS 15 Revenue from contracts with customers. Any increase in the liability relating to financial guarantee is recorded in the income statement in “impairment charge”. The premium received is recognised in the income statement in “fees and commission income” on a straight-line basis over the life of the guarantee.

3.12 Employee benefits

3.12.1 Pension fund

All the employees of the Branch are eligible for the pension fund. The fund has been established under Trust Deed dated 7 December 1992 to fund the retirement benefits accruing to employees.

Up to 31 December 2008, the Branch operated the pension fund outside the financial statements of the Branch. Accordingly, no asset or liability was recognised in the financial statements of the Branch.

In 2012, the Branch introduced an optional pension scheme which is a defined contribution scheme. Employees who opt for defined contribution scheme were credited with an “opening balance” on the date of commencement of the new scheme, which is calculated taking factors such as service period, current pensionable salary, etc. The Branch contributes 10% of the gross salary thereon, on a monthly basis. The lump sum accrued (Branch’s contribution plus interest) will be payable at the time of staff retirement or leaving service.

3.12.2 Provident fund

The Branch contributes to the approved private Provident Fund named HSBC Sri Lanka Local Staff Provident Fund, which is maintained outside the financial statements of the Branch. This is a defined contribution plan. The Branch contributes 12% of the employees’ gross salary to this fund whilst the employees contribute 8% of the gross salary. Branch is required to apply interest at a rate or rates higher than five per centum (5%) per annum on the provident fund account. If there is any shortfall in the overall Fund income, the Branch shall meet the deficit and recognize it in the Fund accounts.

3.12.3 Trust fund

The Branch contributes 3% of the gross salary of employees to the Employees Trust Fund, which is a defined contribution plan. The Branch has no further payment obligations once the contributions have been paid.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.13 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in income statement over the period of the borrowings using the effective interest method. Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired.

3.14 Other payables

These amounts represent liabilities for goods and services provided to the Branch prior to the end of financial year which are unpaid. The amounts are unsecured. Other payables are presented as other liabilities.

3.15 Provisions

Provisions are recognised when the Branch has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and the amount can be reliably estimated. Provisions are not recognised for future operating losses. Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

3.16 Commitment and contingencies

All discernible risks are accounted for in determining the amount of other liabilities and all capital commitments and contingent liabilities are disclosed in the financial statements. Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot reliably measured. To meet the financial needs of customers, the Branch enters into various irrevocable commitments and contingent liabilities. These consist of guarantees, letters of credit, and other undrawn commitments. These instruments commit the Branch to make payments on behalf of customers in the event of a specific act, generally related to import/export trade or demand under guarantee undertaking. They carry credit risk similar to loans and receivables. These contingent liabilities are disclosed in the financial statements as off-balance sheet transactions.

3.17 Other off-balance sheet transactions

The Branch enters contracts such as forward exchange contracts, currency swaps, interest rate swaps and options, the principle amounts of which are recorded as off-balance sheet transactions. The financial derivatives in connection with these contracts are recorded in the trading position at fair value. The movement in fair value is recognised in the income statement.

3.18 Events occurring after the reporting date

All material events occurring after the reporting date are considered and disclosed and where necessary, adjustments are made in the financial statements.

3. MATERIAL ACCOUNTING POLICY INFORMATION (CONTD)

3.19 Cash flow statements

The cash flow has been prepared and presented using the "direct method" of preparing cash flow statements in accordance with LKAS 7, Statements of cash flows.
Cash and cash equivalents comprise mainly of cash on hand, short-term placements with other branches and highly liquid financial assets with original maturities of less than three months, which are subject to insignificant risk of changes in their fair value and are used by the Branch in the management of its short-term commitments.

3.20 Comparative figures

The comparative figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation. The accounting policies have been consistently applied by the Branch and are consistent with those of the previous year.

4 SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical accounting estimates and assumptions

The Branch makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

Income and other taxes

The Branch is subject to income tax and other taxes such as Value Added Tax and Crop Levy specifically levied on the banking and financial service sector. The calculations are based on the provisions enacted as per the relevant Acts and guidelines published by the Inland Revenue Department. The Branch recognises liabilities for significant pending tax matters with the tax authorities on an estimate basis. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred tax assets and liabilities in the period in which such determination is given by the Tax regulators.

The recognition of a deferred tax asset relies on an assessment of the probability and sufficiency of future taxable profits, future reversals of existing taxable temporary differences & other business decisions.

Valuation of financial instruments

The best evidence of fair value is a quoted price in an actively traded principal market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. When a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and the quoted price.

4. SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGEMENTS (CONTD)

Valuation of financial instruments (contd)

The judgement as to whether a market is active may include, but is not restricted to, consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid / offer spreads. The bid / offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including;

- the likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;
- selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate; and
- judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing derivative products.

A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap. 'Projection' utilises market forward curves, if available. In addition, the value of some products is dependent on more than one market factor, and in these cases, it will typically be necessary to consider how movements in one market factor may affect the other market factors. The model inputs necessary to perform such calculations include interest rate yield curves, exchange rates, volatilities, correlations and prepayment and default rates. For interest rate derivatives with collateralised counterparties and in significant currencies, the Branch uses a discounting curve that reflects the overnight interest rate. The majority of valuation techniques employ only observable market data.

Pension benefits

The present value of the pension obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining the net cost (income) for pensions include the discount rate. Any changes in these assumptions will impact the carrying amount of pension obligations. The Branch determines the appropriate discount rate at the end of each year. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the Branch considers the interest rates of government bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension obligation. Other key assumptions for pension obligations are based in part on current market conditions.

4. SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGEMENTS (CONTD)

Expected credit losses

Expected credit losses ('ECL') are recognised for loans and advances to branches and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. Accounting policy is described below whilst the risk management is covered under risk disclosures.

Credit impaired (stage 3)

HSBC determines that a financial instrument is credit impaired and in stage 3 by considering relevant objective evidence, primarily whether;

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

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Renegotiation

Loans are identified as renegotiated and classified as credit impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or de-recognition. For WPB, renegotiated loans are kept at stage 3 until full settlement

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

4. SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGEMENTS (CONTD)

Expected credit losses (contd)

Renegotiation (contd)

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows over the minimum observation period, and there are no other indicators of impairment.

These loans could be transferred to stage 1 or 2 based on the mechanism as described below by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed.

Loan modifications that are not credit impaired

Loan modifications that are not identified as credit distressed are considered to be in stage 1 or 2 based on the mechanism described below.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant, and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, and these criteria will differ for different types of lending, particularly between Wealth and Personal Banking and Wholesale Banking.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due and 01 day past due in Wealth and Personal Banking. In addition, Wholesale Banking loans that are individually assessed are included on a watch or worry list; are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using probability of default (‘PD’) which encompasses a wide range of information including the obligor’s customer risk rating (‘CRR’), macroeconomic condition forecasts and credit transition probabilities.

4. SIGNIFICANT MANAGEMENT ESTIMATES AND JUDGEMENTS (CONTD)

Expected credit losses (contd)

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

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

Fair value of freehold land and buildings

The freehold land and buildings of the branch are reflected at fair value. The branch engages independent valuers to determine the fair value of freehold land and buildings in terms of Sri Lanka Accounting Standard – SLFRS 13 on “Fair Value Measurement”.

The methods used to determine the fair value of the freehold land and buildings, are further explained in Note 24.1 to the financial statements.

Useful Lifetime of Property, Plant and Equipment

The branch reviews the residual values, useful lives and methods of depreciation of property, plant and equipment at each reporting date. Management exercise judgement in the estimation of these values, rates, methods and hence, those are subject to uncertainty.

FOR THE YEAR ENDED 31 DECEMBER

5 Net interest income

	2024	2023
	Rs.'000	Rs.'000
Interest income		
Cash and cash equivalents*	**10,573,221**	9,935,468
Balances with central bank	**4,293,924**	7,954,727
Call placements with banks	**115,176**	20,122
Financial assets measured at fair value through profit or loss	**29,509**	19,386
Financial assets at amortised cost		
- loans and advances	**20,047,424**	24,789,312
- debt and other instruments	**12,042**	12,014
Financial assets measured at fair value through other comprehensive income	**5,466,306**	1,925,640
Total interest income	**40,537,602**	44,656,669
Interest expenses		
Due to banks	**(62,210)**	(63,500)
Financial liabilities at amortised cost- due to depositors	**(8,421,195)**	(9,370,916)
Interest expense on lease liabilities	**(26,807)**	(43,747)
Interest expense on deposits/borrowings from group companies	**(496,461)**	(556,791)
Interest expenses related to others	**(1,539,105)**	181,274
Total interest expenses	**(10,545,778)**	(9,853,680)
Net interest income	**29,991,824**	34,802,989

* Cash and cash equivalents include interest income from intercompany balances.

5.1 Net interest income from Sri Lanka Government securities

Interest income and interest expenses on Government securities included has been extracted from interest income and interest expenses given in Note 5 and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	2024	2023
	Rs.'000	Rs.'000
Interest income	**5,507,857**	1,957,040
Less: Interest expenses	**-**	-
Net interest income from Sri Lanka Government securities	**5,507,857**	1,957,040

FOR THE YEAR ENDED 31 DECEMBER

6	**Net fee and commission income**	**2024**	2023
		Rs.'000	Rs.'000
	Fee and commission income	**7,743,570**	7,613,886
	Fee and commission expenses	**(1,806,753)**	(1,891,541)
		5,936,817	5,722,345
6.1	**Comprising**		
	Loans and advances	**89,513**	34,942
	Credit cards	**3,881,688**	3,652,593
	Trade and remittance transactions	**1,056,422**	990,752
	Deposits accounts	**82,817**	85,957
	Off Balance sheet activities	**2,310,516**	2,507,196
	Others	**322,614**	342,446
	Fee and commission income	**7,743,570**	7,613,886
	Fee expense		
	Credit cards	**1,505,326**	1,574,398
	Other	**301,427**	317,143
		1,806,753	1,891,541
	Net fee and commission income	**5,936,817**	5,722,345

7	**Net gains from trading**	**2024**	2023
		Rs.'000	Rs.'000
	Foreign exchange		
	- Gains from transactions with customers	**126,139**	115,614
	- (Losses)/gains from transactions with others	**(138)**	2,162
	Other trading income	**5,388,651**	9,007,238
		5,514,652	9,125,014

Net gain from trading comprises gains less losses related to trading assets and trading liabilities, and also include all realised and unrealised fair value changes, related capital gains and losses and foreign exchange gains / (losses).

FOR THE YEAR ENDED 31 DECEMBER

8 Net fair value gains from financial instruments at fair value through Profit or Loss

	2024	2023
	Rs.'000	Rs.'000
Net fair value gains from financial instruments at fair value through profit or loss	**52,251**	22,608

9 Net losses from derecognition of financial assets

	2024	2023
	Rs.'000	Rs.'000
Carrying value of the Sri Lanka International Sovereign Bonds (SLISBs)	**1,554,237**	-
Sales proceeds from the disposal of SLISBs	**(872,757)**	-
Net losses from derecognition of financial assets	**(681,480)**	-

10 Net other operating income

	2024	2023
	Rs.'000	Rs.'000
Loss on disposal of property, plant and equipment	**(1,032)**	(15,638)
Other income from intercompany transactions /dividend from mandatory shares	**128,999**	118,216
	127,967	102,578

11 Impairment (charges)/reversals and other losses

	2024	2023
	Rs.'000	Rs.'000
11.1 Financial assets at amortised cost - loans and advances (Note 21.1)		
Stage 1	**(56,559)**	84,918
Stage 2	**2,378,450**	4,917,317
Stage 3	**(86,914)**	(250,101)
	2,234,977	4,752,134
11.2 Financial assets at amortised cost – debt instruments (Note 23.2)		
Stage 1	**-**	-
Stage 2	**4,169**	63,261
Stage 3	**-**	-
	4,169	63,261
11.3 Financial assets measured at fair value through other comprehensive income (Note 22.3)		
Stage 1	**-**	-
Stage 2	**(1,122,685)**	4,258,954
Stage 3	**904,515**	-
	(218,170)	4,258,954
11.4 Contingent liabilities and commitments (Note 24.2)		
Stage 1	**277,675**	(255,135)
Stage 2	**177,077**	(12,765)
Stage 3	**-**	-
	454,752	(267,900)

FOR THE YEAR ENDED 31 DECEMBER

		2024	2023
11	**Impairment charges/(reversals) and other losses (contd)**	**Rs.'000**	Rs.'000
11.5	**Others (Note 24.1)**		
	Stage 1	**172,380**	35,573
	Stage 2	**(100,886)**	79,477
	Stage 3	**(81,403)**	-
		(9,909)	115,050
11.5.1	**Others**		
	Stage 1		
	Acceptances	**(1,369)**	(273,647)
	Balances with banks	**156,251**	100,553
	Balances with Central Bank of Sri Lanka	**17,498**	208,667
		172,380	35,573
	Stage 2		
	Acceptances	**36,751**	55,931
	Balances with banks	**(137,637)**	23,546
		(100,886)	79,477
	Stage 3		
	Receivable from Government subsidies	**(81,403)**	-
		(81,403)	-
	Total	**(9,909)**	115,050
11.6	**Write-off's, recoveries and other**	**(516,000)**	(1,140,334)
		1,949,819	7,781,165

FOR THE YEAR ENDED 31 DECEMBER

		2024	2023
		Rs.'000	Rs.'000
12	**Personnel expenses**		
	Salary and bonus	**(3,507,955)**	(3,637,803)
	Contributions to defined benefit obligation (Note 31.1)	**2,143**	(83,804)
	Contributions to defined contribution plans/other benefit plans	**(577,730)**	(404,451)
	Allowances and others	**(1,462,581)**	(1,682,074)
		(5,546,123)	(5,808,132)

		2024	2023
13	**Other expenses**		
		Rs.'000	Rs.'000
	Auditor's remuneration	**(7,069)**	(6,312)
	Non-audit fees to auditor's	**(8,873)**	(5,491)
	Professional and legal expenses	**(510,168)**	(152,455)
	Office administration and establishment expenses	**(2,298,564)**	(1,892,696)
	Short-term lease expenses	**(9,039)**	(43,550)
	Others	**(11,335,478)**	(11,174,820)
		(14,169,191)	(13,275,324)

Main component of expenses classified as 'Others' are payable in lieu of services rendered by the inter companies, out of which Regionally Allocated charges (RAC) payable to the regional head office is 1,604Mn (2023:1,373Mn)

Depreciation and amortization expenses

Depreciation of property, plant and equipment (Note 25)	**(357,492)**	(361,410)
Depreciation on right of use assets (Note 27.1.2)	**(331,121)**	(163,860)
	(688,613)	(525,270)

14 Tax expense

As per LKAS 12 – Income Taxes, deferred tax assets and liabilities should be measured at the tax rate that are expected to be applied in the period in which the asset will be realized or the liability will be settled, based on the tax rate (and tax laws) that have been enacted or substantively enacted by the reporting date.
The Branch has calculated deferred tax and current taxes at at the rate of 30% which is the statutory tax rate.

		2024	2023
14	**Tax expense (contd)**	**Rs.'000**	Rs.'000
14.1	**Current tax expense**		
	Current tax on profit for the year (Note 14.3)	**(6,469,199)**	(8,097,372)
	Over provision for the previous year	**3,089,771**	-
		(3,379,428)	(8,097,372)
	Deferred tax expenses		
	- Provision for employee benefit	**(7)**	28,992
	- Accelerated depreciation of property plant and equipment	**(6,261)**	75,330
	- Allowances for expected credit losses	**(1,186,802)**	(2,501,891)
	- Right of use assets	**(67,363)**	22,283
		(1,260,433)	(2,375,286)
	Total tax charge to income statement	**(4,639,861)**	(10,472,659)
14.2	**Tax charge to the statement of other comprehensive income**		
	- Provision for employee benefit	**99,020**	(178,940)
	- Fair value adjustments	**(345,362)**	(392,937)
	- Revaluation of buildings	**(45,541)**	(122,479)
		(291,883)	(694,356)
14.3	**Reconciliation between current tax expense and accounting profit**		
	Accounting profit before taxation	**17,778,819**	30,622,192
	Income tax for the period at 30%	**5,333,646**	9,186,658
	Add: Tax effect of expenses that are not deductible for tax purposes	**1,885,161**	415,198
	Less: Tax effect of expenses that are deductible for tax purposes	**(335,087)**	(836,335)
	Tax effect on exempt Income and income taxed at reduced rates	**(414,521)**	(668,149)
	Current tax on profit for the year	**6,469,199**	8,097,372
	Over provision for the previous year	**(3,089,772)**	-
		3,379,427	8,097,372

-During the 12 months ended December 2024, applicable income tax rate has been 30% for both current tax and deferred tax computations. (2023 : 30%).

		2024	2023
14.4	**Breakdown of Value Added Tax and Other Taxes on financial services**		
	Value Added Tax	**(4,090,670)**	(6,432,394)
	Debt repayment levy	**(40,664)**	-
	Nation Building Tax on financial services	**(25,084)**	-
	SSCL on financial services	**(552,686)**	(893,387)
		(4,709,104)	(7,325,781)

- During the 12 month period ended December 2024 the applicable Value Added Tax (VAT) rate has been at 18% (2023 : 18%) and Social security Contribution Lecy (SSCL) has been at 2.5% (2023 : 2.5%).

