

**HONGKONG AND SHANGHAI BANKING
CORPORATION LIMITED -
SRI LANKA BRANCH**

**FINANCIAL STATEMENTS FOR THE
YEAR ENDED 31ST DECEMBER 2025**

THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH

FOR THE YEAR ENDED 31 DECEMBER 2025

CONTENTS

	Page
Independent auditor's report	1-3
Income statement	4
Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Cash flow statement	8
Notes to the financial statements	9 - 94
Supplementary Basel III disclosures and other Information	95 - 113



Tel : +94-11-2421878-79-70
+94-11-2387002-03
Fax : +94-11-2336064
E-mail : bdopartners@bdo.lk
Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

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 31st December 2025, and the income statement and statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of material accounting policy information as set out on pages 09 to 94.

In our opinion, the accompanying Financial Statements give a true and fair view of the financial position of the Branch as at 31st December 2025, 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 Bank in accordance with the Code of Ethics for Professional Accountants issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The Financial Statements of the Branch for the year ended 31st December 2024 were audited by another auditor who expressed an unmodified opinion on those Financial Statements on 28th February 2025.

Other Information

The Branch management is responsible for the other information. The other information comprises the information included in the supplemental Basel 111 disclosures and other information but does not include the Financial Statements and our Auditor's Report therein.

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 identified above, 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 whether it 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.

Partners : Sujeewa Rajapakse FCA, ACCA, FCMA, MBA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H. Sasanka Rathnaweera FCA, ACMA.
F. Sarah Z. Afker FCA, FCMA (UK), CGMA, MCSI (UK). Dinusha C. Rajapakse FCA, LLB (Hons)(Colombo), CTA, Attorney at Law.
Nirosha Vadivel Bsc (Acc.), FCA, ACMA. R. D. Chamika N. Wijesinghe FCA, BBA (Acc.) Sp. H. M. R. Thilina Ranaweera FCA, BBMgt (Acc.) Sp.

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.



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

The 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 the 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, the 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 the 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 judgment and maintain professional skepticism 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 the Branch management.
- conclude on the appropriateness of the 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 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.

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

Report on Other Legal and Regulatory Requirements

As required by Section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit, and as far as it appears from our examination, proper accounting records have been kept by the Bank.

The Bank's financial position is in compliance with the provisions of the Banking Act No. 30 of 1988 and the Banking (Amendment) Act No. 24 of 2024 relating to the issuance of Financial Statements and disclosure provisions and we have not noted any instance to call for an explanation or any information from any officer or agent of the Bank in relation to Section 39.

BDO Partners
CHARTERED ACCOUNTANTS
Colombo
28th February 2026
TR/cc

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

Page 4

FOR THE YEAR ENDED 31ST DECEMBER

	Note	2025 LKR.'000	2024 LKR.'000
Gross income	6	51,535,083	53,976,042
Interest income		37,962,569	40,537,602
Less: Interest expenses		(8,542,915)	(10,545,778)
Net interest income	7	29,419,654	29,991,824
Fee and commission income		7,828,385	7,743,570
Less: Fee and commission expenses		2,108,503	1,806,753
Net fee and commission income	8	5,719,882	5,936,817
Net gains from trading	9	5,374,322	5,514,652
Net fair value gains from financial instruments at fair value through profit or loss	10	109,572	52,251
Less: Net losses from derecognition of financial assets	11	-	681,480
Net other operating income	12	260,235	127,967
Total operating income from discontinued operations		2,825,655	-
Total operating income from continued operations		38,058,010	-
Total operating income		40,883,665	40,942,031
Add: Impairment reversal for loans and other losses	13	478,783	1,949,819
Net operating income		41,362,448	42,891,850
Less: Operating expenses			
Personnel expenses	14	10,076,242	5,546,123
Depreciation and amortisation expenses	15	488,352	688,613
Other expenses	16	13,718,493	14,169,191
Total operating expense from discontinued operations		7,409,063	-
Total operating expense from continued operations		16,874,024	-
Total operating expenses		24,283,087	20,403,927
Operating profit before value added tax and other taxes on financial services		17,079,361	22,487,923
Less: VAT and other taxes	17.4	8,259,923	4,709,104
Profit before income tax		8,819,438	17,778,819
Less: Income tax expense	17.1	5,845,937	4,639,861
Profit for the year		2,973,501	13,138,958

These Financial Statements are to be read in conjunction with the related notes as set out on pages 09 to 94, which form an integral part of the Financial Statements of the Branch.