		2024	2023
14	**Tax expense (contd)**	**Rs.'000**	Rs.'000
14.5	**Reconciliation between tax expense and the product of accounting profit**		
	Accounting profit before taxation	**17,778,819**	30,622,192
	Income tax for the period at 30%	**(5,333,646)**	(9,186,658)
	Tax effect on deductible income	**411,805**	668,093
	Tax effect on non deductible expenses	**(1,885,161)**	(415,198)
	Tax effect on deductions claimed	**335,087**	836,335
	Tax Effect of rate differential	**-**	439
	Net tax effect of deferred tax assets for the year	**(1,260,433)**	(2,375,286)
	Over provision for previous years	**3,089,771**	-
	Other rates (Dividend Tax at 14%, Remittance tax at 14%, Capital gain tax at 10%)	**2,715**	(384)
	Tax expense	**(4,639,862)**	(10,472,659)
14.6	**Tax liabilities**		
	Balance at the beginning	**6,348,598**	7,449,684
	Current tax charge for the year	**3,379,428**	8,097,372
	Payments made during the year	**(8,260,827)**	(9,198,458)
	Balance at the end	**1,467,199**	6,348,598

AS AT 31 DECEMBER

15 Analysis of financial instruments by measurement basis

15.1 As at 31 December 2024

	Fair value through profit or loss	Amortized cost	Fair value through other comprehensive income	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS				
Cash and cash equivalents	-	140,671,871	-	140,671,871
Balances with Central Bank of Sri Lanka	-	35,002,199	-	35,002,199
Placements with banks	-	74,802,994	-	74,802,994
Derivative financial instruments	239,457	-	-	239,457
Financial assets measured at fair value through profit or loss	14,457	-	-	14,457
Financial assets at amortised cost - loans and advances	-	201,202,148	-	201,202,148
Financial assets measured at fair value through other comprehensive income	-	-	85,135,590	85,135,590
Financial assets at amortised cost - debt instruments	-	98,241	-	98,241
Acceptances and endorsements	-	58,081,015	-	58,081,015
Total financial assets	**253,914**	**509,858,468**	**85,135,590**	**595,247,972**
LIABILITIES				
Due to banks	-	14,147,267	-	14,147,267
Derivative financial instruments	470,583	-	-	470,583
Financial liabilities at amortised cost - due to depositors	-	393,967,852	-	393,967,852
Acceptances and endorsements	-	58,170,962	-	58,170,962
Total financial liabilities	**470,583**	**466,286,081**	**-**	**466,756,664**

AS AT 31 DECEMBER

15 Analysis of financial instruments by measurement basis (contd)

15.2 As at 31 December 2023

	Fair value through profit or loss	Amortized cost	Fair value through other comprehensive income	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
ASSETS				
Cash and cash equivalents	-	218,142,715	-	218,142,715
Balances with the Central Bank of Sri Lanka	-	88,040,714	-	88,040,714
Placements with banks	-	11,337,397	-	11,337,397
Derivative financial instruments	1,010,959	-	-	1,010,959
Financial assets measured at fair value through profit or loss	23,759	-	-	23,759
Financial Assets at Amortised Cost – Loans and Advances	-	210,213,522	-	210,213,522
Financial assets measured at fair value through other comprehensive income	-	-	19,661,971	19,661,971
Financial assets at amortised cost - debt instruments	-	93,575	-	93,575
Acceptances and endorsements	-	24,265,096	-	24,265,096
Total financial assets	**1,034,718**	**552,093,019**	**19,661,971**	**572,789,708**
LIABILITIES				
Due to banks	-	38,358,732	-	38,358,732
Derivative financial instruments	228,622	-	-	228,622
Financial liabilities at amortised cost - due to depositors	-	372,447,510	-	372,447,510
Acceptances and endorsements	-	24,524,578	-	24,524,578
Total financial liabilities	**228,622**	**435,330,820**	**-**	**435,559,442**

AS AT 31 DECEMBER		**2024**	2023
		Rs.'000	Rs.'000
16	**Cash and cash equivalents**		
	Cash in hand	**1,184,600**	1,791,560
	Balances with other banks	**16,252,224**	8,078,288
	Money at call and at short notice	**123,240,600**	208,306,280
	Less: Impairment relates to cash and cash equivalents	**(5,553)**	(33,413)
		140,671,871	218,142,715

17	**Balances with the Central Bank of Sri Lanka**	**2024**	2023
		Rs.'000	Rs.'000
	Statutory balances with Central bank of Sri Lanka	**3,618,326**	2,872,565
	Placements with Central bank of Sri Lanka	**31,400,000**	85,200,000
	Less: Impairment relates to balances with Central Bank of Sri Lanka	**(16,127)**	(31,851)
		35,002,199	88,040,714

As required by the provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka. The minimum cash reserve requirement on Rupee deposit liabilities was 2% as at 31st December 2024 (2023: 2%).

		2024	2023
18	**Placements with banks**	**Rs.'000**	Rs.'000
	Placements with banks	**74,824,650**	11,338,600
	Less: Impairment relates to placements with banks	**(21,656)**	(1,203)
		74,802,994	11,337,397

19	**Derivative financial instruments**	**2024**	2023
		Rs.'000	Rs.'000
	Currency swaps	**11,560**	348,589
	Forward foreign exchange contracts	**227,897**	662,370
		239,457	1,010,959

20	**Financial assets measured at fair value through profit or loss**	**2024**	2023
		Rs.'000	Rs.'000
	Treasury bonds	**14,457**	23,759
		14,457	23,759

20.1	**Analysis**		
	By collateralisation		
	- Unencumbered	**14,457**	23,759
	By currency		
	- Sri Lankan rupee	**14,457**	23,759

AS AT 31 DECEMBER	2024	2023
	Rs.'000	Rs.'000
21 Financial assets at amortised cost - loans and advances		
Gross loans and advances		
Stage 1	**161,550,075**	149,163,057
Stage 2	**40,681,742**	57,581,552
Stage 3	**1,361,199**	8,310,041
	203,593,016	215,054,650
Less: Accumulated impairment under;		
Stage 1	**(812,768)**	(745,497)
Stage 2	**(559,367)**	(2,983,652)
Stage 3	**(1,018,733)**	(1,111,979)
	(2,390,868)	(4,841,128)
Net loans and receivables	**201,202,148**	210,213,522

AS AT 31 DECEMBER

		2024 Rs.'000	2023 Rs.'000
21	**Financial assets at amortised cost - Loans and advances (contd)**		
21.1	**Provision for impairment**		
21.1.1	**Stage 1**		
	Opening balance as at 1 January	**745,497**	611,648
	Charge/(write back) to income statement	**56,559**	(84,918)
	Exchange fluctuations and other movements	**10,712**	218,767
	Closing balance as at 31 December	**812,768**	745,497
21.1.2	**Stage 2**		
	Opening balance as at 1 January	**2,983,652**	7,961,482
	Write back to income statement	**(2,378,450)**	(4,917,317)
	Exchange fluctuations and other movements	**(45,835)**	(60,513)
	Closing balance as at 31 December	**559,367**	2,983,652
21.1.3	**Stage 3**		
	Opening balance as at 1 January	**1,111,979**	731,788
	Charge to income statement	**86,914**	250,101
	Exchange fluctuations and other movements	**(180,160)**	130,090
	Closing balance as at 31 December	**1,018,733**	1,111,979

		2024 Rs.'000	2023 Rs.'000
22	**Financial assets measured at fair value through other comprehensive income**		
	Treasury bills with Government of Sri Lanka	**84,847,913**	19,190,275
	Treasury bills - US treasury	**287,677**	471,696
		85,135,590	19,661,971
22.1	**Analysis**		
	By collateralisation		
	- Unencumbered	**85,135,590**	19,661,971
		85,135,590	19,661,971
	By Currency		
	- Sri Lankan Rupees	**84,847,913**	19,190,275
	- United States Dollar	**287,677**	471,696
		85,135,590	19,661,971
22.2	**Staging of financial assets measured at fair value through other comprehensive**		
	Stage 1	**287,677**	-
	Stage 2	**84,847,913**	19,190,275
	Stage 3	**-**	471,696
		85,135,590	19,661,971

22 Financial assets measured at fair value through other comprehensive income

22.3 Movements in provision for impairment during the year

	2024 Rs.'000	2023 Rs.'000
Opening balance as at 1 January	**1,107,671**	5,497,280
Stage 1		
Charge/(write back) to income statement	**-**	-
Stage 2		
Charge/(write back) to income statement	**1,122,685**	(4,258,954)
Stage 3		
(Write back) to income statement	**(904,515)**	-
Exchange fluctuations and other movements	**(66,067)**	(130,655)
Closing balance as at 31 December	**1,259,774**	1,107,671

23 Financial assets at amortised cost - debt instruments

	2024 Rs.'000	2023 Rs.'000
Treasury bonds	**110,521**	110,020
Accumulated impairment	**(12,280)**	(16,445)
	98,241	93,575

23.1 Analysis

	2024 Rs.'000	2023 Rs.'000
By collateralisation		
- Unencumbered	**128,907**	110,020
By currency		
- Sri Lankan Rupee	**128,907**	110,020

23.2 Movements in provision for impairment loss during the year

	2024 Rs.'000	2023 Rs.'000
Stage 2		
Opening balance as at 1 January	**16,445**	39,237
Write back to income statement	**(4,169)**	(63,261)
Other movement	**18,390**	40,469
Closing balance as at 31 December	**30,666**	16,445

AS AT 31 DECEMBER	**2024**	2023
	Rs.'000	Rs.'000

24 Other financial assets

Acceptances and other receivables	**58,252,365**	24,524,578
(-) Impairment	**(89,947)**	(259,482)
	58,162,418	24,265,096

24.1 Movements in provision for impairment loss during the year
Impairment classification - Other financial assets

Stage 1		
Opening balance as at 1 January	**222,994**	3,222
(Write back)/charge to income statement	**(172,380)**	273,647
Other Movement	**(45,564)**	(53,875)
Closing balance as at 31 December	**5,050**	222,994
Stage 2		
Opening balance as at 1 January	**36,488**	110,475
Charge/(write back) to income statement	**100,886**	(55,931)
Other movement	**(133,880)**	(18,056)
Closing balance as at 31 December	**3,494**	36,488
Stage 3		
Opening balance as at 1 January	**-**	-
Charge to income statement	**81,403**	-
Other movement	**-**	-
Closing balance as at 31 December	**81,403**	-
Total	**89,947**	259,482

24.2 Off balance sheet exposures

	2024	2023
	Rs.'000	Rs.'000
Contingent Assets	**373,882,013**	362,080,440

24.2.1 Movements in provision for impairment loss during the year
Impairment classification - Off balance sheet exposures

	2024 Rs.'000	2023 Rs.'000
Stage 1		
Opening balance as at 1 January	**345,580**	228,756
(Write back)/charge to income statement	**(277,675)**	255,135
Other movement	**205,974**	(138,311)
Closing balance as at 31 December	**273,879**	345,580
Stage 2		
Opening balance as at 1 January	**300,572**	385,978
(Write back)/charge to income statement	**(177,077)**	12,765
Other movement	**(11,873)**	(98,171)
Closing balance as at 31 December	**111,622**	300,572
Total	**385,501**	646,152

24.3 Movements in total provisions for impairment loss

24.3.1 Movements in gross values and provisions for impairment loss during the year ended 31 December 2024

Gross instrument value

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance as at 1 January 2024	**554,957,212**	**102,465,768**	**8,781,737**	**666,204,717**
Financial assets transferred to Stage 2	(17,151,992)	17,151,951	41	**-**
Financial assets transferred to Stage 3	(17,046)	(40,420)	138,770	**81,304**
New financial assets acquired	62,386,232	13,972,876	25,809	**76,384,917**
Reversals due to maturities/ repayments/write offs	(45,963,472)	(3,882,824)	(7,503,854)	**(57,350,150)**
Other changes (in off balance sheet and other assets)	(6,943,416)	(1,020,305)	-	**(7,963,721)**
Closing balance as at 31 December 2024	**547,267,518**	**128,647,046**	**1,442,503**	**677,357,067**

Provisions for impairment loss

	Stage 1	**Stage 2**	**Stage 3**	**Total**
Opening balance as at 1 January 2024	**(1,342,645)**	**(3,512,139)**	**(2,082,561)**	**(6,937,345)**
Financial assets transferred to Stage 2	49,393	(49,436)	43	**-**
Financial assets transferred to Stage 3	5,618	15,280	(20,898)	**-**
New financial assets acquired	(124,551)	(65,252)	(6,870)	**(196,673)**
Reversals due to maturities/ repayments/write offs	574,884	1,822,031	1,010,149	**3,407,064**
Other changes (in off balance sheet and other assets)	(277,675)	(177,077)	-	**(454,752)**
Closing balance as at 31 December 2024	**(1,114,976)**	**(1,966,593)**	**(1,100,137)**	**(4,181,706)**

24.3.2 Movements in gross values and provisions for impairment loss during the year ended 31 December 2023

Gross instrument value

	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2024	387,441,220	247,688,141	12,116,237	647,245,598
Financial assets transferred to Stage 2	(23,398,337)	33,855,404	(9,132,799)	1,324,268
Financial assets transferred to Stage 3	-	(1,689,139)	7,284,668	5,595,529
New financial assets acquired	400,460,711	33,930,575	-	434,391,286
Reversals due to maturities/ repayments/write offs	(252,502,706)	(168,362,889)	(1,422,872)	(422,288,467)
Other changes	42,956,324	(42,956,324)	(63,497)	(63,497)
Closing balance as at 31 December 2023	554,957,212	102,465,768	8,781,737	666,204,717

Provisions for impairment loss

	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2023	(1,421,106)	(12,853,976)	(1,785,085)	(16,060,167)
Financial assets transferred to Stage 2	(33,455)	1,632,205	(852,564)	746,186
Financial assets transferred to Stage 3	(257,389)	280,161	(281,953)	(259,181)
New financial assets acquired	183,821	(1,352,022)	-	(1,168,201)
Reversals due to maturities/ repayments/write offs	253,619	7,762,714	1,884,654	9,900,987
Other changes	(68,135)	1,018,779	(1,047,613)	(96,969)
Closing balance as at 31 December 2023	(1,342,645)	(3,512,139)	(2,082,561)	(6,937,345)

25 Property, plant and equipment

	Land	Freehold buildings and improvements	Office equipment, furniture and fittings	Office machines	Computer hardware and software	Motor vehicles	Capital work in Progress	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost/revalued amount								
Balance as at 1 January 2023	2,926,475	1,566,524	1,066,688	158,987	891,566	78,029	251,700	6,939,969
Additions during the year	-	-	67,746	53,071	41,066	-	163,007	324,890
Disposals during the year	-	-	(50,315)	-	(4,258)	-	-	(54,573)
Transfers during the year	-	14,184	98,262	-	88,158	-	(200,604)	-
Revaluation gain / (loss)	(214,475)	497,266	-	-	-	-	-	282,791
Adjustments during the year	-	-	(65,900)	-	-	-	-	(65,900)
Closing balance as at 31 December 2023	2,712,000	2,077,974	1,116,481	212,058	1,016,532	78,029	214,103	7,427,177
Balance as at 1 January 2024	**2,712,000**	**2,077,974**	**1,116,481**	**212,058**	**1,016,532**	**78,029**	**214,103**	**7,427,177**
Additions during the year	**-**	**-**	**91,150**	**94,127**	**-**	**-**	**164,860**	**350,137**
Disposals during the year	**-**	**-**	**(207,810)**	**(34,593)**	**(136,207)**	**-**	**-**	**(378,610)**
Write-off's during the year	**-**	**-**	**-**	**-**	**-**	**-**	**(26,659)**	**(26,659)**
Transfers during the year	**-**		**275,284**	**71,364**	**5,656**	**-**	**(352,304)**	**-**
Revaluation gain	**-**	**37,000**	**-**	**-**	**-**	**-**	**-**	**37,000**
Impairment Classification	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Adjustments during the year	**-**	**-**	**1,117**	**-**	**-**	**-**		**1,117**
Balance as at 31 December 2024	**2,712,000**	**2,114,974**	**1,276,222**	**342,956**	**885,981**	**78,029**	**-**	**7,410,162**
Accumulated depreciation		-	-					
Balance as at 1 January 2023	-	-	838,176	155,829	634,858	78,029	-	1,706,892
Charge for the year	-	125,471	161,074	25,515	49,350	-	-	361,410
Revaluation adjustment	-	(125,471)	-	-	-	-	-	(125,471)
Disposals during the year	-	-	(36,361)	-	(2,574)	-	-	(38,935)
Adjustments during the year	-	-	5,236	-		-	-	5,236
Balance as at 31 December 2023	-	-	968,125	181,344	681,634	78,029	-	1,909,132
Balance as at 1 January 2024	**-**	**-**	**968,125**	**181,344**	**681,634**	**78,029**	**-**	**1,909,132**
Charge for the year	**-**	**114,803**	**160,931**	**48,194**	**33,564**	**-**	**-**	**357,492**
Revaluation adjustment	**-**	**(114,803)**	**-**	**-**	**-**	**-**	**-**	**(114,803)**
Disposals during the year	**-**	**-**	**(206,778)**	**(34,593)**	**(136,207)**	**-**	**-**	**(377,578)**
Adjustments during the year	**-**	**-**	**8,429**	**-**		**-**	**-**	**8,429**
Balance as at 31 December 2024	**-**	**-**	**930,707**	**194,945**	**578,991**	**78,029**	**-**	**1,782,672**
Carrying value	**2,712,000**	**2,114,974**	**345,515**	**148,011**	**306,990**	**-**	**-**	**5,627,490**
As at 31 December 2023	2,712,000	2,077,974	148,356	30,714	334,898	-	214,103	5,518,045
As at 31 December 2024	**2,712,000**	**2,114,974**	**345,515**	**148,011**	**306,990**	**-**	**-**	**5,627,490**

25 Property, plant and equipment (contd)

25.1 Methods and assumptions used in the fair valuation of property, plant and equipment

The land and buildings of the Branch as at 31 December 2024 have been revalued and the revalued amounts have been incorporated in the financial statements for the year. This is considered as a level 3 valuation and the details of the valuation are given below.

Property	Name and Qualifications of the independent valuer	Valuation Technique	Significant unobservable inputs*	Inter-relationship between key unobservable inputs and fair value measurement
Sir Baron Jayatilaka Mawatha, Colombo 01	1. V Keerthana PGDM 3 years experience 2. Tertius MBA 11 years experience 3. Somy Thomas MBA 17 years experience	Summation approach of “Income capitalisation” and “Depreciated Replacement Cost” approach	Rate per square foot	Direct correlation - higher the rate per square foot, higher the market value
Independence Avenue, Colombo 07	1. V Keerthana PGDM 3 years experience 2. Tertius MBA 11 years experience 3. Somy Thomas MBA 17 years experience	Direct Sale Comparable approach	Sale price per perch Cost spent	Direct correlation - higher the cost spent, higher the market value

*** Significant unobservable inputs**

Name	Estimated price per perch	Estimated price	Estimated discount rate	Correlation to Fair Value
Sir Baron Jayatilaka Mawatha, Colombo 01	21.48 Mn	1,203	NA	NA
Independence Avenue, Colombo 07	20 Mn	2,031	NA	NA

Sensitivity analysis

In order to illustrate the significance of the unobservable inputs used in the valuation as at 31 December 2024, a sensitivity analysis was carried out as follows.