FOR THE YEAR ENDED 31ST DECEMBER

	2025	2024
Note	LKR.'000	LKR.'000
Profit for the year	2,973,501	13,138,958
Other comprehensive income		
Items that may be reclassified to the income statement in subsequent periods		
Net gains on investments in debt instruments measured at fair value through other comprehensive income (net of tax)	38.2 (293,900)	868,463
Net Gains/(losses) from the financial statements of foreign currency operation	38.1 5,383,286	(8,541,731)
Net other comprehensive income that may be reclassified to, the income statement in subsequent periods	5,089,386	(7,673,268)
Items that may not be reclassified to the income statement in subsequent periods		
Remeasurement of post-employment benefit obligations (net of tax)	2,456	(231,052)
Net gains on revaluation of land and buildings (net of tax)	38.3 -	106,262
Net comprehensive (losses)/gains that may not be reclassified to profit or loss in subsequent periods	<u>2,456</u>	<u>(124,790)</u>
Other comprehensive income/(expenses), net of tax	5,091,842	(7,798,058)
Total comprehensive income for the year, net of tax	<u>8,065,343</u>	<u>5,340,900</u>

Figures in brackets indicate deductions.

These Financial Statements are to be read in conjunction with the related notes as set out on pages 09 to 94, which form an integral part of the Financial Statements of the Branch.



THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION
AS AT 31ST DECEMBER


Page 6

	Note	2025 LKR.'000	2024 LKR.'000
ASSETS			
Cash and cash equivalents	19	130,115,626	140,671,871
Balances with Central Bank of Sri Lanka	20	29,310,408	35,002,199
Placements with banks	21	102,524,104	74,802,994
Derivative financial instruments	22	503,344	239,457
Financial assets measured at fair value through profit or loss	23	4,319,393	14,457
Financial assets at amortised cost - loans and advances	24	172,857,703	201,202,148
Financial assets measured at fair value through other comprehensive income	25	117,362,875	85,135,590
Financial assets at amortised cost - debt instruments	26	106,373	98,241
Property, plant and equipment	28	5,318,496	5,627,490
Deferred tax assets	29	1,050,005	-
Other assets	30	47,048,969	67,213,576
Assets classified under held for sale	45	36,623,846	-
Total assets		647,141,142	610,008,023
LIABILITIES			
Due to banks	31	32,480,439	14,147,267
Derivative financial instruments	32	341,497	470,583
Financial liabilities at amortised cost - due to depositors	33	279,035,279	393,967,852
Current tax liabilities	17	2,876,421	1,467,199
Retirement benefit obligation	34	161,938	235,435
Deferred tax liabilities	29	-	266,665
Other liabilities and provisions	35	59,499,014	77,575,299
Liabilities classified under held for sale	45	142,803,488	-
Total liabilities		517,198,076	488,130,300
EQUITY			
Assigned capital	36	3,152,358	3,152,358
Statutory reserve fund	37	3,152,358	3,152,358
Other reserves	38	41,520,864	36,423,163
Retained earnings		82,117,486	79,149,844
Total equity		129,943,066	121,877,723
Total equity and liabilities		647,141,142	610,008,023
Contingent liabilities and commitments	41	503,711,785	478,429,161
Memorandum Information			
Number of employees		690	731
Number of branches		9	11

These Financial Statements are to be read in conjunction with the related notes as set out on pages 09 to 94, which form an integral part of the Financial Statements of the Branch.

The Branch 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 Companies Act No. 07 of 2007 and Central Bank of Sri Lanka regulations and guidelines.

Approved and signed for and on behalf of the Branch Management.


.....
Mark Surgenor
Chief Executive Officer
28 February 2026
Colombo




.....
Angelo Pillai
Chief Financial Officer

STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 31ST DECEMBER 2025

	Assigned Capital	Exchange Equalisation Reserve	FVOCI Reserve	SBP Reserve	Statutory Reserve Fund	Revaluation Reserve	Retained Earnings	Total Equity
	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000	LKR.'000
Balance as at 31st December 2023	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)	(7,798,059)
Total comprehensive income for the year	-	(8,541,731)	868,463	-	-	106,262	12,907,906	5,340,899
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 31st December 2024	<u>3,152,358</u>	<u>32,041,875</u>	<u>1,152,184</u>	<u>153,028</u>	<u>3,152,358</u>	<u>3,076,076</u>	<u>79,149,844</u>	<u>121,877,722</u>
	3,152,358	32,041,875	1,152,184	153,028	3,152,358	3,076,076	79,149,844	121,877,723
Profit for the year	-	-	-	-	-	-	2,973,501	2,973,501
Other comprehensive income, net of tax	-	5,383,286	(293,900)	8,315	-	-	(5,859)	5,091,842
Total comprehensive income for the year	-	5,383,286	(293,900)	8,315	-	-	2,967,642	8,065,343
Transactions with equity holders, recognised directly in equity								
Transfers to reserves during the year	-	-	-	-	-	-	-	-
Profit transferred to head office	-	-	-	-	-	-	-	-
Total transactions with equity holders	-	-	-	-	-	-	-	-
Balance as at 31st December 2025	<u>3,152,358</u>	<u>37,425,161</u>	<u>858,284</u>	<u>161,343</u>	<u>3,152,358</u>	<u>3,076,076</u>	<u>82,117,486</u>	<u>129,943,066</u>

Figures in brackets indicate deductions.

These Financial Statements are to be read in conjunction with the related notes as set out on pages 09 to 94, which form an integral part of the Financial Statements of the Branch.



For the year ended 31st December

	2025	2024
Note	LKR.'000	LKR.'000
Cash flows from operating activities		
Interest receipts	37,966,568	41,100,554
Interest payments	(8,450,914)	(10,613,213)
Net fees and commission receipts	5,720,000	5,936,817
Net receipts from trading activities	4,981,321	6,401,976
Payments to employees	(9,973,242)	(5,675,264)
Taxes on financial services	(4,643,684)	(2,997,411)
Receipts from other operating activities	260,235	128,999
Payments to other operating activities	(13,751,197)	(14,500,786)
Operating profit before changes in operating assets and liabilities	12,109,087	19,781,672
(Increase)/decrease in operating assets		
Balances with Central Bank of Sri Lanka	61,195	(761,485)
Financial assets at amortised cost - loans and advances	(2,126,000)	10,167,399
Treasury bills and bonds	(32,187,658)	(65,412,309)
Other assets	(1,854,000)	(99,483,366)
	(36,106,463)	(155,489,761)
Increase/(decrease) in operating liabilities		
Financial liabilities at amortised cost - due to depositors	18,137,387	21,520,342
Financial liabilities at amortised cost - due to other borrowers	-	(24,211,465)
Other liabilities	15,571,663	29,395,314
	33,709,050	26,704,191
Net cash used in operating activities before income tax	9,711,673	(109,003,898)
Income tax paid	(4,897,681)	(8,260,827)
Net cash used in operating activities	4,813,992	(117,264,725)
Cash flows from investing activities		
Acquisition of property, plant and equipment	(247,000)	(350,137)
Proceeds from the sale and maturity of financial investments	-	872,757
Treasury bills and bonds	-	-
Net cash generated from/(used in) investing activities	(247,000)	522,620
Cash flows from financing activities		
Lease payments in lieu of leases with >1 year contract period	(115,580)	(143,607)
Profit transferred to Head Office	-	(5,997,400)
Net cash used in financing activities	(115,580)	(6,141,007)
Net decrease in cash and cash equivalents	4,451,412	(122,883,112)
Cash and cash equivalents at the beginning of year* (Note "a")	19 172,077,424	303,376,128
Movement of exchange equalisation reserve	5,383,286	(8,541,731)
Effects of exchange rate changes		126,139
Cash and cash equivalents at the end of the year* (Note "a")	19 181,912,123	172,077,424

Note (a)

* Cash and cash equivalents comprises 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.

These Financial Statements are to be read in conjunction with the related notes as set out on pages 09 to 94, which form an integral part of the Financial Statements of the Branch.



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 Corporate and Institutional 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 Holdings 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 (“SLFRSs”), Sri Lanka Accounting Standards (“LKASs”), 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 2.2. 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.



2.2. 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 measured at fair value
- Freehold land and buildings measured at fair value.

2.3. Use of estimates and judgment

The preparation of Financial Statements in conformity with Sri Lanka Accounting Standards requires the use of certain critical accounting estimates. It also requires the management to exercise its judgment 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 in which the estimate is revised and in any future period affected. The areas involving a higher degree of judgment or complexity, or areas where assumptions are material to the Branch's 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 1st January 2025 (i.e. year ending 31st December 2025) and (b) forthcoming requirements, being standards and amendments that will become effective on or after 1st January 2026.

2.4.1. New accounting standards, amendments and interpretations - applicable from 1st January 2025

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 1st January 2025. Their adoption has not had any material impact on the disclosures or on the amounts reported in these Financial Statements.

2.4.1.1. New standards, interpretations and amendments adopted from 1st January 2025

The Bank has applied the following standards and amendments for the first time for their annual reporting periods commencing 01st January 2025 which are mandatorily effective for reporting periods beginning thereon.

- i) Lack of Exchangeability (Amendments to LKAS 21 The Effects of Changes in Foreign Exchange Rates) - mandatorily effective for periods beginning on or after 1st January 2025
- ii) SLFRS S1 General Requirements for Disclosure of Sustainability related Financial Information is to require entities to disclose information about its sustainability-related risks and opportunities that are useful to users of general-purpose financial reports in making decisions relating to providing resources to the Bank with effect from periods beginning on or after 1st January 2025
- iii) SLFRS S2 Climate-related Disclosures requires entities to disclose information about its climate-related risks and opportunities that is useful to users of general-purpose financial reports in making decisions relating to providing resources to the Bank with effect from periods beginning on or after 1st January 2025



2.4.1.2. The following amendments are effective for the period beginning 01st January 2026

- i) Amendments to SLFRS 9 (Financial Instruments) and SLFRS 7 (Financial Instruments: Disclosures). Amendments to Sri Lanka Accounting Standards SLFRS 9 - Financial Instruments and SLFRS 7 - Financial Instruments: Disclosures, will be effective for annual reporting periods beginning on or after 1st January 2026. Early application is permitted.