Property	Description	Change in assumption	Present value of the property		Submitted Value
			Increase in assumption (LKR million)	Decrease in assumption	
Colombo 01	Rate per sq ft	10%	1323	1,083	1,203
Colombo 01	Yield rate	1%	2849	2,393	2,601
Colombo 07	Rate per sq ft	10%	2234	1,828	2,031

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26 Deferred tax assets/(liabilities)

	2024 Rs.'000	2023 Rs.'000
Deferred tax assets	**1,051,653**	2,558,428
Deferred tax liabilities	**(1,318,318)**	(1,272,777)
	(266,665)	1,285,651

26.1 Temporary differences

Deferred tax assets and liabilities are attributable to the following:

	Property, plant and equipment	Gratuity	Revaluation Reserve	Right of Use Asset	Others	Total
As at 31 December 2022	**(7,789)**	**453,706**	**(1,150,298)**	**96,019**	**4,963,653**	**4,355,291**
Charged/(credited)						
- to profit or loss	75,330	28,992	-	22,285	(2,501,891)	**(2,375,284)**
- to other comprehensive income	-	(178,940)	(122,479)	-	(392,937)	**(694,356)**
As at 31 December 2023	**67,541**	**303,758**	**(1,272,777)**	**118,304**	**2,068,825**	**1,285,651**
Charged/(credited)						
- to profit or loss	(6,261)	(7)	-	(67,363)	(1,186,802)	**(1,260,433)**
- to other comprehensive income	-	99,020	(45,541)	-	(345,362)	**(291,883)**
As at 31 December 2024	**61,280**	**402,771**	**(1,318,318)**	**50,941**	**536,661**	**(266,665)**

Major part of others, consists of deferred taxes on impairment and fair value movement Financial assets at Fair value through other comprehensive Income

Deferred tax is computed using the statutory tax rate of 2024 -30%, 2023 - 30%.

27 Other assets

	2024 Rs.'000	2023 Rs.'000
Receivables	**8,537,321**	5,948,228
Deposits and prepayments	**99,772**	7,522
Acceptances and endorsements	**58,170,962**	24,524,578
Right-of-use assets (Note 27.1)	**485,650**	539,164
Others	**9,818**	252,371
Impairment (Note 24.1)	**(89,947)**	(259,482)
	67,213,576	31,012,381

27.1 Right-of-use assets and lease liabilities

27.1.1 Amounts recognised in the balance sheet

	2024 Rs.'000	2023 Rs.'000
Right-of-use assets - land and buildings	**485,650**	539,164
Lease liabilities	**225,638**	220,559
Average lease period	**5 years**	5 years
	Rs.'000	Rs.'000
Lease payments made during the year	**143,607**	147,626

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27 Other assets (contd)

		2024	2023
27.1	**Right-of-use assets and lease liabilities (contd)**	**Rs.'000**	Rs.'000
27.1.2	**Amounts recognised in the statement of profit or loss**		
	Depreciation charges	**331,121**	163,860
	Interest expense	**26,807**	43,747
	Expense relating to short-term leases	**9,039**	43,550
	Loss on lease modifications	**421**	337

27.1.3 Branch's leasing activities and how these are accounted for;

The Branch leases various offices throughout the country. Majority of the lease contracts are with an option of extension.

Contracts may contain both lease and non-lease components. The Branch allocates the consideration in the contract to the lease and non-lease components based on their relative stand-alone prices. However, for leases of real estate for which the Branch is a lessee, it has elected not to separate lease and non-lease components and instead accounts for these as a single lease component.

Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants other than the security interests in the leased assets that are held by the lessor. Leased assets may not be used as security for borrowings.

Until the 2018 financial year, leases of property, plant and equipment were classified as operating leases. From 1 January 2019, leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Branch.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

* fixed payments (including in-substance fixed payments), less any lease incentives receivable
* amounts expected to be payable by the Branch under residual value guarantees
* the exercise price of a purchase option if the Branch is reasonably certain to exercise that option,
* payments of penalties for terminating the lease, if the lease term reflects the Branch exercising that option.

Lease payments to be made under reasonably certain extension options are also included in the measurement of the liability.

27 Other assets (contd)

27.1.3 Branch’s leasing activities and how these are accounted for; (contd)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Branch, the lessee’s incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

Right-of-use assets are measured at cost comprising the following:

* the amount of the initial measurement of lease liability
* any lease payments made at or before the commencement date less any lease incentives received

* any initial direct costs, and
* restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis. While the Branch revalues its land and buildings that are presented within property, plant and equipment, it has chosen not to do so for the right-of-use buildings held by the Branch.

Payments associated with short-term leases are recognised on a straight-line basis as an expense in profit or loss. Short-term leases are leases with a lease term of 12 months or less.

27.1.4 Extension and termination options

Extension and termination options are included in a number of property and equipment leases across the Branch. These are used to maximise operational flexibility in terms of managing the assets used in the Branch’s operations.

Only property leases are managed by the Branch. Both parties (Landlord and the Branch) have the right to exercise the termination option in most of the leases and for renewal , the Branch needs to inform the Landlord as per agreed lease conditions if the Branch wishes to renew the lease. However as per the renewal Lease options incorporated to all leases the terms and conditions for the extended (renewal) period are subject to mutual consent at the time of the renewal and are not specified in the current leases in force.

28 Due to banks

	2024	2023
	Rs.'000	Rs.'000
Borrowings	**3,524,757**	28,566,161
Vostro balances with HSBC offices and other banks	**10,622,510**	9,792,571
	14,147,267	38,358,732

29 Derivative financial instruments

	2024	2023
	Rs.'000	Rs.'000
Forward foreign exchange contracts	**470,583**	228,622
	470,583	228,622

	2024	2023
30 Financial liabilities at amortised cost - due to depositors	**Rs.'000**	Rs.'000
Total amount due to other customers (Note 30.1)	**393,967,852**	372,447,510

30.1 Analysis

30.1.1 By product

	2024	2023
Demand deposits (current accounts)	**97,615,262**	100,979,759
Savings deposits	**152,104,816**	112,587,336
Fixed deposits	**142,214,513**	155,493,455
Other deposits	**2,033,261**	3,386,960
Total	**393,967,852**	372,447,510

30.1.2 By currency

	2024	2023
Sri Lankan Rupees	**184,445,674**	184,258,698
United States Dollars	**189,144,582**	164,848,671
Great Britain Pounds	**8,850,771**	9,823,874
Others	**11,526,825**	13,516,267
Total	**393,967,852**	372,447,510

31 Net defined benefit liability/(asset)

	2024	2023
	Rs.'000	Rs.'000
Present value of defined benefit obligations (Note 31.1)	**1,342,571**	1,012,526
Fair value of plan assets (Note 31.2)	**(1,107,136)**	(1,098,496)
Defined benefit liability/(asset) - net	**235,435**	(85,970)

Defined benefit plan of the Branch is governed by the requirements of the Payment of Gratuity Act, No.12 of 1983. Branch measures the Present Value of Defined Benefit Obligation (PVDBO) with the advice of an actuary using the Projected Unit Credit method. The actuarial valuation involves making assumptions about discount rates, future salary increases and mortality rates. Due to long term nature of these plans, such estimates are subject to significant uncertainty. All assumptions are reviewed at each reporting date. Accordingly, the employee benefits obligation is based on the actuarial valuation as at 31 December 2024, carried out by Messrs Willis Towers Watson India, actuaries. There are 17 active members in the fund as of 31 December 2024.

All other employees who have opted for branch's defined benefit plan, where the branch contributes 10% of the gross salary to a defined contribution plan. This fund is externally managed as detailed in note 3.12. The liability arising from the gratuity obligation is sufficiently covered under the above scheme.

31.1 Movement in the present value of defined benefit obligations

	2024	2023
Opening balance as at 01 January	**1,012,526**	1,512,355
Current service cost	**4,333**	9,564
Interest cost	**126,928**	205,453
Benefits paid during the year	**(131,284)**	(118,379)
Actuarial gain / (loss) for the year	**330,068**	(596,467)
Closing balance as at 31 December	**1,342,571**	1,012,526

31.2 Movement in fair value of plan assets

	2024	2023
Opening balance as at 01 January	**1,098,496**	998,652
Expected return on plan assets	**133,404**	131,213
Contribution by employers	**6,526**	5,977
Benefits paid during the year	**(131,284)**	(118,379)
Actuarial gain / (loss) for the year	**(6)**	81,033
Closing balance as at 31 December	**1,107,136**	1,098,496

Plan assets are invested in Government securities, that are measured at fair value through profit or loss and fair value through other comprehensive income.

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31 Net defined benefit liability/(asset) (contd)

31.3 Sensitivity analysis of the defined benefit obligation

	2024 Rs.'000	2023 Rs.'000
a. Discount rate		
Discount rate	**11.50%**	13.00%
1. Effect due to the increase in the discount rate by 1.00% (Rs '000)	**(110,633)**	(75,627)
2. Effect due to the decrease in the discount rate by 1.00% (Rs '000)	**132,484**	88,946
b. Increase in salary escalation rate and post retirement pension		
Salary escalation rate		
- Union members	**7%**	8%
- Non-union members	**5%**	5%
Post retirement pension	**5%**	5%
1. Effect on DBO due to increase in the salary escalation and post retirement pension rate by 1% p.a. (Rs '000)	**119,286**	83,057
2. Effect on DBO due to decrease in the salary escalation and post retirement pension rate by 1% p.a. (Rs '000)	**(103,278)**	(72,687)
Weighted average duration of defined benefit obligation	**9.6 years**	6 years

32 Other liabilities and provisions

	2024 Rs.'000	2023 Rs.'000
Interest payable	**2,215,378**	2,282,814
Acceptances and endorsements	**58,170,962**	24,524,578
Impairment in respect of off-balance sheet credit exposures	**385,501**	646,152
Lease liabilities	**225,638**	220,559
Accrued expenses	**787,794**	2,119,938
Payable to Group entities	**1,192,515**	7,168,237
Other payables	**10,338,447**	6,983,378
Value Added Tax, Social Security Contribution levy and other taxes	**4,259,064**	2,547,370
	77,575,299	46,493,026

Other payable mainly consist of accruals, deferred income and other suspense accounts.

33 Assigned capital

	2024 Rs.'000	2023 Rs.'000
Assigned Capital	**3,152,358**	3,152,358
	3,152,358	3,152,358

34 Statutory reserve fund

	2024 Rs.'000	2023 Rs.'000
Opening balance as of 1st January	**3,152,358**	2,997,367
Transferred during the year	**-**	154,991
Closing balance as of 31st December	**3,152,358**	3,152,358

The statutory reserve fund is maintained as required by the section 20 (1) of the Banking Act No. 30 of 1988. The Bank appropriated 2% of the profit after tax to attain the minimum requirement under section 20(1) and the balance in the statutory reserve fund will be used only for the purposes specified in the section 20(2) of the Banking Act No 30 of 1988. Statutory reserve fund was built up until it reaches the assigned capital, hence no further transfers are required from 2024 onwards.

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35	Other reserves	2024	2023
		Rs.'000	Rs.'000
	Exchange equalisation reserve (Note 35.1)	**32,041,875**	40,583,606
	Fair value through other comprehensive income reserve (Note 35.2)	**1,152,184**	283,721
	Revaluation reserve (Note 35.3)	**3,076,076**	2,969,814
	Share based payment reserve (Note 35.4)	**153,028**	168,976
		36,423,163	44,006,117

35.1	Exchange equalisation reserve	2024	2023
		Rs.'000	Rs.'000
	Opening balance as at 1 January	**40,583,606**	51,708,239
	Movement for the period	**(8,541,731)**	(11,124,633)
	Closing balance as at 31 December	**32,041,875**	40,583,606

Exchange equalisation reserve is used to record the restatement gain/loss on FCBU retained earning and profits on account of exchange rates fluctuations.

35.2	Fair value through other comprehensive income reserve	2024	2023
		Rs.'000	Rs.'000
	Opening balance as at 1 January	**283,721**	(550,416)
	Net movement in revaluation and impairment	**868,463**	834,137
	Closing balance as at 31 December	**1,152,184**	283,721

The Branch has elected to recognise changes in the fair value of certain debt investments in OCI. These changes are accumulated within the FVOCI reserve within equity.

35.3	Revaluation reserve	2024	2023
		Rs.'000	Rs.'000
	Opening balance as at 1 January	**2,969,814**	2,684,031
	Net Revaluation surplus/(deficit) for the year	**106,262**	285,783
	Closing balance as at 31 December	**3,076,076**	2,969,814

Revaluation reserve is used to record increases and decreases on the revaluation of land and building. In the event of a sale of an asset, any balance in the reserve in relation to the asset is transferred to retained earnings.

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35 Other reserves (contd)

35.4 Share based payment reserve

	2024	2023
	Rs.'000	Rs.'000
Opening balance as at 01 January	**168,976**	224,676
Transferred during the year	**(15,948)**	(55,700)
Closing balance as at 31 December	**153,028**	168,976

35.5 HSBC Restricted Shares based payments and share option plan

HSBC Sri Lanka has a share option plan referred to as "HSBC Restricted Shares". Under this share option plan, HSBC Group defers part of the annual discretionary variable pay of a few senior managers into shares according to a vesting schedule. The shares are granted to the employees within a span of three years' vesting period. The cost of the shares are initially borne by the HSBC Group Head Office in UK and subsequently recharged to the local office (i.e. in the case of Sri Lankan employees, HSBC UK recharges the cost from HSBC Sri Lanka). In addition, HSBC Sri Lanka had a share based payment scheme available for its employees, which provided share options to the employees. Even though this scheme has ceased, the related liability towards the group has been accounted in books as a part of equity.

35.5.1 Restricted share awards -No of shares

Outstanding at the beginning	**8,132**	11,222
Awards during the year	**36,787**	2,460
Vested during the year	**(32,697)**	(5,550)
Outstanding at the end	**12,222**	8,132

35.5.2 Share-based payments income statement charge

	Rs.'000	Rs.'000
Restricted and performance share awards	**(122,287)**	(19,599)
	(122,287)	(19,599)

36 Events after the reporting date

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date the financial statements are authorised for issue. There are no events occurring after the reporting date which require adjustments to or disclosure in the financial statements.

37 Comparative figures

The comparative figures and phrases have been re-arranged wherever necessary to conform to the current year's presentation.

AS AT 31 DECEMBER

38 Commitments and contingencies

38.1 In the normal course of business, the Branch makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

	2024	2023
	Rs.'000	Rs.'000
Commitments		
Undrawn loan commitments	**261,578,676**	238,563,687
Foreign exchange contracts	**50,455,017**	61,148,720
Other contra accounts	**54,092,131**	18,940,896
Total	**366,125,824**	318,653,303
Contingencies		
Performance bonds	**53,743,595**	84,841,503
Letters of credit	**40,113,290**	30,200,442
Guarantees	**18,446,452**	8,474,808
Total	**112,303,337**	123,516,753
Total commitments and contingencies	**478,429,161**	442,170,056

38.2 Movements in Impairment during the Year

Opening balance as at 1 January	**646,152**	614,734
(Write back)/charge to income statement	**(454,752)**	267,900
Exchange rate variance and other adjustments	**194,101**	(236,482)
Closing balance as at 31 December	**385,501**	646,152

38.3 Pending litigations against the Branch as at 31 December 2024

1. Court action has been taken under case no.HC/CIVIL/338/12 where case filed by the plaintiff against other three defendants for alleged malicious prosecution. The bank has been enlisted as the 4th defendant for giving evidence on certain transactions of the plaintiff.

2. Three Labour Tribunal actions have been taken under case numbers LT 01/32/2016 (new case No LT/2/1121/2021), LT 01/AD/51/2016 and LT 24/478/2016 by former staff members for alleged unfair termination.

3. Case No : DTS 270/24 ,Ajith Lalith Senanayake (deceased) , Maya Dilrukshi Samaratunga Weerawardena Senanayake (Petitioner) Vs HSBC(3 Respondent) and others in the District Court of Colombo . Testamentary action by a petitioner on behalf of her demised spouse who is a WPB customer, wherein HSBC Sri Lanka branch("HSBC") has been named as the 3rd respondent. The petitioner has made HSBC a party for the purpose of obtaining the Bank account balances of the deceased.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH - DOMESTIC BANKING UNIT
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

AS AT 31 DECEMBER 2024

38 Commitments and contingencies (contd)

38.3 Pending litigations against the Branch as at 31 December 2023 (contd)

4. Case no. 01766/2020/DMR and New Number - CHC/66/2023 /MR-Commercial High Courts of Colombo- The case has been filed by Jetwing Pvt Ltd (Customer - Palintiff). The Customer who has had a relationship with HSBC since 1995 is disputing the validity of certain FX Spot Transactions transacted on the Evolve Platform.

5. Law suit instituted by a former staff (Plaintiff) case no: 2369/2016/MR , demanding for compensation for causing him the pain of mind further to his termination from the services of the Bank.

6. Case No: DMR 00285/17, has been instituted by M S A Shipping (Pvt) Ltd (The Plaintiff) has filed the action against Mr Asela Tennnakoon - the First Defendant, who has credited 12 cheques, drawn by OPPO Lanka (Pvt) Ltd in favour of "MSA Shipping (Pvt) Ltd or Bearer", into his personal account with HSBC and also joined HSBC as the Second Defendant on grounds of negligence and breach of duty of care.

7. Case no-SC SPL LA 225/2020 (appeal of CA WRIT 284/2017) & 226/2020 These are appeals to the Supreme Court by ex CMB staff (Petitioner) against the order of the Court of Appeal in favour of HSBC. Writ was granted in favour of HSBC by the Court of Appeal in CA WRIT 284/2017 and 74/2018 on 17 September 2020. Case No -SC SPL LA 239/2020 (appeal of CA WRIT 284/2017 Attorney General V HSBC) The State has filed an application,under case No: SC/SPL/LA 239/20, with the Supreme Court for Leave to appeal against the recent Judgment of the Court of Appeal delivered for writ matter 284/2017 on 17 September 2020 .

8. Civil High Court of the Western Province/ Commercial High Court of Colombo case no- 734/18/MR - Prince Shirley Rodrigo Sathianathen (Plaintiff) as instituted litigation against HSBC claiming that HSBC Sri Lanka has wrongfully disbursed the estate of the late Mr. Philip Rodrigo Sathianathen (the deceased customer) to the survivor of the joint accounts held with the deceased customer.