These amendments introduce important enhancements to the classification and measurement, derecognition, and disclosure requirements applicable to financial instruments. The amendments are aimed at strengthening transparency, improving consistency in financial reporting, and addressing emerging market developments, including sustainability-linked features and nature-dependent electricity contracts.

- ii) SLFRS 17: Insurance Contracts - Effective for annual reporting periods beginning on or after 1st January 2026

2.4.1.3. The following amendments are effective for the period beginning 01st January 2027

The Bank intends to adopt the new and amended standards and interpretations that are issued, but not yet effective, up to the date of issuance of the Bank's Financial Statements, if applicable, when they become effective.

- i) IFRS 18 Presentation and Disclosure in Financial Statements - The objective of this standard is to give investors more transparent and comparable information about companies' financial performance, thereby enabling better investment decisions. IFRS 18 introduces three sets of new requirements to improve companies reporting of financial performance and give investors a better basis for analysing and comparing companies.
1. Improved comparability in the statement of profit or loss (income statement)
 2. Enhanced transparency of management-defined performance measures
 3. More useful grouping of information in the Financial Statements
- ii) IFRS 19 Subsidiaries without Public Accountability: Disclosures - The objective of this standard is to specify that the disclosure requirements the Group is permitted to apply instead of the disclosure requirements in other IFRS Accounting Standards. An eligible subsidiary that applies to IFRS 19 is required to apply the requirements in other IFRS Accounting Standards for recognition, measurement and presentation requirements. For disclosure requirements, IFRS 19 instead of the disclosure requirements in other IFRS Accounting Standards, except in specified circumstances. In accordance with IFRS 18 Presentation and Disclosure in Financial Statements, an entity applying IFRS 19 is not required to provide a specific disclosure required by IFRS 19 if the information resulting from that disclosure would not be material.

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

3.1.1. Functional and presentation currency

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

3.1.2. Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transaction. 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.

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

3.2.1. Interest

Interest income and expense is recognised in the 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.

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.

3.1.2 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 WSB Services	<p>The Branch provides banking services to WPB and CIB customers, including account management, provision of overdraft facilities, foreign currency transactions and servicing fees.</p> <p>Fees for ongoing account management are charged to the customer's account on a monthly basis.</p> <p>Transactions based fees for interchange, foreign currency transactions and overdrafts are charged to the customer's account when the transaction takes place.</p> <p>Servicing fees are charged on a monthly basis and are based on fixed rates reviewed periodically by the Bank.</p>	<p>Revenue from account servicing is recognised over time as the services are provided.</p> <p>Revenue related to transactions are recognised at the point in time when the transaction takes place.</p>

3.3. Taxation

3.3.1. 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 in respect of 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 and regulations.

Relevant details are disclosed in the notes to the Financial Statements.

3.3.2. 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 assets to be utilised.

Deferred tax is determined using Income tax rates and laws that have been enacted or substantively 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 are 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.

3.4. 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 asset changes.

3.5.2. Recognition and derecognition

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.

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 recognised 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).

3.5.3.1. 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 the 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.



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.

3.5.3.3. 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 the 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 the Branch 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 25 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 Profit or Loss. 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 recognised initially and are subsequently measured at fair value through profit or loss. Derivatives are classified as assets when their fair value is positive or as liabilities when their fair value is negative.

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.

3.6. Assigned capital

Assigned capital of the Branch represents 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 the Head Office are debited directly to equity at the date of payment.

3.7. Assets and bases of their valuation

Property, plant and equipment

3.7.1. 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 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.

3.7.2. Depreciation

The provision for depreciation 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.

Category of Assets	Number of Years
Freehold buildings and improvements to buildings	over 50 years
Fixed assets relating to Head Office refurbishment project	over 10/20 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 a monthly basis from the date of acquisition throughout its useful life.



3.7.3. Disposals

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

3.7.4. 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 any 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 an 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 a nil amount. 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 2025.

3.8. Import/export bills negotiated and discounted

The import/export bills are shown in 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 with in the income statement.

3.9. 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 the 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.

3.10. Statutory deposits with the Central Bank of Sri Lanka

The Monetary Law Act requires that all commercial banks operating in Sri Lanka 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.

3.11. Employee share plans

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



3.11.1. 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 has 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.

3.12. Employee benefits

3.12.1. Pension fund

The pension fund has been established under Trust Deed dated 07th December 1992 to fund the retirement benefits accruing to employees.

Up to 31st 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 the 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 time of 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's income, the Branch shall meet the deficit and recognise it in the Fund accounts.

3.12.3. Employees 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 made.

3.13. 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.

3.14. 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.

3.15. Other payables

These amounts represent the 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.

3.16. 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.



3.17. 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.

3.18. Other off-balance sheet transactions

The Branch enters into contracts such as forward exchange contracts, currency swaps, interest rate swaps and options, the principal 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.

3.19. Events after the reporting date

All material events after the reporting date are considered and disclosed and where necessary, adjustments are made in the Financial Statements.

3.20. Cash flow statements

The cash flow statement 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 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.

3.21. 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.



4.1. 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 and other business decisions.

4.2. 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. 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.

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.



4.3. 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.

4.4. 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 the 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 the branch modifies 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 as such that the renegotiated loan is substantially a different financial instrument. Any new loans that arise following derecognition events in these circumstances are considered to be POCI and will continue to be disclosed as renegotiated loans.

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 multi-factor. 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 it is 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 the 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.



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 28 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.

5. ASSETS HELD FOR SALE AND DISCONTINUED OPERATIONS

HSBC Sri Lanka intends to divest its International Wealth and Premier (IWPB) business segment. This will be via assets and liabilities transfer under a sale and purchase agreement. The transaction perimeter will include the retail banking operations, assets and liabilities pertaining to the retail customers, and leasehold properties.

Under SLFRS 5, a disposal group is a group of assets to be disposed of, by sale or otherwise, together as a group in a single transaction, and liabilities directly associated with those assets that will be transferred in the transaction. The group includes the goodwill if it is a cash generating unit (CGU) to which the goodwill has been allocated or if it is an operation within a CGU.

In this case, the disposal group that is to be disposed to the buyer in this single transaction will mainly comprise the IWPB loan portfolios (credit cards, personal loans and housing and vehicle loans) and deposit portfolios (CASA and deposit liability portfolios), along with the right-of-use assets and lease liabilities in relation to the nine leasehold properties and furniture fixtures and equipment, as well as foreign currency cash relating to foreign currency deposits and cash.

Accordingly, the above segment has been classified as Assets Held for Sale since as at the reporting date the conditions required this to be classified as Assets Held for Sale has been met.

Reclassification of Assets and Liabilities is given in Note 45.



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
6 Gross income		
Interest income	37,962,569	40,537,602
Fee and commission income	7,828,385	7,743,570
Net gains from trading	5,374,322	5,514,652
Net fair value gains from financial instruments at fair value through profit or loss	109,572	52,251
Net other operating income	260,235	127,967
	<u>51,535,083</u>	<u>53,976,042</u>
7 Net interest income		
Interest income		
Cash and cash equivalents*	7,545,057	10,573,221
Balances with Central Bank	1,867,591	4,293,924
Call placements with banks	126,132	115,176
Financial assets measured at fair value through profit or loss	159,334	29,509
Financial assets at amortised cost		
- loans and advances	18,940,149	20,047,424
- debt and other instruments	12,027	12,042
Financial assets measured at fair value through other comprehensive income	9,312,279	5,466,306
Total interest income	<u>37,962,569</u>	<u>40,537,602</u>
Interest expenses		
Due to banks	(74,810)	(62,210)
Financial liabilities at amortised cost- due to depositors	(7,944,487)	(8,421,195)
Interest expense on lease liabilities	(27,825)	(26,807)
Interest expense on deposits/borrowings from group companies	(279,381)	(496,461)
Interest expenses related to others	(216,412)	(1,539,105)
Total interest expenses	<u>(8,542,915)</u>	<u>(10,545,778)</u>
Net interest income	<u>29,419,654</u>	<u>29,991,824</u>

Note: Interest income from Impaired financials assets are Nil

* Interest Income from cash and cash equivalents also include interest income from intercompany balances.

7.1 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 7 and disclosed separately, as required by the Guidelines issued by the Central Bank of Sri Lanka.

	2025 LKR.'000	2024 LKR.'000
Interest income	7,393,540	5,507,857
Financial assets measured at fair value through profit or loss	159,334	29,509
Financial assets measured at fair value through other comprehensive income	7,222,179	5,466,306
- Financial Assets at ammortised cost	12,027	12,042
Securities purchased under resale agreements	-	-
Less: Interest expenses	-	-
Securities sold under repurchase agreements	-	-
Net interest income from Sri Lanka Government securities	<u>7,393,540</u>	<u>5,507,857</u>



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
8 Net fee and commission income		
Fee and commission income [Note:8.1]	7,828,385	7,743,570
Less: Fee and commission expenses	2,108,503	1,806,753
	<u>5,719,882</u>	<u>5,936,817</u>
8.1 Fee and commission income		
Loans and advances related services	31,491	89,513
Credit cards related services	3,801,726	3,881,688
Trade and remittance related services	1,779,861	1,056,422
Deposits related services	132,758	82,817
Guarantees related services	1,727,591	2,310,516
Other financial services	354,958	322,614
Fee and commission income	<u>7,828,385</u>	<u>7,743,570</u>
Fee and commission expenses		
Credit cards	1,723,802	1,505,326
Other	384,701	301,427
	<u>(2,108,503)</u>	<u>(1,806,753)</u>
9 Net gains from trading		
- Gains from transactions with customers	155,876	126,139
- (Losses)/gains from transactions with banks	(2,068)	(138)
Other trading income	5,220,514	5,388,651
	<u>5,374,322</u>	<u>5,514,652</u>

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.