9. District Court - Case no - DMR 5207/2019, Mohamed Bahaudeen Mohamed Faizal (Plaintiff) v HSBC, Court action has been initiated by the Plaintiff and suing the Bank for the loss and damage suffered by him as a result of the malicious and deliberate conduct of the Bank in blocking his credit cards and for subsequent reporting to Credit Information Bureau of Sri Lanka (CRIB) the Plaintiff as a defaulter. The Plaintiff claims from the Bank as damages a sum of LKR 100,000,000 [approximately USD 555,555.56 (1 USD at 180/- LKR)] together with legal interest thereon.

AS AT 31 DECEMBER

38 Commitments and contingencies (contd)

38.3 Pending litigations against the Branch as at 31 December 2023 (contd)

10. Mohamed Junaideen Mohamed Nazim (Deceased) , F Fathima Ramza alias Fathima Ramza Deen (Petitioner) Vs HSBC(8 Respondent) & others
    - Case number -DTS / 7902- District Court of Kurunegala. Testamentary action by a petitioner on behalf of her demised spouse who is a WPB customer, wherein HSBC Sri Lanka branch("HSBC") has been named as the 8th respondent. The petitioner has made HSBC a party for the purpose of obtaining the Bank account balances and to ascertain the outstanding dues of the facilities obtained by the deceased. Hence no compensation is payable by the Bank under this type of litigation. there is a credit card outstanding dues under the deceased customers portfolio and no recovery action has been instituted , therefore we will make a claim for the said amount from the estate of the deceased.

11. Case no: DSP 493/2023, District Court Of Colombo - A staff member filed litigation against Bank, before the District Court of Colombo seeking relief in the form of an interim injuction to prevent the Bank holding the Domestic Inquiry as a part of its disciplinary proceedings.

The Branch does not expect any material liabilities crystalizing from the above on going cases.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)

FOR THE YEAR ENDED 31 DECEMBER

39 Related party disclosures

The Branch carries out transactions in the ordinary course of its business with parties who are defined as related parties at an arm's length basis in Sri Lanka Accounting Standard (LKAS 24) "Related Party Disclosures", the details of which are reported below.

39.1 Transactions with related parties

(a) Interest paid to other HSBC branches and group companies	2024 Rs.'000	2023 Rs.'000
Other HSBC Branches		
HSBC Hongkong	**334,723**	401,096
	334,723	401,096
Group companies		
HSBC London	**23**	-
HSBC Canada	**-**	87
HSBC Data Processing Ltd	**161,693**	154,369
HSBC Australia	**-**	50
HSBC Singapore	**14**	1,189
HSBC Japan	**1**	-
HSBC New Zealand	**7**	-
	161,738	155,695

(b) Interest received from other HSBC branches and group companies	2024 Rs.'000	2023 Rs.'000
Other HSBC branches		
HSBC Hongkong	**416,760**	478,052
HSBC China	**936**	530
	417,696	478,582
Group companies		
HSBC Singapore	**6,719,673**	7,454,721
HSBC Data Processing Ltd	**128,506**	282,867
HSBC North America HUSI	**6,841**	-
HSBC Mauritius	**-**	645,640
HSBC Malaysia	**2,411,202**	1,073,042
HSBC United Arab Emirates	**852,933**	-
HASE - Head Office	**35,946**	-
	10,155,101	9,456,270

(c) Charges paid to other HSBC branches and group companies		
HSBC Hongkong	**3,212,440**	6,651,947
Group companies	**7,173,344**	3,569,761
	10,385,784	10,221,708

FOR THE YEAR ENDED 31 DECEMBER

39 Related party disclosures (contd)

39.1 Transactions with related parties (contd)

(d) Commission paid to other HSBC branches and group companies	2024	2023
	Rs.'000	Rs.'000
Other HSBC Branches		
HSBC Hongkong	**636**	704
HSBC Japan	**411**	500
HSBC New Zealand	**252**	272
HSBC Singapore	**487**	594
HSBC Thailand	**1,144**	1,485
HSBC Australia	**5,251**	5,369
	8,181	**8,924**
Group companies		
HSBC China	**303**	92
HSBC Canada	**435**	2,705
HSBC UAE	**516**	534
HSBC UK	**-**	90
HSBC Continental Europe	**147**	148
	1,401	**3,569**

FOR THE YEAR ENDED 31 DECEMBER

39 Related Party Disclosures (contd)

39.1 Transactions with related parties (contd)

(e) Commission received from other HSBC branches and group companies

	2024	2023
	Rs.'000	Rs.'000
Other HSBC branches		
HSBC Hongkong	**6,720**	6,925
HSBC Japan	**4,619**	5,843
HSBC Singapore	**9,239**	17,276
HSBC India	**13,601**	13,831
HSBC Vietnam	**42**	85
	34,221	43,960
Group companies		
HSBC London	**11,164**	9,898
HSBC Canada	**-**	82
HSBC China	**9,992**	16,971
HSBC Australia	**131**	90
HSBC Zurich	**2,179**	1,578
HSBC Data processing Ltd	**5,492**	10,437
HSBC United Arab Emirates	**464**	1,227
HSBC Bank Malaysia Berhad	**3,130**	2,841
HUSI Indonesia	**104**	149
HSBC Continental Europe	**4,298**	7,333
HSBC Mauritius	**75**	157
HUSI North America	**2,595**	3,280
	39,624	54,043

(f) Other operating income - Other HSBC branches and group companies

Other HSBC branches		
HSBC Maldives	**98,594**	87,895
HSBC India	**9,068**	-
	107,662	**87,895**
Group companies		
HSBC Data Processing Ltd - Sri Lanka	**1,137**	5,009
	1,137	**5,009**

39 Related Party Disclosures (contd)

39.1 Transactions with related parties (contd)

(g) Receivable from other HSBC branches and group companies	**2024**	2023
	Rs.'000	Rs.'000
Other HSBC branches		
HSBC Hongkong	**1,134,794**	26,170,185
HSBC New Zealand	**39,785**	73,238
HSBC Japan	**42,700**	52,966
HSBC Singapore	**234,502**	91,798
HSBC India	**15,251**	63,540
HSBC Thailand	**49,881**	55,780
HSBC Maldives	**-**	2,496
	1,516,913	26,510,003
Group companies		
HSBC London	**917,762**	2,005,741
HSBC China	**44,891**	170,107
HSBC Canada	**-**	48,058
HSBC Data processing Ltd	**262,250**	1,262,250
HSBC United Arab Emirates*	**26,409,904**	4,898
HSBC Australia	**101,003**	97,140
HSBC Bank (Singapore) Limited	**127,762,446**	129,881,429
HSBC Bank Malaysia Berhad	**44,541,633**	65,331,255
HSBC Data processing (Malaysia) Sdn Bhd	**6**	-
HSBC Continental Europe	**2,934,828**	80,679
HUSI North America	**10,632,610**	5,246,762
	213,607,333	204,128,319

* This balance includes placements with HSBC UAE.

FOR THE YEAR ENDED 31 DECEMBER

39 Related party disclosure (contd)

39.1 Transactions with related parties (contd)

(h) Payable to other HSBC branches and group companies	**2024**	2023
	Rs.'000	Rs.'000
Other HSBC branches		
HSBC Hongkong *	**4,045,498**	30,671,807
HSBC Japan	**11**	1,259
HSBC Singapore	**25,569**	146,893
HSBC India	**7,600**	44,224
HSBC Bangladesh	**2,467**	3,168
HSBC Maldives	**1,661**	10,279
HSBC Vietnam	**54**	-
HSBC Mauritius	**655**	562
	4,083,515	30,878,192
Group companies		
HSBC Bank plc UK Ops	**360,206**	278,525
HSBC Baharain	**18,200**	1,352
HSBC Canada	**-**	12
HSBC China (Bank) Co. Ltd	**6,309**	4,394
HSBC Bank Malaysia Berhad	**4,047**	11,139
HSBC Bank (Singapore) Limited	**13,837**	9,265
HSBC Qatar	**370**	-
HSBC UAE	**26,924**	42,093
HSBC Australia	**15**	387
HSBC Continental Europe Netherlands Branch	**1,642**	-
HSBC Data processing Ltd -India	**42,625**	196,922
HSBC Data processing Ltd -Sri Lanka	**5,209,712**	6,762,692
HSBC Data processing (Guangdong) Ltd	**7,549**	-
HBAP Philippines	**228**	324
HBAP Thailand	**215**	486
HBEU Branch Zurich	**134**	167
HSBC Continental Europe	**249**	163,297
HSBC Global Services (HK) Ltd	**7,361**	-
HSBC Global Services (UK) Limited	**1,066,694**	1,503,148
HSBC Global Services Limited	**1,713,411**	-
HSBC Group Management Services Limited	**372,077**	-
HSBC Software Dev (Guangdong)Ltd	**291,425**	795,577
HSBC Software Develop (India) Pvte Ltd	**95,748**	70,898
HSBC UK Bank plc	**7,596**	14,102
HUSI North America	**491,884**	383,301
	9,739,738	10,239,514

* This balance includes borrowings from HSBC Hongkong

FOR THE YEAR ENDED 31 DECEMBER

39 Related party disclosure (contd)

39.2 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard No. 24 - "Related Party Disclosures", Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the Branch. The Executive Committee and several other senior management of the Branch have been identified as key management personnel based on the above requirements.

(a) Compensation of KMPs

	2024	2023
	Rs.'000	Rs.'000
Short term employment benefits	**547,435**	724,670
Post employment benefits	**44,674**	52,811
	592,109	777,481

(b) Transactions with KMPs and their close relations

	2024	2023
	Rs.'000	Rs.'000
Total deposits	**142,374**	107,368
Total loans, advances and undrawn facilities granted	**156,200**	246,136
	298,574	353,504

(c) Direct and indirect accommodation

Direct and indirect accommodation as a percentage of the Branch's Regulatory capital	**0.2%**	0.3%

(d) Income statement

	2024	2023
	Rs.'000	Rs.'000
Interest income	**8,464**	12,944
Interest expenses	**5,396**	5,858
Compensation to KMP	**592,109**	777,481
	605,969	796,283

(e) Share based transactions of KMP

Share based payments are only made to the KMP and the movements during the year is recorded under the Note 35.5.

40 Financial risk management

40.1 Risk management framework

All of the Branch's activities involve, to varying degrees, the defining and enabling, identifying and assessing, managing, aggregating and reporting and governing of risks or combinations of risks. An established Risk Management Framework and ownership structure ensures oversight of, and accountability for the effective management of risk at Group, Regional and Site levels. The framework also complies with the Banking Act No 30 of 1988 and as amended via Banking (Amendment) Act no 24 of 2024.

The Branch's Risk Function consists of Wholesale Credit and Market Risk, Wealth and Personal Branching (WPB) Risk, Enterprise Risk Management (ERM), and CRO and Administration. The HSBC Group provides overall written policies and procedures on Risk management covering Financial and Non-Financial Risks. The Local Management through the Executive Committee and the Risk Management Meeting monitors the execution of Risk management policies and procedures.

Risk appetite and tolerance limits for key types of risks

Branch's risk appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process. Furthermore, it is integrated with other key Risk management tools such as Enterprise Wide Stress Testing (EWST), Country Risk Map, Thematic and Emerging Risks and Risk Appetite Statement (RAS) to help ensure consistency in Risk management practices.

The Branch sets out the aggregated level and risk types it accepts in order to achieve its business objectives in the Risk Appetite Statement ('RAS'). This is reviewed on an ongoing basis, and formally approved by Risk Management Meeting held at an agreed frequency for the year with ad-hoc meetings held in between as appropriate with the Regional Risk Appetite and Governance team providing oversight. The Branch's actual performance is reported monthly against the approved RAS to the Risk Management Meeting ('RMM'), enabling senior management to monitor the risk profile and guide business activities to balance risk and return. This reporting allows risks to be promptly identified, mitigated and drive a strong risk culture. Risk Appetite and tolerance thresholds are decided by respective Risk Stewards in collaboration with respective business lines.

Stress testing

Enterprise Wide Stress Testing ("EWST") evaluates the potential vulnerabilities in the Branch's overall profitability, asset portfolio, liquidity, operations and capital strength under remote, yet plausible, stressed environments by assessing a variety of risks that the Branch is exposed to. Equally, it assists in the formulation of possible mitigating actions that could be considered in such circumstances.

EWST is a mandatory local regulatory reporting requirement to be met annually. The process incorporates Local capital rules, Provisioning rules, and Financial reporting rules, and is an integral part of the Branch's annual ICAAP submission. The exercise covers Wholesale Credit Risk (including concentration risk), WPB Credit Risk, Traded Credit Risk and Market Risk, Funding Risk (including interest rate risk of Branching books) and Operational Risk.

40 Financial risk management (contd)

40.1 Risk management framework (contd)

Stress testing (contd)
Stress tests that can be applied to a Branch are broadly of two categories: sensitivity tests and scenario tests. HSBC Sri Lanka follows scenario based methodologies for the exercise. Scenario tests assess the impact to the Branch's financial position due to simultaneous movements in a number of variables based on a single event experienced in the past or a plausible market event that has not yet happened.

HSBC Sri Lanka performs EWST under three stress scenarios with ascending levels of severity, i.e minor, medium and major. The approach for 2024 is to leverage on the HSBC Group Internal Stress Testing (GIST) scenarios. The severity of the GIST scenario (adjusted but largely the equivalent of the major scenario) are scaled down to 50% and 10% respectively to arrive at the medium and mild scenarios.

Stress Testing results are reviewed by both local and regional subject matter experts before being presented for approval to the "Design Authority (DA)" consisting of CFO, and CRO. As the final step, results are shared with the local Risk Management Committee.

Internal stress tests are used in our enterprise-wide risk management and capital management frameworks. Risks to our capital plan are assessed through a range of scenarios which explore risks that management needs to consider under stress including potential adverse macroeconomic, geopolitical and operational risk events, and potential events that are specific to HSBC. Based on insights gained from the exercise, the management decides whether risks can or should be mitigated through management actions, or, whether to absorbed through capital if they were to crystallise.

40.2 Credit risk

Credit risk is defined as the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. Credit risk arises principally from cash and cash equivalents, direct lending, trade finance and also from certain other products such as derivative instruments and off balance sheet transactions such as letters of credit and guarantees.

Credit risk

• Is measured as the amount which could be lost if a customer or counterparty fails to make repayments. In the case of derivatives, the measurement of exposure takes into account the current mark to market value to the Branch of the contract and the expected potential change in that value over time caused by movements in market rates;

• Is monitored within limits, approved by individuals within a framework of delegated authorities. These limits represent the peak exposure or loss to which the Branch could be subjected should the customer or counterparty fail to perform its contractual obligations;

• Is managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.

40 Financial risk management (contd)

40.2 Credit risk (Contd)

The role of the independent credit control unit is fulfilled by the local Risk team which is a part of the Asia Pacific Risk function. Credit approval authorities are delegated by Regional Office (ASP) to Chief Executive Officer (CEO) who in turn delegates limit to local risk executives.

The principle objectives of our credit risk management are;

• To maintain across the Branch a strong culture of responsible lending and a robust risk policy and control framework.

• To both partner and challenge Branch's businesses in defining, implementing and continually re-evaluating our risk appetite under actual and scenario conditions; and

• To ensure there is independent, expert scrutiny of credit risks, their costs and their mitigation.

Credit Quality of Financial Instruments

Branch's credit risk rating systems and processes are designed to differentiate exposures in order to highlight those with greater risk factors and higher potential severity of loss. Within Branch's WPB businesses, risk is assessed and managed using a wide range of risk models and strategies to maintain risk reward balance.

Branch's risk rating system facilitates the internal ratings-based ('IRB') approach under Basel III adopted by the HSBC Group to support Prudential Regulation Authority (PRA) reporting requirement and to make risk-based pricing decisions. Credit quality of customers are assessed taking into account their financial position, past experience and other factors. Special attention is paid to problem exposures in order to accelerate remedial action.

HSBC Group and regional credit review teams regularly review exposures and processes in order to provide an independent, rigorous assessment of credit risk across the Group, reinforce secondary risk management controls and share best practice. Internal audit, as a tertiary control function, focuses on risks with a global perspective and on the design and effectiveness of primary and secondary controls, carrying out oversight audits via the sampling of global/regional control frameworks, themed audits of key or emerging risks and project audits to assess major change initiatives.

Impairment assessment

The Branch computes Expected Credit Losses (ECLs) appropriately.

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.1 Credit risk management

Credit impaired loans

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

• contractual payments of either principal or interest are past due for more than 90 days;
• there are other indications that the borrower is unlikely to pay, such as when a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
• the loan is otherwise considered to be in default. If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due. Therefore, the definitions of credit impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit impaired.

Impairment and credit risk mitigation

The existence of collateral has an impact when calculating ECLs on stage 3 assets. (credit impaired assets) When an account is classified as default or when the Branch no longer expect to recover the principal or interest due on a loan in full or in accordance with the original terms and conditions, it is assessed for ECLs individually, where recovery is projected for each loan using a discounted cash flow method. If exposures are backed by collateral, the current net realizable value of the collateral will be taken into account when assessing the need for individually assessed ECLs.

WPB portfolios are generally assessed for impairment on a collective basis as the portfolios typically consist of large groups of homogeneous loans.

The impairment requirements under IFRS 9 are based on an Expected Credit Losses ('ECL') concept that requires the recognition of ECL in a timely and forward-looking manner.

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

In general, HSBC calculates ECL using three main components: a probability of default, a loss given default ('LGD') and the exposure at default ('EAD').

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead.

The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.1 Credit risk management (contd)

Impairment and credit risk mitigation

ECLs are calculated for all WPB products and will be done on product level. The determination of ECL is based on the concept of 'staging' which reflects the general classification of credit deterioration of an asset which is primarily on delinquency levels.Assets must be allocated into appropriate credit deterioration stages (Stage 1, Stage 2 and Stage 3) before ECL calculations can be performed. The stages drive the recognition of ECLs.

ECL is determined via a two-step approach, where the financial instruments are first assessed for their relative credit deterioration, followed by the measurement of the ECL (which depends on the credit deterioration categories).

Financial instruments that are performing are considered to be 'Stage 1'. Financial instruments which are considered to have experienced a significant increase in credit risk are in 'Stage 2'. Financial instruments for which there is objective evidence of impairment so are considered to be in default or otherwise credit impaired are in 'Stage 3'.

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between WSB and WPB. However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due. In addition, wholesale loans that are individually assessed, typically WSB customers and included on a watch or worry list, are included in stage 2. SICR criteria 7.1.3 in CBSL Direction No 13 of 2021 gives rise to an Incremental ECL of USD 29,475. This accounts for 0.33% of the total Impairment provision. As Permitted by Section 7.2 of CBSL Direction No 13 of 2021, HSBC has rebutted the criteria so referred to, and the impact and the ECLs in the financial statements as at 31.12.2024 has been reported excluding the incremental ECL of USD 29,475.

In the absence of a significant increase in credit risk, 12-month ECL should be recognized from initial recognition (except POCI). Financial instruments that are credit-impaired upon initial recognition are POCI (Purchase or originated credit impaired). Therefore, performing financial instruments in Stage 1 will recognize 12-month ECL. The underlying principle of the ECL model is that lifetime ECL is recognized when there has been a significant increase in credit risk since initial recognition.

The transfers between the stages are symmetrical, ie a financial instrument could deteriorate from Stage 1 to 2 or 3, but it can also recover from stage 3 to 2 or 1. The only exception being POCI financial assets, where it will always remain in this category until derecognition.

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.1 Credit risk management (contd)

Write off of loans and receivables

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realization of security. In circumstances where the net realizable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Credit cards, personal instalment loans and auto loans are generally written off at 180 days. It is done on the billing date of the month, the account reaches 180 days and non performing home loans are written off once it's in non-performing loan status for 60 months. The process is done manually and any exception is tracked and rectified the next day. However early write off could be triggered by the circumstance of the account for example on death, bankruptcy, early settlement etc.

Usually Collections/Recovery activities may continue after charge off and Legal action would be taken if the parties are unable to reach an amicable settlement.

Contractual amount outstanding of financial assets written off during the reporting period that are still subject to enforcement activity are as follows;

As at 31 December	**2024**	2023
Rs.'000		
Wealth and Personal Banking (WPB)	**491,525**	967,020
Wholesale Banking (WSB)	**-**	-
	491,525	967,020

Collateral management and valuation

It is the Branch's practice to lend on the basis of the customer's ability to meet their obligations out of cash flow resources rather than rely on the value of collateral which is an important credit risk mitigation mechanism. Depending on the customer's standing and the type of product, facilities may be provided unsecured. However, for other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the Branch may utilize the collateral as a source of repayment. Some of the collateral types that are used in order to mitigate credit risk of the Wholesale segment includes deposits under lien, property mortgages, machinery mortgages and corporate and bank guarantees. The main types of guarantees are the parental corporate guarantees issued by a parent company on behalf of a subsidiary, where the creditworthiness of the corporate guarantee is assessed based on the financial strength of the parent company. Guarantees issued by a third party to secure borrowings of a company is also accepted, however is not common and will be accommodated only on an exceptional basis post establishing the financial strength of the guarantor. Valuation of tangible collateral is periodically done according to bank's collateral policy.

The secured facilities extended to WPB customers consist of home loans (at present these facilities are limited only to Bank staff), facilities against properties and cash back facilities.

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.1 Credit risk management (contd)

Collateral management and valuation (Contd)

Accordingly, the nature of collateral relating to WPB facilities consist of property, vehicles and cash for respective facilities.

Depending on its form, collateral can have a significant financial effect in mitigating our exposure to credit risk.

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

As at 31 Decemeber	**2024**	2023
	Rs.'000	Rs.'000
Balances with Central Bank of Sri Lanka	**35,002,199**	88,040,714
Placements with other banks	**198,065,250**	219,644,880
Balances with other banks	**16,252,224**	8,078,288
Derivative financial instruments	**239,457**	1,010,959
Financial assets measured at fair value through profit or loss	**14,457**	23,759
Financial assets at amortised cost - loans and advances	**203,593,016**	215,054,650
Financial assets measured at fair value through other comprehensive income	**85,135,590**	19,661,971
Acceptance and endorsements	**58,170,962**	24,524,578
Total on balance sheet credit exposure	**596,473,155**	576,039,799
Total off balance sheet credit exposure	**423,951,529**	422,583,007

Impairment movement of financial assets/ liabilities

Consolidated

Rs.'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as at 1 January 2024	1,342,645	3,512,139	2,082,562	6,937,346
Write back to income statement	(393,496)	(1,336,125)	(736,198)	(2,465,819)
Exchange/other	165,827	(209,421)	(246,227)	(289,821)
Closing balance as at 31 December 2024	**1,114,976**	**1,966,593**	**1,100,137**	**4,181,706**

Rs.'000	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Opening balance as at 1 January 2023	1,421,106	12,853,976	1,785,085	16,060,167
Write back to income statement	134,644	(9,306,243)	250,101	(8,921,498)
Exchange/other	(213,105)	(35,594)	47,375	(201,324)
Closing balance as at 31 December 2023	**1,342,645**	**3,512,139**	**2,082,561**	**6,937,345**

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.2 Quantitative Disclosures

Gross Loans and Receivables

Gross loans and receivables, impairment and net loans and receivables from customers are disclosed in Note 21 in the financial Statements. Movements in impairment during the period are disclosed in Note 21.2 in the financial Statements.

Gross loans and receivables - by product

	Gross exposure 2024 Rs.'000	**Average gross exposure 2024 Rs.'000**	Gross exposure 2023 Rs.'000	Average gross exposure 2023 Rs.'000
By product - local currency				
Overdrafts	**18,828,813**	**30,180,668**	41,378,313	27,958,286
Term loans	**59,586,856**	**47,679,455**	45,312,868	34,786,744
Credit cards	**22,092,449**	**21,504,079**	21,088,689	20,123,832
Trade Loans	**1,294,632**	**1,926,120**	536,768	767,397
Sub total	**101,802,750**	**101,290,322**	108,316,638	83,636,259
By product - foreign currency				
Overdrafts	**11,844,010**	**8,537,674**	7,420,549	8,459,527
Term loans	**47,093,077**	**51,172,768**	63,056,347	80,152,856
Trade Loans	**42,853,179**	**36,403,536**	36,261,116	39,126,889
Sub total	**101,790,266**	**96,113,978**	106,738,012	127,739,272
Total	**203,593,016**	**197,404,300**	215,054,650	211,375,531

Gross loans and receivables - by currency	**2024 Rs.'000**	2023 Rs.'000
By Product - currency		
Sri Lankan Rupee	**101,986,016**	108,316,638
United States Dollar	**97,151,201**	99,907,505
Great Britain Pound	**-**	348,477
Others	**4,455,799**	6,482,030
Total	**203,593,016**	215,054,650

Expected credit losses on loans and advances to customers - At business segment

	Stage 1 2024 Rs.'000	**Stage 2 2024 Rs.'000**	**Stage 3 2024 Rs.'000**	**Total 2024 Rs.'000**	Total 2023 Rs.'000
WPB	305,624	330,025	401,185	**1,036,834**	1,476,922
WSB	507,144	229,342	617,548	**1,354,034**	3,364,206
	812,768	**559,367**	**1,018,733**	**2,390,868**	4,841,128

WPB - Wealth and personal banking
WSB - Wholesale banking

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.2 Quantitative Disclosures (contd)

Distribution of financial instruments by credit quality

Financial instrument	Strong Rs.'000	Good Rs.'000	Satisfactory Rs.'000	Sub Standard Rs.'000	Past due but not impaired Rs.'000	Impaired Rs.'000	Impairment Allowance Rs.'000	2024 Total Rs.'000	2023 Total Rs.'000
Cash and cash equivalents	140,677,424		-	-	-	-	(5,553)	**140,671,871**	218,142,715
Balances with central bank of Sri Lanka	35,018,326	-	-	-	-	-	(16,127)	**35,002,199**	88,040,714
Placements with banks	74,824,650	-	-	-	-	-	(21,656)	**74,802,994**	11,337,397
Derivative financial instruments	-	74,296	165,161	-	-	-	-	**239,457**	1,010,959
Financial assets measured at fair value through profit or loss	14,457	-	-	-	-	-	-	**14,457**	23,759
Loans and receivables to customers	1,199,845	772,668	179,604,200	19,711,700	943,404	1,361,199	(2,390,868)	**201,202,148**	210,213,522
Financial assets measured at fair value through other comprehensive income	85,135,590	-	-	-	-	-	-	**85,135,590**	19,661,971
Financial assets at amortised cost - debt instruments	110,521	-	-	-	-	-	(12,280)	**98,241**	93,575
Acceptances and endorsements	-	-	58,170,962				(89,947)	**58,081,015**	24,265,096
Total	**336,980,813**	**846,964**	**237,940,323**	**19,711,700**	**943,404**	**1,361,199**	**(2,536,431)**	**595,247,972**	572,789,708

40 Financial Risk Management (contd)

40.2 Credit risk (contd)

40.2.2 Quantitative Disclosures (contd)

Gross Loans and Receivables - Sector wise analysis

Sector	**Import lending Rs.000**	**Export lending Rs.000**	**Overdrafts Rs.000**	**Credit Cards Rs.000**	**Short term loans Rs.000**	**Medium and long term loans Rs.000**	**Mortgages Rs.000**	**2024 Total Rs.'000**	2023 Total Rs.'000
Agriculture and fishing	-	587,956	1,837,224			26,665	-	**2,451,845**	4,613,186
Manufacturing	529,759	42,670,017	6,994,537		2,881,521	6,701,976	-	**59,777,810**	58,298,846
Tourism	-	-	2,607,999			31,163,646	-	**33,771,645**	23,101,998
Transport		-	1,632,341		310,534	1,773,101	-	**3,715,976**	6,032,743
Construction	-	-	1,918,582		67,482	23,828,936	-	**25,815,000**	6,975,155
Traders			341,956		1,767,680	1,573,722		**3,683,358**	11,136,694
Financial and business services	-	-	3,988,064		2,159,682	5,941,682	-	**12,089,428**	2,254,831
Infrastructure	-	-					-	**-**	9,100,000
Other services	360,078		4,933,153		1,418,541	22,032,284		**28,744,056**	34,260,883
Credit card	-	-		22,092,449			-	**22,092,449**	21,088,689
Other	-	-	6,418,965	-		3,245,092	1,787,392	**11,451,449**	38,191,625
Total	**889,837**	**43,257,973**	**30,672,821**	**22,092,449**	**8,605,440**	**96,287,104**	**1,787,392**	**203,593,016**	215,054,650

40 Financial Risk Management (contd)

40.2 Credit risk (contd)

40.2.2 Quantitative Disclosures (contd)

Total Gross Loans and receivables including acceptances - Residual contractual maturity

Product category	Less than 7 days Rs.000	7-30 Days Rs.000	1-3 Months Rs.000	3-6 Months Rs.000	6-12 Months Rs.000	1-3 Years Rs.000	3-5 Years Rs.000	Over 5 years Rs.000	2024 Total Rs.'000	2023 Total Rs.'000
Overdrafts	30,672,823	-	-	-	-	-	-	-	**30,672,823**	48,798,862
Term lending	3,872,261	19,983,186	26,145,670	11,268,534	3,670,748	51,972,383	30,254,279	87,291	**147,254,352**	142,752,227
Non-eligible bills	643,630	396,467	646,274	99,628	-	-	-	-	**1,785,999**	302,522
Money market placements	-	-	-	-	-	-	-	-	**-**	-
Credit card advances	22,092,449	-	-	-	-	-	-	-	**22,092,449**	21,088,689
Mortgages	889	-	356	152	1,069	61,118	59,988	1,663,821	**1,787,393**	2,112,350
Total gross loans and receivables	**57,282,052**	**20,379,653**	**26,792,300**	**11,368,314**	**3,671,817**	**52,033,501**	**30,314,267**	**1,751,112**	**203,593,016**	215,054,650
Acceptances and endorsements	1,150,113	7,128,174	14,041,179	11,445,352	24,406,144	-	-	-	**58,170,962**	24,524,578
Total	**58,432,165**	**27,507,827**	**40,833,479**	**22,813,666**	**28,077,961**	**52,033,501**	**30,314,267**	**1,751,112**	**261,763,978**	239,579,228

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.2 Quantitative disclosures (contd)

Gross loans and receivables - Sector wise analysis of past due not impaired and impaired loans

	Past due not impaired		Impaired	
Sector	**2024**	2023	**2024**	2023
	Total	Total	**Total**	Total
	Rs.'000	Rs.'000	**Rs.'000**	Rs.'000
Agriculture and fishing	**-**	-	**-**	-
Manufacturing	**635,108**	1,696,142	**-**	-
Tourism	**-**	3,131,192	**631,272**	7,284,443
Transport	**-**	559,970	**-**	-
Construction	**-**	-	**-**	-
Traders	**-**	180,150	**-**	-
New economy	**-**	-	**-**	-
Financial and business services	**-**	-	**-**	-
Infrastructure	**-**	-	**-**	-
Other services	**-**	25,000	**-**	-
Credit card	**-**	-	**274,493**	321,315
Other	**308,296**	4,428,138	**455,434**	704,283
Total	**943,404**	10,020,592	**1,361,199**	8,310,041

Other Financial Assets - Past due not impaired and impaired loans

	Past due not impaired		Impaired	
	2024	2023	**2024**	2023
	Total	Total	**Total**	Total
	Rs.'000	Rs.'000	**Rs.'000**	Rs.'000
International Sovereign Bonds	-	-	-	471,696
Amount receivable from Government Treasury	-	-	**81,403**	-
Total	**-**	-	**81,403**	471,696

40 Financial risk management (contd)

40.2 Credit risk (contd)

40.2.2 Quantitative disclosures (contd)

Ageing analysis of loans and advances - past due but not impaired

Period	Less than 7 Days Rs.'000	7-30 Days Rs.'000	1-3 Months Rs.'000	3-6 Months Rs.'000	Contractual residual maturity 6-12 Months Rs.'000	1-3 Years Rs.'000	3-5 Years Rs.'000	Over 5 Years Rs.'000	Total Rs.'000
2024	**635,608**	**275**	**5,075**	**12,186**	**47,515**	**80,303**	**98,588**	**63,854**	**943,404**
2023	1,819,919	2,345,058	335,771	353,316	222,646	2,268,306	37,317	2,638,259	10,020,592

The impairment charges for loans and receivables is disclosed in Note 11. The movement in provision for impairment is disclosed in Note 21.2.

Qualitative disclosures on Collaterals held on past due not impaired

	2024	**2023**
Quality of the collateral held	Corporate guarantees from the two Joint Venture partners and Property Mortgage.	Corporate guarantees from the two Joint Venture partners and Property Mortgage.
Any significant changes in the quality of that collateral or credit enhancements as a result of deterioration or changes in the collateral policies of the entity during the reporting period	NIL	NIL
Information about financial instruments for which an entity has not recognised a loss allowance because of the collateral	NIL	Loan Facility Amounting to LKR 6.6 Bn
Quantitative information about the collateral held as security and other credit enhancements	NIL	Property mortgage with a market value ofLKR 7.8 Bn and Corporate guarantees of LKR 6.8 Bn

Collateral held and other credit enhancements and their financial effect

	2024		2023	
	Carrying amount of the exposure Rs.'000	**Carrying amount of the collateral Rs.'000**	Carrying amount of the exposure Rs.'000	Carrying amount of the collateral Rs.'000
Loans and receivables to customers	**201,202,148**	**153,849,656**	210,213,522	69,991,284

40 Financial risk management (contd)

40.3 Liquidity risk

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

Liquidity and funding risk is:

• Monitored against the Group's liquidity and funding risk framework and overseen by Regional and local Asset and Liability Management Committees ('ALCO's); and

• Managed on a stand-alone basis with no reliance on any related party (unless pre-committed) or the Central Bank of Sri Lanka, unless this represents routine established business as usual market practice.

40.3.1 Management of liquidity and funding risk

The Branch uses the HSBC's liquidity and funding risk management framework ('LFRF') that employs two key measures to define, monitor and control the liquidity and funding risk of each of its operating entities. The Net Stable Funding Ratio ("NSFR") is used to monitor the structural long-term funding position, and the Liquidity Coverage Ratio ("LCR") is used to monitor the resilience to severe liquidity stresses. The NSFR and LCR are monitored on a daily basis by the local management team, with monthly monitoring carried out by the Regional Office.

40 Financial risk management (contd)

40.3 Liquidity risk (contd)

40.3.1 Management of liquidity and funding risk (contd)

NSFR

This ratio monitors if the bank has sufficient stable funding to its illiquid assets. The equity and liability side of the balance sheet is considered to "provide" stable funding while on and off balance sheet assets are considered to be "requiring" stable funding.

LCR

This ratio monitors the ability of the Branch to withstand a severe liquidity stress. To ensure resilience under a liquidity stress, the bank is expected to maintain a sufficient stock of High Quality Liquid Assets ("HQLA") which will allow the bank to honour the net cash outflow due within the next 30 days from the start of the stress period. Outflows are assumed to originate from the liabilities of the Branch while inflows within the next 30 days are assumed to originate from the assets held by the Branch.

Maturity analysis of financial liabilities based on undiscounted cash flows

Undiscounted cash-flows include capital and interest payable on interest bearing liabilities, spread across its residual maturity.

Exposure	**Less than 7 Days**	**7-30 Days**	**1-3 Months**	**3-6 Months**	**6-12 Months**	**1-3 Years**	**3-5 Years**	**Over 5 Years**	**2024 Total**	2023 Total
	Rs.'000	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	**Rs.'000**	Rs.'000
Due to banks	10,626,107	586,860	2,934,300			-	-	-	**14,147,267**	38,632,196
Derivative financial instruments	470,583	-	-	-	-	-	-	-	**470,583**	228,622
Financial liablities at amortised cost - due to depositors	21,668,100	35,514,497	40,827,549	26,791,212	21,709,621	3,365,252	571,840	-	**150,448,071**	377,995,311
Acceptances and endorsements	1,150,113	7,128,174	14,041,179	11,445,352	24,406,144	-	-	-	**58,170,962**	24,524,578
Total	**33,914,903**	**43,229,531**	**57,803,028**	**38,236,564**	**46,115,765**	**3,365,252**	**571,840**	-	**223,236,883**	441,380,707

40 Financial risk management (contd)

40.3 Liquidity risk (contd)

40.3.1 Management of liquidity and funding risk (contd)

Maturity analysis of financial Assets based on undiscounted cash flows

Exposure	Less than 7 Days Rs.'000	7-30 Days Rs.'000	1-3 Months Rs.'000	3-6 Months Rs.'000	6-12 Months Rs.'000	1-3 Years Rs.'000	3-5 Years Rs.'000	Over 5 Years Rs.'000	2024 Total Rs.'000	2023 Total Rs.'000
Cash in hand	17,436,824	-	-	-	-	-	-	-	**17,436,824**	9,869,848
Non-statutory balances with central bank of Sri Lanka	33,755,000	-	-	-	-	-	-	-	**33,755,000**	85,221,008
Loans and Advances	64,115,801	22,810,946	29,988,621	12,724,554	4,109,865	58,241,098	33,930,759	1,960,020	**227,881,664**	245,613,916
Placements with banks	107,128,168	38,347,633	46,017,160	32,212,012	-	-	-	-	**223,704,973**	221,275,122
Governemnt securities	-	12,257,356	34,553,097	46,549,804	4,741	2,082	4,126	2,988	**93,374,194**	19,592,368
Acceptances and Endorsements	1,150,113	7,128,174	14,041,179	11,445,352	24,406,144	-	-	-	**58,170,962**	24,524,578
Total	**223,585,906**	**80,544,109**	**124,600,057**	**102,931,722**	**28,520,750**	**58,243,180**	**33,934,885**	**1,963,008**	**654,323,617**	606,096,840

40 Financial risk management (contd)

40.4 Market risk

The risk that movements in market factors, including foreign exchange rates, interest rates and credit spreads, which will reduce the income or the value of Branch's portfolio is considered as market risk.