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
10 Net fair value gains from financial instruments at fair value through Profit or Loss		
Net fair value gains from financial instruments at fair value through profit or loss	<u>109,572</u>	<u>52,251</u>
11 Net losses from derecognition of financial assets		
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	<u>-</u>	<u>(681,480)</u>
12 Net other operating income		
Loss on disposal of property, plant and equipment	-	(1,032)
Other income from intercompany transactions / dividend from mandatory shares	<u>260,235</u>	<u>128,999</u>
	<u>260,235</u>	<u>127,967</u>
13 Impairment (charges)/reversals and other losses		
13.1 Financial assets at amortised cost - loans and advances (Note 24.1)		
Stage 1	(50,866)	(56,559)
Stage 2	147,929	2,378,450
Stage 3	(749,955)	(86,914)
	<u>(652,892)</u>	<u>2,234,977</u>
13.2 Financial assets at amortised cost - debt instruments (Note 26.2)		
Stage 1	-	-
Stage 2	(26,018)	4,169
Stage 3	-	-
	<u>(26,018)</u>	<u>4,169</u>
13.3 Financial assets measured at fair value through other comprehensive income (Note 25.3)		
Stage 1	-	-
Stage 2	(477,581)	(1,122,685)
Stage 3	-	904,515
	<u>(477,581)</u>	<u>(218,170)</u>



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
13 Impairment charges/(reversals) and other losses (contd)		
13.4 Contingent liabilities and commitments (Note 27.2)		
Stage 1	(147,001)	277,675
Stage 2	65,416	177,077
Stage 3	-	-
	<u>(81,585)</u>	<u>454,752</u>
13.5 Others (Note 27.1)		
Stage 1	(212)	172,380
Stage 2	(3,494)	(100,886)
Stage 3	-	(81,403)
	<u>(3,706)</u>	<u>(9,909)</u>
13.6 Write-off's, recoveries and other	762,999	(516,000)
	<u>478,783</u>	<u>1,949,819</u>



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
14 Personnel expenses		
Salary and bonus	(3,524,642)	(3,507,955)
Contributions to defined benefit obligation (Note 33.1)	-	2,143
Contributions to defined contribution plans/other benefit plans	(541,937)	(577,730)
Allowances and others	(1,243,480)	(1,462,581)
Employment termination benefit	(4,766,183)	-
	<u>(10,076,242)</u>	<u>(5,546,123)</u>
15 Depreciation and amortisation expenses		
Depreciation of property, plant and equipment (Note 27)	(319,961)	(357,492)
Depreciation on right of use assets	(168,391)	(331,121)
	<u>(488,352)</u>	<u>(688,613)</u>
16 Other expenses		
Auditor's remuneration	(7,304)	(7,069)
Non-audit fees to auditor's	(13,289)	(8,873)
Professional and legal expenses	(148,814)	(510,168)
Office administration and establishment expenses	(2,143,783)	(2,298,564)
Short-term lease expenses	(12,606)	(9,039)
Others	(11,392,697)	(11,335,478)
	<u>(13,718,493)</u>	<u>(14,169,191)</u>

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 head office is 1,599Mn (2024:1,604Mn)

17 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 realised 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.



FOR THE YEAR ENDED 31ST DECEMBER

	2025	2024
	LKR.'000	LKR.'000
17 Tax expense (contd...)		
17.1 Current tax expense		
Current tax on profit for the year (Note 17.3)	(6,424,648)	(6,469,199)
Over provision for the previous year	117,745	3,089,771
	<u>(6,306,903)</u>	<u>(3,379,428)</u>
Deferred tax expenses		
- Provision for employee benefit	1,422,900	(7)
- Accelerated depreciation of property, plant and equipment	5,896	(6,261)
- Allowances for expected credit losses	(998,571)	(1,186,802)
- Right of use assets	30,741	(67,363)
	<u>460,966</u>	<u>(1,260,433)</u>
Total tax charge to income statement	<u>5,845,937</u>	<u>4,639,861</u>
17.2 Tax charge to the statement of other comprehensive income		
- Provision for employee benefit	(17,062)	99,020
- Fair value adjustments	872,765	(345,362)
- Revaluation of buildings	-	(45,541)
	<u>855,703</u>	<u>(291,883)</u>
17.3 Reconciliation between the current tax expense and accounting profit		
Accounting profit before taxation	8,819,438	17,778,819
Income tax for the period at 30%	2,645,831	5,333,646
Add: Tax effect of expenses that are not deductible for tax purposes	5,424,410	1,885,161
Less: Tax effect of expenses that are deductible for tax purposes	(651,388)	(335,087)
Tax effect on exempt Income and income taxed at reduced rates	(994,206)	(414,521)
Current tax on profit for the year	<u>6,424,648</u>	<u>6,469,199</u>
Over provision for the previous year	(117,745)	(3,089,772)
	<u>6,306,903</u>	<u>3,379,427</u>