Exposure to market risk is separated into two portfolios:

- Trading portfolios comprise positions arising from market-making and warehousing of customer derived positions.
- Non-trading portfolios comprise positions that primarily arise from the interest rate management of our retail and commercial banking assets and liabilities, financial investments designated as available for sale.

40.4.1 Monitoring and limiting market risk exposures

Branch's objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite.

Branch uses a range of tools to monitor and limit market risk exposures, including:

- Sensitivity analysis, the sensitivities of the net present values of assets and expected liability cash flows, in total and by currency, to a one basis point parallel shift in the discount curves used to calculate the net present values.
- Sensitivity limits are set for portfolios, products and risk types, with the depth of the market being one of the principal factors in determining the level of limits set.
- For foreign exchange risk, the total net short foreign exchange position and the net foreign exchange positions by currency.
- Value at risk ('VAR') which is a technique that estimates the potential losses that could occur on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence and,
- In recognition of VAR's limitations, the Branch augment VAR with stress testing to evaluate the potential impact on portfolio values of more extreme, though plausible, events or movements in a set of financial variables.

40.4.2 Risk management

Limits are set for portfolios, products and risk types, with market liquidity being a primary factor in determining the level of limits set. Group Risk, an independent unit within HSBC Group Head Office, is responsible for our market risk management policies and measurement techniques. Each of major operating entity has an independent market risk management and control function which is responsible for measuring market risk exposures in accordance with the policies defined by Group Risk, and monitoring and reporting these exposures against the prescribed limits on a daily basis.

40 Financial risk management (contd)

40.4 Market risk (contd)

40.4.2 Risk management (contd)

Both the VAR and Stressed VAR models the Branch uses are based predominantly on historical simulation. These models derive plausible future scenarios from past series of recorded market rates and prices, taking into account interrelationships between different markets and rates such as interest rates and foreign exchange rates.

The historical simulation models used incorporate the following features:

- Historical market rates and prices are calculated with reference to foreign exchange rates, interest rates and the associated volatilities;
- Potential market movements utilized for VAR are calculated with reference to data from the past two years,
- Potential market movements employed for stressed VAR calculations are based on a continuous one-year period of stress for the trading portfolio

Branch routinely validates the accuracy of the VAR models by back-testing the actual daily profit and loss results, adjusted to remove non-modelled items such as fees and commissions, against the corresponding VAR numbers.

40 Financial risk management (contd)

40.4 Market risk (contd)

40.4.2 Risk management (contd)

Foreign exchange position

Currency (LKR' million)	Spot Assets	Spot Liabilities	Spot Net	Forward Assets	Forward Liabilities	Forward Net	Net Open Position	Net position in other exchange contracts	Overall exposure in other respective foreign currency	Overall exposure in Sri Lankan Rupees
US Dollars	216,569	(200,064)	16,504	29,662	(47,393)	(17,731)	(2,222)	-	(8)	(2,222)
Pound Sterling	10,184	(19,741)	(9,557)	13,285	(3,729)	9,556	364	-	2	364
Euro	7,974	(7,750)	224	6,211	(6,442)	(231)	143	-	1	143
Japanese Yen	1,056	(1,030)	26	110	(135)	(25)	171	-	-	171
Australian Dollar	1,819	(5,252)	(3,433)	4,304	(874)	3,429	13	-	-	13
Canadian Dollar	5,115	(5,317)	(202)	508	(306)	202	(36)	-	-	(36)
Other currencies	173,915	(177,492)	(3,577)	22,977	(18,176)	4,800	505	-	2	505
Total exposure	**416,632**	**(416,646)**	**(15)**	**77,057**	**(77,055)**	**-**	**(1,062)**	**-**	**(3)**	**(1,062)**

Total capital funds as per the latest audited financial statements	**96,739**
Total exposure as a % of total capital funds (Basel III) as per the latest audited financial statements (Should not exceed 30%)	**-1.1%**

* Monitored at the Branch level

* Balances are in LKR Million (Column 10 in respective currency Mn)

Sensitivity Analysis

The impact of changes in exchange rates on Equity calculated on Foreign exchange position as at 31-12-2024. 10% shock was applied to assess the potential impact on equity.

	Impact on profitability		Impact on Equity	
	Exchange Rate increase by 10%	**Exchange Rate decrease by 10%**	**Exchange Rate increase by 10%**	**Exchange Rate decrease by 10%**
US Dollars	(155.5)	155.5	(155.5)	155.5
Pound Sterling	25.5	(25.5)	25.5	(25.5)
Euro	10.0	(10.0)	10.0	(10.0)
Japanese Yen	12.0	(12.0)	12.0	(12.0)
Australian Dollar	0.9	(0.9)	0.9	(0.9)
Canadian Dollar	(2.5)	2.5	(2.5)	2.5
Other currencies	35.4	(35.4)	35.4	(35.4)

* Sensitivity impact is in LKR Mn

Interest Rate risk in the Banking Book (IRRBB)

HSBC Sri Lanka has a comprehensive interest rate risk management process where interest rate risk generated at the business level is transferred to Markets Treasury to manage centrally. Markets Treasury has the required expertise to manage and hedge interest rate risk of the Bank. Interest rate risk transfer to Markets Treasury is carried out through the Interest Rate Risk Transfer Pricing mechanism and the Interest Rate Risk Behaviouralization policy, which are reviewed and approved annually by Asset and Liability Management Committee (ALCO).

The interest rate risk in the banking book is transferred to Markets Treasury through a specialized system which provides the visibility on the interest rate risk exposures with real time data on the transferred balances, rates and any mismatches that are prevalent. In addition, the market limit monitoring systems available at HSBC allows Markets Treasury to have an up to date view on the PVBP (Present Value of Basis Point) movement. These mechanisms and systems enable Markets Treasury to actively manage the IRRBB of HSBC Sri Lanka. Furthermore, from a reporting standpoint ALCO also has oversight to the monthly Net Interest Margin monitoring tool, which gives visibility of the overall NII (Net Interest Income) of the bank and at customer group level and product level. With this tool, NII is analyzed in detail and action taken to correct any issues.

40 Financial risk management (contd)

40.4 Market risk (contd)

40.4.2 Risk management (contd)

Maturities of assets and liabilities as at 31 December 2024

Figures in Rs.'000	Upto 1 month	Between 1 - 3 months	Between 3 - 6 months	Between 6 - 12 months	1 - 3 years	3 - 5 years	5 years and above	Unallocated	2024 Total
Cash and cash equivalent	140,677,424	-	-	-	-	-	-	(5,553)	**140,671,871**
Balances with Central Bank	35,018,326	-	-	-	-	-	-	(16,127)	**35,002,199**
Placements with banks	22,991,050	40,495,000	11,338,600	-	-	-	-	(21,656)	**74,802,994**
Derivative financial instruments	239,457	-	-	-	-	-	-	-	**239,457**
Financial assets measured at fair value through profit or loss	-	518	-	4,741	2,082	4,126	2,990	-	**14,457**
Financial assets at amortised cost - loans and advances	80,279,298	27,300,358	13,223,340	7,510,627	46,813,210	26,933,955	1,532,228	(2,390,868)	**201,202,148**
Financial assets measured at fair value through other comprehensive income	11,177,600	31,508,781	42,449,209	-	-	-	-	-	**85,135,590**
Financial assets at amortised cost - debt instruments	-	-	-	-	-	110,521	-	(12,280)	**98,241**
Property, plant and equipment	-	-	-	-	-	-	-	5,627,490	**5,627,490**
Other assets	16,819,430	14,041,179	11,445,352	24,395,928		-	-	511,687	**67,213,576**
Total assets	**307,202,585**	**113,345,836**	**78,456,501**	**31,911,296**	**46,815,292**	**27,048,602**	**1,535,218**	**3,692,693**	**610,008,023**
Due to banks	11,212,967	2,934,300			-	-	-	-	**14,147,267**
Derivative financial instruments	470,583	-	-	-	-	-	-	-	**470,583**
Financial liablities at amortised cost - due to depositors	304,803,919	39,032,074	25,613,013	20,754,896	3,217,258	546,692	-	-	**393,967,852**
Retirement benefit obligations	-	-	-	-	-	-	-	235,435	**235,435**
Current tax liability	-	-	-	1,467,199	-	-	-	-	**1,467,199**
Deferred Tax Liabilities	-	-	-	-	-	-	-	266,665	**266,665**
Other liabilities	8,726,210	13,586,223	11,441,746	25,831,626	3,049,665	63,933	-	14,875,896	**77,575,299**
Equity	-	-	-	-	-	-	-	121,877,723	**121,877,723**
Total liabilities	**325,213,679**	**55,552,597**	**37,054,759**	**48,053,721**	**6,266,923**	**610,625**	**-**	**137,255,719**	**610,008,023**
Cumulative gap	**(18,011,094)**	**57,793,239**	**41,401,742**	**(16,142,425)**	**40,548,369**	**26,437,977**	**1,535,218**	**(133,563,025)**	**-**

The table below shows the contractual expiry by maturity of the Bank’s contingent liabilities and commitments. The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

	Upto 1 month	Between 1 - 3 months	Between 3 - 6 months	Between 6 - 12 months	1 - 3 years	3 - 5 years	5 years and above	Total
Performance bonds	5,651,732	5,481,906	7,359,783	13,223,292	14,177,112	220,591	7,629,179	**53,743,595**
Letters of credit	4,469,797	34,457,508	476,820	236,354	471,811	1,000	-	**40,113,290**
Other gurantees and contingent items	1,888,607	2,678,026	6,838,944	3,130,883	3,719,636	-	190,356	**18,446,452**
Undrawn loan commitments	261,578,676	-	-	-	-	-	-	**261,578,676**
Foreign exchange contracts	29,280,043	11,893,197	9,097,583	184,193	-	-	-	**50,455,016**
Other contra accounts	54,092,131	-	-	-	-	-	-	**54,092,131**
	356,960,986	**54,510,637**	**23,773,130**	**16,774,722**	**18,368,559**	**221,591**	**7,819,535**	**478,429,160**

40 Financial risk management (contd)

40.4 Market risk (contd)

40.4.2 Risk management (contd)

Maturities of assets and liabilities as at 31 December 2023

Figures in Rs.'000	Up to 1 month	Between 1 - 3 months	Between 3 - 6 months	Between 6 - 12 months	1 - 3 years	3 - 5 years	5 years and above	Unallocated	2023 Total
Cash and cash equivalent	177,681,128	40,495,000	-	-	-	-	-	(33,413)	**218,142,715**
Balances with Central Bank of Sri Lanka (Gross)	88,072,565	-	-	-	-	-	-	(31,851)	**88,040,714**
Placements with banks (Gross)	-	-	11,338,600	-	-	-	-	(1,203)	**11,337,397**
Derivative financial instruments	1,010,959	-	-	-	-	-	-	-	**1,010,959**
Financial assets measured at fair value through profit or loss	319	-	5,892	4,499	5,009	5,506	2,534	-	**23,759**
Financial assets at amortised cost - loans and advances (Gross)	93,561,158	29,498,316	5,394,445	15,989,250	42,310,141	23,920,272	4,381,068	(4,841,128)	**210,213,522**
Financial assets measured at fair value through other comprehensive income	4,431,456	14,758,819	-	-	-	-	-	471,696	**19,661,971**
Financial assets at amortised cost - debt instruments	-	-	-	-	-	110,020	-	(16,445)	**93,575**
Retirement benefit obligations surplus	-	-	-	-	-	-	85,970	-	**85,970**
Property, plant and equipment	-	-	-	-	-	-	-	5,518,045	**5,518,045**
Deferred Tax Assets	-	-	-	-	-	-	-	1,285,651	**1,285,651**
Other assets	9,671,975	11,161,893	2,343,459	1,344,842	2,410	-	-	6,487,802	**31,012,381**
Total assets	**374,429,560**	**95,914,028**	**19,082,396**	**17,338,591**	**42,317,560**	**24,035,798**	**4,469,572**	**8,839,154**	**586,426,659**
Due to banks	28,664,499	6,479,200	345,557	2,869,476	-	-	-	-	**38,358,732**
Derivative financial instruments	228,622	-	-	-	-	-	-	-	**228,622**
Financial liabilities at amortised cost - due to depositors	287,075,765	42,920,279	21,468,477	16,230,017	2,122,198	2,630,774	-	-	**372,447,510**
Current tax liability	-	2,116,199	2,116,199	2,116,200	-	-	-	-	**6,348,598**
Other liabilities	9,643,954	11,179,768	2,376,068	1,394,190	87,224	63,933	-	21,747,889	**46,493,026**
Equity	-	-	-	-	-	-	-	122,550,171	**122,550,171**
Total liabilities	**325,612,840**	**62,695,446**	**26,306,301**	**22,609,883**	**2,209,422**	**2,694,707**	**-**	**144,298,060**	**586,426,659**
Cumulative gap	**48,816,720**	**33,218,582**	**(7,223,905)**	**(5,271,292)**	**40,108,138**	**21,341,091**	**4,469,572**	**(135,458,906)**	**-**

The table below shows the contractual expiry by maturity of the Bank's contingent liabilities and commitments. The Bank expects that not all of the contingent liabilities or commitments will be drawn before expiry of the commitments.

	Up to 1 month	Between 1 - 3 months	Between 3 - 6 months	Between 6 - 12 months	1 - 3 years	3 - 5 years	5 years and above	Total
Performance bonds	2,989,232	18,909,906	11,869,379	14,182,429	16,790,920	11,968,241	8,131,396	**84,841,503**
Letters of credit	12,781,979	15,450,090	1,772,405	195,968	-	-	-	**30,200,442**
Gurantees	536,429	1,478,745	1,123,112	4,200,369	611,932	-	524,221	**8,474,808**
Undrawn loan commitments	238,563,687	-	-	-	-	-	-	**238,563,687**
Foreign exchange contracts	7,578,362	16,349,772	9,561,992	27,658,594	-	-	-	**61,148,720**
Other contra accounts	18,940,896	-	-	-	-	-	-	**18,940,896**
	281,390,585	**52,188,513**	**24,326,888**	**46,237,360**	**17,402,852**	**11,968,241**	**8,655,618**	**442,170,056**

40 Financial risk management (contd)

40.5 Operational risk

The objective of our Non-Financial Risk management is to manage risks consistent with our risk appetite, through informed decision making and controlled risk taking.

A formal governance structure provides oversight over the management of Non-Financial Risk. A country level Risk Management Meeting (RMM) is held at a regular set frequency to discuss key risk issues and review the effective implementation of our Risk Management Framework.

Risk and Control Owners supported by Risk Stewards are responsible for maintaining an acceptable 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 Risk Management Framework helps management to fulfil these responsibilities by defining a standard risk assessment methodology.

Some of the key action taken in the management of Non-Financial Risks include the following:

Risk and Control Assessment process is in place that facilitates the assessment of material risks and the associated control environment faced by the bank. Risk and Control Assessments are established and maintained by Risk Owners in consultation with Control Owners and Risk Stewards.

Classification of all information based on the potential risk to the Branch, its customers and related parties. This classification is used to invoke policies and procedures to protect the confidentiality and integrity of information.

With regard to outsourcing of activities, HSBC Group policy is to outsource activities either internally to Global Service Centre's (GSCs) and Affiliates or externally, to Third Parties, where this enables the work to be performed more efficiently gaining economies of scale within the business. Guidance on the outsourcing of work is contained in the Group policies & procedures and the outsource direction issued by Central Bank of Sri Lanka and Hong Kong Monetary Authority.

Third Party Risk management (inclusive of Internal Third Parties) entails the identification, assessment and management of risks when engaging with such Third parties. In addition, Vendor management process is in place where due diligence performed by business departments forms part of the risk assessment process. Selecting a financially viable and Non sanctioned vendor with appropriate capability, skills and experience is essential part of the HSBC vendor due diligence process in managing

The Branch has also undertaken steps to mitigate the risk of continuation of business through comprehensive Business Continuity Planning, taking into account the risks to the business, impact analysis, resource requirements etc. The Business Continuity Plans are updated regularly, tested and approved. The plans describe how normal business can be resumed following an adverse event or business interruption ensuring minimum impact to the business and customers.

The Insurable Risk (IR) function is part of Global Risk. Its purpose is to propose, advise, design, manage and oversee the use of insurance as a risk mitigant for Group risks.IR is mandated by Group's Non-Financial Risk Management Board (NFRMB) to arrange all other Group insurance programmes including Group Crime, Civil Liability & Cyber Liability insurance (CCC), Pension Trustees' Liability insurance (PTL).Collectively these policies are the "Financial Lines" insurance policies. The insured parties are HSBC Holdings plc and all subsidiaries (including those over which Group has management control). Policies are placed with insurers in the UK, US, Bermuda and other international markets by the Group's global insurance broker (Aon).

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40 Financial risk management (contd)

40.5 Operational risk (contd)

Cybersecurity continues to be a focus area and is routinely reported at the Board level to ensure appropriate visibility, governance and executive support for the ongoing cybersecurity activities. The branch continues to strengthen and invest significantly in both business and technical controls in order to prevent, detect and respond to an increasingly hostile cyber threat environment. These include enhancing controls to protect against advanced malware, data leakage, infiltration of payments systems and denial of service attacks.