-During the 12 months ended December 2025, applicable income tax rate has been 30% for both current tax and deferred tax computations. (2024 : 30%)



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
17. Tax expense (contd...)		
17.4 Breakdown of Value Added Tax and Other Taxes on financial services		
Value Added Tax	(7,727,993)	(4,090,670)
Debt repayment levy	-	(40,664)
Nation Building Tax on financial services	-	(25,084)
SSCL on financial services	(531,930)	(552,686)
	<u>(8,259,923)</u>	<u>(4,709,104)</u>

- During the 12 month period ended December 2025, the applicable Value Added Tax (VAT) rate has been at 18% (2024 : 18%) and Social security Contribution Levy (SSCL) has been at 2.5% (2024 : 2.5%)

17.5 Tax liabilities

Balance at the beginning	1,467,199	6,348,598
Current tax charge for the year	6,306,903	3,379,428
Payments made during the year	(4,897,681)	(8,260,827)
Balance at the end	<u>2,876,421</u>	<u>1,467,199</u>



18 Analysis of financial instruments by measurement basis (contd)

18.1 As at 31st December 2025

	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR.'000	LKR.'000	LKR.'000	LKR.'000
ASSETS				
Cash and cash equivalents	-	134,188,792	-	134,188,792
Balances with the Central Bank of Sri Lanka	-	29,310,408	-	29,310,408
Placements with banks	-	102,524,104	-	102,524,104
Derivative financial instruments	503,344	-	-	503,344
Financial assets measured at fair value through profit or loss	4,319,393	-	-	4,319,393
Financial Assets at Amortised Cost - Loans and Advances	-	203,975,107	-	203,975,107
Financial assets measured at fair value through other comprehensive income	-	-	117,362,875	117,362,875
Financial assets at amortised cost - debt instruments	-	106,374	-	106,374
Acceptances and endorsements	-	36,936,161	-	36,936,161
Total financial assets	4,822,737	507,040,946	117,362,875	629,226,557
LIABILITIES				
Due to banks	-	32,480,439	-	32,480,439
Derivative financial instruments	341,497	-	-	341,497
Financial liabilities at amortised cost - due to depositors	-	412,105,239	-	412,105,239
Acceptances and endorsements	-	36,936,161	-	36,936,161
Total financial liabilities	341,497	481,521,838	-	481,863,336



AS AT 31ST DECEMBER

18 Analysis of financial instruments by measurement basis

18.2 As at 31 December 2024

	Fair value through profit or loss	Amortised cost	Fair value through other comprehensive income	Total
	LKR.'000	LKR.'000	LKR.'000	LKR.'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	-	58,170,962	-	58,170,962
Total financial assets	253,914	509,948,415	85,135,590	595,337,919
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





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

AS AT 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
19 Cash and cash equivalents		
Cash in hand	1,068,965	1,184,600
Balances with other banks	8,588,051	16,252,257
Money at call and at short notice	124,535,580	123,240,567
Less: Impairment relates to cash and cash equivalents	(3,804)	(5,553)
	<u>134,188,792</u>	<u>140,671,871</u>
Less: Assets classified under held for sale	4,073,166	-
	<u>130,115,626</u>	<u>140,671,871</u>
20 Balances with Central Bank of Sri Lanka		
Statutory balances with Central bank of Sri Lanka	3,557,131	3,618,326
Placements with Central bank of Sri Lanka	25,780,000	31,400,000
Less: Impairment relates to balances with Central Bank of Sri Lanka	(26,723)	(16,127)
	<u>29,310,408</u>	<u>35,002,199</u>
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 2025 (2024: 2%).		
21 Placements with banks		
Placements with banks	102,540,490	74,824,650
Less: Impairment relates to placements with banks	(16,386)	(21,656)
	<u>102,524,104</u>	<u>74,802,994</u>
22 Derivative financial instruments		
Currency swaps	1,065	11,560
Forward foreign exchange contracts	502,279	227,897
	<u>503,344</u>	<u>239,457</u>
23 Financial assets measured at fair value through profit or loss		
Treasury bills	2,252,708	-
Treasury bonds	2,066,685	14,457
	<u>4,319,393</u>	<u>14,457</u>
23.1 Analysis		
By collateralisation		
- Pledged as collateral	-	-
- Unencumbered	4,319,393	14,457
By currency		
- Sri Lankan rupee	4,319,393	14,457