The Branch has given priority for the regulations introduced by Central Bank of Sri Lanka to assure the level of security to customers and regulator.

The Branch continues to monitor and improve service resilience across its technology infrastructure, enhancing problem diagnosis/resolution and change execution capabilities to reduce service disruption to the customers.

A system of record in in place for the reporting of material Risks, Event management and Issues/Actions. Risk and Control Assessments are input and maintained by Risk Owners. To ensure that loss events are consistently reported and monitored at HSBC Group level, all branches are required to report losses, inclusive of individual material losses in excess of a particular threshold which are monitored against risk appetites set.

Total operational losses for the Branch in the year 2024 was Rs. 38,152,805.

40.6 Capital management

Qualitative disclosures

Capital adequacy ratio (CAR) is calculated based on the Central Bank of Sri Lanka (CBSL) directions stemming from Basel III accord. These guidelines require the Bank to maintain a CAR not less than 8.5% with minimum Tier 1 capital with buffers in relation to total risk weighted assets and a minimum total CAR with buffers of 12.5% in relation to total risk weighted assets.

Tier 1 Capital – Core Capital

This includes assigned capital, statutory reserve fund, published retained profits, accumulated other comprehensive income, general and other reserves. The assigned capital is the amount provided by HSBC Asia Pacific to conduct its operation in Sri Lanka.

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40 Financial risk management (contd)

40.6 Capital management (contd)

Tier 2 Capital – Supplementary capital

Revaluation gains and general provision are the only constituents of supplementary capital for the Branch. As per the CBSL regulations a prudential revaluation is done reflecting the full possibility of price fluctuations and forced sale, with prior approval from CBSL, which is then subject to a discount of 50%. According to explanatory note no. 03 of 2019 on interpretations of Banking Act Directions no.01 on capital requirements under Basel III for licensed commercial banks and licensed specialized banks; general provisions consist of impaired assets from stage 1 and 2 on the proportion of 100% and 50% respectively. This is subject to 1.25% of risk weighted assets on credit risk under the standardized approach shall be applicable for Tier 2 capital.

Quantative disclosures

Composition of regulatory capital	**2024**	2023
	Rs'000	Rs'000
Equity capital or stated capital/assigned capital	**3,152,358**	3,152,358
Reserve fund	**3,152,358**	3,152,358
Published retained earnings	**79,149,846**	72,239,339
Accumulated other comprehensive income (OCI)	**8,560,759**	7,871,302
General and other disclosed reserves	**153,028**	168,976
Total common equity tier 1 (CET1) capital	**94,168,349**	86,584,333
Deductions to tier 1 capital	**(52,015)**	1,331,944
Revaluation losses of property, plant and equipment	**-**	49,000
Net deferred tax assets	**-**	1,285,650
Intangible assets	**16,966**	25,394
Defined benefit pension fund assets	**-**	85,970
Amounts due to head office and branches outside Sri Lanka in Sri Lanka Rupees (-)	**(68,981)**	(114,070)
	-	-
Total tier 1 capital	**94,220,364**	85,252,389
Components of tier 2 capital		
Revaluation reserves (as approved by CBSL)	**1,049,765**	1,049,765
General provisions*	**1,468,386**	3,030,170
Total qualifying tier 2 capital prior to deductions	**2,518,151**	4,079,935
Total capital	**96,738,515**	89,332,324

** Please refer qualitative disclosure on tier 2 capital for explanation*

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40 Financial risk management (contd)

40.6 Capital management(contd)

Capital adequacy

HSBC Sri Lanka follows the Capital Planning and Guidance as set out by its Group Office, while ensuring that all requirements as set out by the local regulator are complied with.

Growth measures as targeted in the Annual Operating Plan (AOP) are reviewed in line with impact to Capital Adequacy Ratio (CAR) limits set by CBSL. Any remittance of profit to Regional offices is evaluated in terms of impact to CAR. Further, potential exchange rate fluctuations too are taken into account when forecasting CAR, which is carried out periodically. HSBC Sri Lanka will ensure that business growth and profit remittances are carried out in full compliance with the prudential limits set by CBSL. This is operationalised by managing the CAR against an internally set risk appetite, which is well above the minimum capital requirements set by CBSL.

	2024	2023
Capital ratios		
Common equity tier 1 capital ratio	**23.19%**	23.43%
Tier 1 ratio	**23.19%**	23.43%
Total capital ratio	**23.81%**	24.55%

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41 Fair value of financial assets and liabilities

41.1 Fair value of financial instruments not carried at fair value

	2024		2023	
Assets	**Carrying value Rs'000**	**Fair value Rs'000**	Carrying value Rs'000	Fair value Rs'000
Cash and cash equivalents	**140,671,871**	**140,671,871**	218,142,715	218,142,715
Balances with Central Bank of Sri Lanka	**35,002,199**	**35,002,199**	88,040,714	88,040,714
Placements with banks	**74,802,994**	**74,802,994**	11,337,397	11,337,397
Financial assets at amortised cost - loans and advances	**201,202,148**	**199,031,839**	210,213,522	218,635,192
Acceptances and endorsements	**58,081,015**	**58,081,015**	24,265,096	24,265,096
Liabilities				
Due to banks	**14,147,267**	**14,147,267**	38,358,732	38,358,732
Financial liablities at amortised cost - due to depositors	**393,967,852**	**393,967,852**	372,447,510	372,447,510
Acceptances and endorsements	**58,170,962**	**58,170,962**	24,524,578	24,524,578

Note:

For financial instruments other than “Loans and receivables to other customers”, carrying amount is a reasonable approximation of fair value because, for example, they are short term in nature or re-price to current market rates frequently.

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41 Fair value of financial assets and liabilities (contd)

41.2 Fair value of financial instruments carried at fair value

41.2.1 Fair value hierarchy

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

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

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

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

Financial instruments carried at fair value and bases of valuation

As at 31 December 2024	**Level 1 Rs'000**	**Level 2 Rs'000**	**Level 3 Rs'000**
Assets			
Financial assets measured at fair value through profit or loss	**-**	**14,457**	**-**
Derivatives	**12,009**	**227,448**	**-**
Financial assets measured at fair value through other comprehensive income	**287,677**	**84,847,913**	-
	299,686	**85,089,818**	**-**
Liabilities			
Derivatives	**1,394**	**469,189**	**-**
	1,394	**469,189**	**-**
As at 31 December 2023			
Assets			
Financial assets measured at fair value through profit or loss	-	23,759	-
Derivatives	11,446	999,513	-
Financial assets measured at fair value through other comprehensive income	-	19,661,971	-
	11,446	20,685,243	-
Liabilities			
Derivative financial instruments	11,252	217,370	-
	11,252	217,370	-

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41 Fair value of financial assets and liabilities (contd)

41.2 Fair value of financial instruments carried at fair value (contd)

41.2.2 Valuation of financial instruments

The best evidence of fair value is a quoted price in an actively traded principal market. The fair values of financial instruments that are quoted in active markets are based on bid prices for assets held and offer prices for liabilities issued. Where a financial instrument has a quoted price in an active market, the fair value of the total holding of the financial instrument is calculated as the product of the number of units and quoted price. The judgment as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. Valuation techniques may incorporate assumptions about factors that other market participants would use in their valuations, including:

• The likelihood and expected timing of future cash flows on the instrument. Judgement may be required to assess the counterparty's ability to service the instrument in accordance with its contractual terms. Future cash flows may be sensitive to changes in market rates;

• Selecting an appropriate discount rate for the instrument. Judgement is required to assess what a market participant would regard as the appropriate spread of the rate for an instrument over the appropriate risk-free rate;

41 Fair value of financial assets and liabilities (contd)

41.2 Fair value of financial instruments carried at fair value (contd)

41.2.2 Valuation of financial instruments (contd)

• Judgement to determine what model to use to calculate fair value in areas where the choice of valuation model is particularly subjective, for example, when valuing complex derivative products. A range of valuation techniques is employed, dependent on the instrument type and available market data. Most valuation techniques are based upon discounted cash flow analyses, in which expected future cash flows are calculated and discounted to present value using a discounting curve. Prior to considering credit risk, the expected future cash flows may be known, as would be the case for the fixed leg of an interest rate swap, or may be uncertain and require projection, as would be the case for the floating leg of an interest rate swap.

• The majority of valuation techniques employ only observable market data. However, certain financial instruments are valued on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them the measurement of fair value is more judgmental. In developing unobservable inputs, the reporting entity need not undertake all possible efforts to obtain information about market participant assumptions. However, the reporting entity shall not ignore information about market participant assumptions that is reasonably available without undue cost and effort. Therefore, the reporting entity's own data used to develop unobservable inputs shall be adjusted if information is reasonably available without undue cost and effort that indicates that market participants would use different assumptions.

Control framework

Fair values are subject to a control framework designed to ensure that they are either determined or validated by a function independent of the risk-taker.

For all financial instruments where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. In inactive markets branch will source alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable. The factors that are considered in this regard are, inter alia:

• the extent to which prices may be expected to represent genuine traded or tradable prices;
• the degree of similarity between financial instruments;
• the degree of consistency between different sources;
• the process followed by the pricing provider to derive the data;
• the elapsed time between the date to which the market data relates and the balance sheet date;
• the manner in which the data was sourced.

Fair value adjustments

Fair value adjustments are adopted when Branch considers that there are additional factors that would be considered by a market participant which are not incorporated within the valuation model. The Branch classifies fair value adjustments as either 'risk-related' or 'model-related'. Movements in the level of fair value adjustments do not necessarily result in the recognition of profits or losses within the income statement. For example, as models are enhanced, fair value adjustments may no longer be required. Similarly, fair value adjustments will decrease when the related positions are unwound, but this may not result in profit or loss.

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
SUPPLEMENTARY BASEL III DISCLOSURES AND OTHER INFORMATION

Basel III - Disclosures Under Pillar 3 as per the Banking Act Direction No.01 of 2016

Key Regulatory Ratios - Capital and Liquidity

	2024 **As at 31 December**	2023 As at 31 December
Regulatory Capital Adequacy		
Common Equity Tier 1, Rs.'Mn	94,220	85,252
Tier 1 Capital, Rs.'Mn	94,220	85,252
Total Capital, Rs.'Mn	96,739	89,332
Common Equity Tier 1 Capital Ratio, as % of Risk Weighted Assets (Minimum Requirement, 7%)	23.19%	23.43%
Tier 1 Capital Ratio, as % of Risk Weighted Assets (Minimum Requirement, 8.5%)	23.19%	23.43%
Total Capital Ratio, as % of Risk Weighted Assets (Minimum Requirement, 12.5%)	23.81%	24.55%

	2024 **As at 31 December**	2023 As at 31 December
Regulatory Liquidity		
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement, 100%)	211.74%	163.00%
Liquidity Coverage Ratio (%) - All currency (Minimum Requirement, 100%)	335.50%	251.85%
Net Stable Funding Ratio (%) (Minimum Requirement 100%)	134.71%	144.43%
Leverage Ratio (%) (Minimum Requirement 3%)	14.24%	13.14%

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Basel III - Disclosures Under Pillar 3 as per the Banking Act Direction No.01 of 2016 (contd)

Basel III Computation of Capital Adequacy Ratio

Item	**As at 31st December 2024 Rs.'Mn**
Common Equity Tier I (CETI) Capital after Adjustments	**94,220**
Total Common Equity Tier I (CET1) Capital	**94,168**
Equity capital or stated capital/assigned capital	3,152
Reserve fund	3,152
Published retained earnings/(accumulated retained losses)	79,150
Accumulated other comprehensive income (OCI)	8,561
General and other disclosed reserves	153
Total Adjustments to CET1 Capital	**(52)**
Revaluation losses of property, plant and equipment	-
Defined benefit pension fund assets	-
Deferred tax assets (net)	-
Other intangible assets (net)	17
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(69)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	-
Tier 2 Capital after Adjustments	**2,518**
Total Tier 2 Capital	**2,518**
Revaluation gains	1,050
General provisions	1,468
Total Adjustments to Tier 2 Capital	**-**
Total Tier 1 Capital	**94,220**
Total Capital	**96,739**
Total Risk Weighted Assets (RWA)	**406,218**
RWAs for Credit Risk	342,181
RWAs for Market Risk	6,137
RWAs for Operational Risk	57,901
CET1 Capital Ratio (including Capital Conservation Buffer,	
Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	**23.19%**
of which: Capital Conservation Buffer (%)	-
of which: Countercyclical Buffer (%)	-
of which: Capital Surcharge on D-SIBs (%)	-
Total Tier 1 Capital Ratio (%)	**23.19%**
Total Capital Ratio (including Capital Conservation Buffer,	
Countercyclical	**23.81%**
Capital Buffer & Surcharge on D-SIBs) (%)	-
of which: Capital Conservation Buffer (%)	-
of which: Countercyclical Buffer (%)	-
of which: Capital Surcharge on D-SIBs (%)	-

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Basel III - Disclosures Under Pillar 3 as per the Banking Act Direction No.01 of 2016 (contd)

Computation of Leverage Ratio

Item	As at 31 December 2024 Rs.'Mn	As at 31 December 2023 Rs.'Mn
Tier 1 Capital	**94,220**	85,252
Total Exposures	**661,624**	648,511
On Balance Sheet Items (Excluding Derivatives and Securities Financing Transactions, but including Collateral)	**612,159**	588,860
Derivative Exposures	**1,042**	2,271
Securities Financing Transaction Exposures	**-**	-
Other Off-Balance Sheet Exposures	**48,370**	57,379
Basel III Leverage Ratio	**14.24%**	13.14%

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	As at 31 December 2024 Rs'Mn		As at 31 December 2023 Rs'Mn	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	**117,804**	**117,804**	**106,206**	**106,206**
Total Adjusted Level 1A Assets	**117,804**	**117,804**	**106,206**	**106,206**
Level 1 Assets	**117,804**	**117,804**	**106,206**	**106,206**
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	**800,328**	**140,451**	**793,403**	**168,683**
Deposits	141,968	14,197	143,387	14,339
Unsecured Wholesale Funding	262,210	99,842	256,869	120,638
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	373,882	4,145	362,080	2,640
Additional Requirements	22,267	22,267	31,066	31,066
Total Cash Inflows	**204,791**	**169,562**	**201,212**	**179,752**
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	186,355	169,490	190,362	179,087
Operational Deposits	18,364	-	10,184	-
Other Cash Inflows	72	72	665	665
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		**335.50%**		**251.85%**

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
SUPPLEMENTARY BASEL III DISCLOSURES AND OTHER INFORMATION

Basel III - Disclosures Under Pillar 3 as per the Banking Act Direction No.01 of 2016 (contd)

Credit Risk under Standardised Approach - Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

Asset Class	As at 31 December 2024					
	Exposures before		Exposures post CCF		RWA and RWA	
	On-Balance Sheet Amount Rs.'Mn	Off-Balance Sheet Amount Rs.'Mn	On-Balance Sheet Amount Rs.'Mn	Off-Balance Sheet Amount Rs.'Mn	RWA Rs.'Mn	RWA Density(ii) Rs.'Mn
Claims on Central Government and CBSL	119,991	-	119,991	-	-	0.00%
Claims on Foreign Sovereigns and their Central Banks	288	-	288	-	-	-
Claims on Public Sector Entities	-	4	-	4	2	50.00%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	212,760	54,166	212,760	12,490	53,737	23.86%
Claims on Financial Institutions	1,625	2,604	1,625	-	325	20.00%
Claims on Corporates	128,353	311,755	128,353	36,973	156,485	94.65%
Retail Claims	30,750	55,810	24,944	40	18,788	75.20%
Claims Secured by Residential Property	1,282	-	1,214	-	1,214	100.00%
Claims Secured by Commercial Real Estate	39,441	-	39,441	-	39,441	100.00%
Non-Performing Assets (NPAs)	212	-	197	-	182	92.55%
Higher-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	74,883	-	74,883	-	72,006	96.16%
Total	**609,586**	**424,337**	**603,696**	**49,506**	**342,181**	-

Note : RWA Density – Total RWA/Exposures post CCF and CRM.

Market Risk under Standardised Measurement Method

As at 31st December 2024	**RWA Amount Rs.'Mn**
(a) RWA for Interest Rate Risk	**767**
General Interest Rate Risk	491
(i) Net Long or Short Position	491
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	**-**
(i) General Equity Risk	-
(ii) Specific Equity Risk	-
(c) RWA for Foreign Exchange & Gold	**276**
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	**6,137**

Operational Risk under Basic Indicator Approach

	Capital Charge	Gross Income For the period ending 31 December 2024		
	Factor	1st Year Rs.'Mn	2nd Year Rs.'Mn	3rd Year Rs.'Mn
The Basic Indicator Approach	15%	43,573	57,783	43,396
Capital Charges for Operational Risk (LKR'Mn)				
The Basic Indicator Approach	7,238			
Risk Weighted Amount for Operational Risk (LKR'Mn)				
The Basic Indicator Approach	57,901			

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
SUPPLEMENTARY BASEL III DISCLOSURES AND OTHER INFORMATION

Basel III - Disclosures Under Pillar 3 as per the Banking Act Direction No.01 of 2016 (contd)

Credit Risk under Standardised Approach
Exposures by Asset Classes and Risk Weights (Post CCF & CRM)

Description	Amount Rs.'Mn as at 31 December 2024 (Post CCF & CRM)							
Asset classes\ Risk Weight	**0%**	**20%**	**50%**	**75%**	**100%**	**150%**	**>150%**	**Total Credit Exposures Amount**
Claims on Central Government and Central Bank of Sri Lanka	119,991	-	-	-	-	-	-	**119,991**
Claims on Foreign Sovereigns and their Central Banks	288	-	-	-	-	-	-	**288**
Claims on Public Sector Entities	-	-	4	-	-	-	-	**4**
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	**-**
Claims on Banks Exposures	-	197,339	27,598	-	-	313	-	**225,250**
Claims on Financial Institutions	-	1,625	-	-	-	-	-	**1,625**
Claims on Corporates	-	9,747	2,085	-	153,493	-	-	**165,326**
Retail Claims	-	-	-	24,783	201	-	-	**24,984**
Claims Secured by Residential Property	-	-	-	-	1,214	-	-	**1,214**
Claims Secured by Commercial Real Estate	-	-	-	-	39,441	-	-	**39,441**
Non-Performing Assets (NPAs)	-	-	37	-	153	7	-	**197**
Higher-risk Categories	-	-	-	-	-	-	-	**-**
Cash Items and Other Assets	1,185	2,116	-	-	71,583	-	-	**74,883**
Total	**121,463**	**210,827**	**29,723**	**24,783**	**266,085**	**321**	**-**	**653,203**

Basel III - Disclosures Under Pillar 3 as per the Banking Act Direction No.01 of 2016 (contd)

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

Item	As at 31 December 2024				
	a Carrying Values as Reported in Published Financial Statements Rs'Mn	b Carrying Values under Scope of Regulatory Reporting Rs'Mn	c Subject to Credit Risk Framework Rs'Mn	d Subject to Market Risk Framework Rs'Mn	e Not subject to Capital Requirements or Subject to Deduction from Capital Rs'Mn
Assets					
Cash and Cash Equivalents	140,672	140,672	135,510	-	3,503
Balances with Central Banks	35,002	35,002	35,002	-	-
Placements with banks	74,803	74,803	74,803	-	-
Derivative Financial Instruments	239	239	-	239	-
Other Financial Assets Held-For-Trading	14	14		14	-
Loans and Receivables to Other Customers	201,202	201,202	201,202	-	-
Financial Investments - Fair value through other comprehensive income	85,136	85,136	85,136	-	-
Financial Investments - Amortised cost	80	80	80	-	-
Retirement benefit obligations surplus	-	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	5,627	5,627	5,611	-	17
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	-	-	-	-	-
Deferred Tax Assets	-	-	-	-	-
Other Assets	67,232	67,232	67,232	-	-
Liabilities					
Due to Banks	14,147	14,147	-	-	-
Derivative Financial Instruments	471	471	-	-	-
Other Financial Liabilities Held-For-Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	393,968	393,968	-	-	-
Other Borrowings	-	-	-	-	-
Retirement Benefit Obligations	235	235	-	-	-
Current Tax Liabilities	1,467	1,467	-	-	-
Deferred Tax Liabilities	267	267	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	77,575	77,575	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	-	-	-	-	-
Off-Balance Sheet Liabilities					
Guarantees	18,446	18,446	18,446	-	-
Performance Bonds	53,744	53,744	53,744	-	-
Letters of Credit	40,113	40,113	40,113	-	-
Other Contingent Items	-	-	-	-	-
Undrawn Loan Commitments	261,579	261,579	261,579	-	-
Other Commitments	104,547	104,547	50,455	-	-
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital	3,152	3,152	-	-	-
of which Amount Eligible for CET1	-	-	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	79,150	79,150	-	-	-
Accumulated Other Comprehensive Income	-	-	-	-	-
Statutory reserve fund	3,152	3,152	-	-	-
Other Reserves	36,423	36,423	-	-	-
Total Shareholders' Equity	**121,878**	**121,878**	**-**	**-**	**-**

Sustainability Disclosure

Cautionary Statements Regarding Forward-Looking Statements

This Annual Report and Accounts 2024 contains certain forward-looking statements with respect to the financial condition, environmental, social and governance (‘ESG’)-related matters, results of operations and business of the group, including the strategic priorities; financial, investment and capital targets; and the group’s ability to contribute to the Group’s (including the groups) ESG ambitions, targets and commitments described herein.

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

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors, including ESG-related factors, could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement.

Overview of Sustainable Finance Policies, Activities, and way forward.

The Group~~’s~~ aim to help its customers transition to net zero and a sustainable future by providing and facilitating between $750bn and $1tn of sustainable finance and investment by 2030. The Group sustainable finance and investment ambition aims to help promote green, sustainable and socially focused business and sustainable investment products and solutions.

The Group continued to focus on financing its clients’ transition needs. In 2024, the Group launched HSBC Infrastructure Finance to help realise the financing and advisory opportunities in creating the infrastructure for a low carbon economy. The Group also continued to focus on emerging climate technologies and supply chain decarbonisation. The Group continued to participate in cross sector efforts to support customers’ transitions.

The Group sustainability risk policies comprise its core net zero-aligned policies – thermal coal phase-out and energy – and its broader sustainability risk policies covering: agricultural commodities, forestry, mining and metals, and World Heritage Sites and Ramsar-designated wetlands. The Group also apply the Equator Principles when financing relevant projects. For the details of the policies, please see https://www.hsbc.com/who-we-are/esg-and-responsible-business/managing-risk/sustainability-risk

The Group Risk and Compliance function has specialists who review and support implementation of its sustainability risk policies. Relationship managers are primarily responsible for assessing relevant considerations under its risk management framework, including whether its clients may be in scope of applicable sustainability risk policies. They are supported by sustainability risk managers for management of risks as outlined in the policies. Oversight of the development and implementation of policies is the responsibility of relevant governance committees comprising senior members of the Group Risk and Compliance function and global businesses.

Sustainable finance related risks and associated mitigation measures

The Group's climate risk approach identifies two primary drivers of climate risk:

– physical risk, which arises from the increased frequency and severity of extreme weather events, such as hurricanes and floods, or chronic gradual shifts in weather patterns or rises in the sea level; and
– transition risk, which arises from the process of moving to a net zero economy, including changes in government policy and legislation, technology, market demand, and reputational implications triggered by a change in stakeholder expectations, action or inaction

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

– net zero alignment risk, which arises from the risk of the Group failing to meet its net zero ambition or failing to meet external expectations related to net zero and;
– the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to its stakeholders.

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

– Group has started to enhance its approach to managing net zero alignment risk in its wholesale portfolio, through developing portfolio steering capabilities and revenue assessments.
– Group has enhanced its approach to assessing the impact of climate change on capital, focusing on credit, market and operational risk.
– Group has enhanced its approach to managing and mitigating the risk of greenwashing.
– Group has developed climate risk guidelines for relationship managers to further embed climate risk considerations into credit risk assessments.

While the Group has made progress, further work remains, including the need to develop additional metrics and tools to measure its exposure to climate-related risks.

Wholesale credit risk

The Group has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors, which are: automotive, construction, contracting & building materials, chemicals, metals and mining, oil and gas, and power and utilities The Group’s relationship managers engage with its key wholesale customers through a transition engagement questionnaire (TEQ). The TEQ gather information and assess the alignment of its wholesale customers’ business models to net zero transition and their exposure to physical and transition risks. The Group uses the responses to the questionnaire to risk-assess its key wholesale customers. The Group’s credit policies require that relationship managers comment on climate risk factors in credit applications for new money requests and annual credit reviews. The credit policies also require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating.

Key developments to the Group’s framework in 2024 included the expansion of the TEQ, as set out above, and additionally the development of climate risk guidelines for relationship managers to further embed climate risk considerations into credit risk assessments. Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate physical risk data to assess impacts on its wholesale customers.

Regulatory compliance risk

Regulatory Compliance is responsible for the oversight and management of climate-related risks that could cause breaches of its regulatory duties to customers and inappropriate market conduct. Regulatory Compliance updated its policies to incorporate considerations for ESG and climate risks, particularly in relation to new and ongoing product management, sales outcomes, and product marketing.

To support its key policies, Regulatory Compliance has also enhanced the underlying control frameworks and processes. This includes the integration of greenwashing risk and controls considerations in the design of new products and changes to them, as well as in relation to marketing materials. From a product sales perspective, Regulatory Compliance has established key control principles, encompassing the sales journey design, training and competence, supervision, sales quality, and governance.

The Group Regulatory Compliance operate an ESG and climate risk working group tasked with tracking and monitoring the integration of ESG and climate risk stewardship across its operations. This group also monitors regulatory and legislative developments related to the ESG and climate agenda.

Reputational risk

The Group manages the reputational impact of climate risk through its broader reputational risk framework, supported by its sustainability risk policies and metrics. The Group's sustainability risk policies form part of its broader risk management framework and are important mechanisms for managing risks, including delivering its net zero ambition. The Group's thermal coal phase-out and energy policies aim to drive down greenhouse gas emissions while supporting a just transition. The Group's global network of sustainability risk managers provides local policy guidance to relationship managers for their oversight of policy compliance, and in support of implementation across its wholesale banking activities.
The Group has developed risk appetite metrics to monitor its performance against its financed emissions targets.

The Group has been further developing its approach to nature, which builds on the outline that was set out in its net zero transition plan. This includes considering how to: understand its exposure to nature; manage nature-related risks and impacts; support its customers, including financing and investing in nature-related solutions; and build nature-related skills, data capacities and partnerships.

The Central Bank of Sri Lanka issued Banking Act Directions on "Sustainable Finance Activities of Licensed Banks" in June 2022, to promote sustainable financing initiatives and cater to the need for a governance and risk Management framework for licensed banks in respect of sustainable finance activities. HSBC Sri Lanka is currently in progress of implementing the regulation with each facet of the regulation tasked and overseen by the respective business lines and functions. The sustainable financing initiatives of HSBC Sri Lanka are formally governed by its ESG Governance Forum with senior management oversight.

Additional cautionary statement regarding ESG data, metrics and forward-looking statements

The Annual Report and Accounts 2024 contains a number of forward-looking statements (as defined above) with respect to HSBC's ESG ambitions, targets, commitments, climate-related pathways, processes and plans, and the methodologies and scenarios the Group (including the group) uses, or intends to use, to assess the Group's (including the group's) progress in relation to these ('ESG-related forward-looking statements').

In preparing the ESG-related information contained in the Annual Report and Accounts 2024, the Group (including the group) has made a number of key judgements, estimations and assumptions, and the processes and issues involved are complex. The Group (including the group) have used ESG (including climate) data, models and methodologies that it considers, as of the date on which they were used, to be appropriate and suitable to understand and assess climate change risk and its impact, to analyse financed emissions and operational and supply chain emissions, to set ESG-related targets and to evaluate the classification of sustainable finance and investments. However, these data, models and methodologies are often new, are rapidly evolving and are not of the same standard as those available in the context of other financial information, nor are they subject to the same or equivalent disclosure standards, historical reference points, benchmarks or globally accepted accounting principles. In particular, it is not possible to rely on historical data as a strong indicator of future trajectories in the case of climate change and its evolution. Outputs of models, processed data and methodologies are also likely to be affected by underlying data quality, which can be hard to assess and the Group (including the group) expects industry guidance, market practice, and regulations in this field to continue to change. The Group (including the group) also face challenges in relation to its ability to access data on a timely basis, lack of consistency and comparability between data that is available and its ability to collect and process relevant data. Consequently, the ESG-related forward-looking statements and ESG metrics disclosed in the Annual Report and Accounts 2024 carry an additional degree of inherent risk and uncertainty.

Due to the unpredictable evolution of climate change and its future impact and the uncertainty of future policy and market response to ESG-related issues and the effectiveness of any such response, the Group (including the group) may have to re-evaluate its progress towards its ESG ambitions, targets and commitments in the future, update the methodologies it uses or alter its approach to ESG (including climate) analysis and may be required to amend, update and recalculate its ESG disclosures and assessments in the future, as market practice and data quality and availability develop.

No assurance can be given by or on behalf of the Group as to the likelihood of the achievement or reasonableness of any projections, estimates, forecasts, ambitions, targets, commitments, prospects or returns contained herein. Readers are cautioned that a number of factors, both external and those specific to the Group (including the group), could cause actual achievements, results, performance or other future events or conditions to differ, in some cases materially, from those stated, implied and/or reflected in any ESG-related forward-looking statement or metric due to a variety of risks, uncertainties and other factors (including without limitation those referred to below):

- Climate change projection risk: this includes, for example, the evolution of climate change and its impacts, changes in the scientific assessment of climate change impacts, transition pathways and future risk exposure and limitations of climate scenario forecasts;
- ESG projection risk: ESG metrics are complex and are still subject to development. In addition, the scenarios employed in relation to them, and the models that analyse them have limitations that are sensitive to key assumptions and parameters, which are themselves subject to some uncertainty, and cannot fully capture all of the potential effects of climate, policy and technology-driven outcomes;
- Changes in the ESG regulatory landscape: this involves changes in government approach and regulatory treatment in relation to ESG disclosures and reporting requirements, and the current lack of a single standardised regulatory approach to ESG across all sectors and markets;
- Variation in reporting standards: ESG reporting standards are still developing and are not standardised or comparable across all sectors and markets, new reporting standards in relation to different ESG metrics are still emerging;
- Data availability, accuracy, verifiability and data gaps: the Group's (including the group's) disclosures are limited by the availability of high quality data in some areas and the Group's (including the group's) ability to timely collect and process such data as required. Where data is

not available for all sectors or consistently year on year, there may be an impact to the Group's (including the group's) data quality scores. While the Group (including the group) expects its data quality scores to improve over time, as companies continue to expand their disclosures to meet growing regulatory and stakeholder expectations, there may be unexpected fluctuations within sectors year on year, and/or differences between the data quality scores between sectors. Any such changes in the availability and quality of data over time, or the Group's (including the group's) ability to collect and process such data, could result in revisions to reported data going forward, including on financed emissions, meaning that such data may not be reconcilable or comparable year-on year;

- Developing methodologies and scenarios: the methodologies and scenarios the Group (including the group) uses to assess financed emissions and set ESG-related targets may develop over time in line with market practice, regulation and/or developments in science, where applicable. Such developments could result in revisions to reported data, including on financed emissions or the classification of sustainable finance and investments, meaning that data outputs may not be reconcilable or comparable year-on year; and
- Risk management capabilities: global actions, including the Group's (and the group's) own actions, may not be effective in transitioning to net zero and in managing relevant ESG risks, including in particular climate, nature-related and human rights risks, each of which can impact the Group (including the group) both directly and indirectly through its customers, and which may result in potential financial and non-financial impacts to the Group (including the group). In particular:
    - the Group (including the group) may not be able to achieve its ESG ambitions, targets and commitments (including with respect to the positions set forth in the Group's thermal coal phase-out policy and its energy policy, and its targets to reduce its on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors), which may result in the Group's (including the group's) failure to achieve some or all of the expected outcomes of its strategic priorities; and
    - the Group (including the group) may not be able to develop sustainable finance and ESG-related products consistent with the evolving expectations of its regulators, and its capacity to measure the environmental and social impacts from its financing activity may diminish (including as a result of data and model limitations and changes in methodologies), which may affect its ability to achieve the ESG ambitions, targets and commitments, including its net zero ambition, its targets to reduce its on-balance sheet financed emissions and, where applicable, facilitated emissions in its portfolio of selected high-emitting sectors and the positions set forth in its thermal coal phase-out policy and energy policy, and increase the risk of greenwashing.

Any forward-looking statements made by or on behalf of the Group (including the group) speak only as of the date they are made. The Group (including the group) expressly disclaims any obligation to revise or update these ESG forward-looking statements, other than as expressly required by applicable law.

Written and/or oral ESG-related forward-looking statements may also be made in the Group's (including the group's) periodic reports to its, regulators, public offering, disclosure documents, press releases and other written materials, and in oral statements made by the Group's (including the group's) Directors, officers or employees to third parties, including financial analysts.

The Group's data dictionaries and methodologies for preparing the above ESG-related metrics and third-party limited assurance reports can be found on: www.hsbc.com/who-we-are/esg-and-responsible-business/esg-reporting-centre.

D-SIBs Assessment Exercise*

Rs. Million

General Information	
Name of the bank	The HongKong and Shanghai Banking Corporation Limited - Sri Lanka Branch

SIZE	
Section 1 - Total exposure	
Total exposure measure	661,624
INTERCONNECTEDNESS	
Section 2 - Intra-financial system assets	
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	348
i) Funds deposited	348
ii) Lending	-
b. Holdings of securities issued by other financial institutions	-
c. Net positive current exposure of securities financing transactions (SFTs) with other financial institutions	-
d. Over-the-counter (OTC) derivatives with other financial institutions that have a net positive mark to mark value	14
Intra-financial system assets	362
Section 3 - Intra-financial system liabilities	
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obta	10,240
i) Funds deposited	10,240
ii) Borrowings	-
b. Net negative current exposure of securities financing transactions with other financial institutions	-
c. Over-the-counter derivatives with other finacial institutions that have a net negative mark to mark value	4
Intra-financial system liabilities	10,244
Section 4 - Securities outstanding	
Securities outstanding	-
SUSTAINABILITY/FINANCIAL INSTITUTION INFRASTRUCTURE	
Section 5 - Payments made in the reporting year (excluding intragroup payments)	
Payment activity	17,355,266
Section 6 - Assets under custody	
Assets under custody	154,774
Section 7 - Underwritten transactions	
Underwritten transactions	-
Section 8 - Trading volume	
Trading volume	-
COMPLEXITY	
Section 9 - Notional amount of over-the-counter (OTC) derivatives	
OTC derivatives	50,445
Section 10 - Level 2 assets	
Level 2 assets	-
Section 11 - Trading and available for sale (AFS) securities	
Trading and AFS securities	85,150
Section 12 - Cross-jurisdictional liabilities	
Foreign liabilities (excluding derivatives and intragroup liabilities)	28,782
Section 13 - Cross-jurisdictional claims	
Foreign claims (excluding derivatives and intragroup claims)	35,084

Supplementary Basel III disclosures and other Information (contd)

Disclosures in line with Banking Act Directions

Banking Act no 13 of 2021- Classification , Recognition and measurement of credit facilities in Licensed bank

7.1 for the purpose of calculating life-time expected losses under SLFRS 9, at a minimum, if one or more of the prescribed factors/conditions are met, it shall be considered as significant increase in credit risk or as defaulted facilities. The direction outlines 14 SICR criteria.

Licensed bank may rebut one or more criteria listed from 7.1.2 to 7.1.14 in the direction when determining significant increase of credit risk, subject to the following.

1. The KMP heading the Risk Management Function shall recommend such rebuttal criteria to the Board of Directors providing valid rationale and justifications to ensure that such criteria do not result in significant increase of credit risk to the bank, and Board of Directors shall grant approval or reject the proposal after considering the information provided.

2. Disclose the rebutted criteria if any and the estimated impact of such rebuttal on the respective bank's impairment provisions and profitability in their audited annual financial statements.

SICR criteria 7.1.3 in CBSL Direction No 13 of 2021 gives rise to an Incremental ECL of USD 29,475. This accounts for 0.33% of the total Impairment provision.

As Permitted by Section 7.2 of CBSL Direction No 13 of 2021, HSBC has rebutted the criteria so referred to, and the impact and the ECLs in the Financial Statements as at 31.12.2024 has been reported excluding the incremental ECL of 29,475.