AS AT 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
24 Financial assets at amortised cost - loans and advances		
Gross loans and advances		
Stage 1	145,097,545	161,550,075
Stage 2	60,114,770	40,681,742
Stage 3	500,745	1,361,199
	<u>205,713,060</u>	<u>203,593,016</u>
Less: Accumulated impairment under;		
Stage 1	(725,488)	(812,768)
Stage 2	(726,048)	(559,367)
Stage 3	(286,417)	(1,018,733)
	<u>(1,737,953)</u>	<u>(2,390,868)</u>
Net loans and receivables	<u>203,975,107</u>	<u>201,202,148</u>
Less: Assets classified under held for sale	31,117,404	-
	<u>172,857,703</u>	<u>201,202,148</u>
24 Financial assets at amortised cost - Loans and advances		
24.1 Provision for impairment		
24.1.1 Stage 1		
Opening balance as at 1 January	812,768	745,497
Charge/(write back) to income statement	(88,594)	56,559
Exchange fluctuations and other movements	1,314	10,712
Closing balance as at 31 December	<u>725,488</u>	<u>812,768</u>
24.1.2 Stage 2		
Opening balance as at 1 January	559,367	2,983,652
Charge/(write back) to income statement	162,986	(2,378,450)
Exchange fluctuations and other movements	3,695	(45,835)
Closing balance as at 31 December	<u>726,048</u>	<u>559,367</u>
24.1.3 Stage 3		
Opening balance as at 1 January	1,018,733	1,111,979
Charge/(write back) to income statement	(733,275)	86,914
Exchange fluctuations and other movements	959	(180,160)
Closing balance as at 31 December	<u>286,417</u>	<u>1,018,733</u>
Charge/(write back) to income statement for the year	(658,883)	(2,234,977)



AS AT 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
25 Financial assets measured at fair value through other comprehensive income		
Treasury bills with Government of Sri Lanka	95,858,054	84,847,913
Treasury bills-US treasury	21,504,821	287,677
	<u>117,362,875</u>	<u>85,135,590</u>
25.1 Analysis		
By collateralisation		
- Pledged as collateral	-	-
- Unencumbered	117,362,875	85,135,590
	<u>117,362,875</u>	<u>85,135,590</u>
By Currency		
- Sri Lankan Rupees	95,858,054	84,847,913
- United States Dollar	21,504,821	287,677
	<u>117,362,875</u>	<u>85,135,590</u>
25.2 Staging of Financial assets measured at fair value through other comprehensive		
Stage 1	21,504,821	287,677
Stage 2	95,858,054	84,847,913
Stage 3	-	-
	<u>117,362,875</u>	<u>85,135,590</u>
25.3 Movements in provision for impairment during the year		
Opening balance as at 1 January	1,259,774	1,107,671
Stage 1		
Charge/(write back) to income statement	-	-
Stage 2		
Charge/(write back) to income statement	(477,581)	1,122,685
Stage 3		
(Write back) to income statement	-	(904,515)
Exchange fluctuations and other movements	3,476	(66,067)
Closing balance as at 31 December	<u>785,669</u>	<u>1,259,774</u>
26 Financial assets at amortised cost - debt instruments		
Treasury bonds	111,021	110,521
Accumulated impairment	(4,648)	(12,280)
	<u>106,373</u>	<u>98,241</u>
26.1 Analysis		
By collateralisation		
- Unencumbered	111,021	110,521
By currency		
- Sri Lankan Rupee	111,021	110,521
26.2 Movements in provision for impairment loss during the year		
Stage 2		
Opening balance as at 1 January	30,666	16,445
Charge/(write back) to income statement	(26,018)	(4,169)
Other movement	-	18,390
Closing balance as at 31 December	<u>4,648</u>	<u>30,666</u>

AS AT 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
27 Other financial assets		
Acceptances	36,936,161	58,170,962
(-) Impairment	(4,838)	(8,544)
	<u>36,931,323</u>	<u>58,162,418</u>
27.1 Movements in provision for impairment loss during the year		
Impairment classification - Other Assets		
Stage 1		
Opening balance as at 01 January	5,050	222,994
Charge / (write back) to income statement	(212)	(172,380)
Other Movement	-	(45,564)
Closing balance as at 31 December	<u>4,838</u>	<u>5,050</u>
Stage 2		
Opening balance as at 01 January	3,494	36,488
Charge / (write back) to income statement	(3,494)	100,886
Other movement	-	(133,880)
Closing balance as at 31 December	<u>-</u>	<u>3,494</u>
Stage 3		
Opening balance as at 01 January	81,403	-
Charge / (write back) to income statement	-	81,403
Other movement	-	-
Closing balance as at 31 December	<u>81,403</u>	<u>81,403</u>
Total	<u><u>86,241</u></u>	<u><u>89,947</u></u>
27.2 Movements in provision for impairment loss during the year		
Impairment classification - Off balance sheet exposures		
Stage 1		
Opening balance as at 1 January	273,879	345,580
(Write back)/charge to income statement	(147,001)	(277,675)
Other movement	36,984	205,974
Closing balance as at 31 December	<u>163,862</u>	<u>273,879</u>
Stage 2		
Opening balance as at 1 January	111,622	300,572
(Write back)/charge to income statement	65,416	(177,077)
Other movement	(33,338)	(11,873)
Closing balance as at 31 December	<u>143,700</u>	<u>111,622</u>
Total	<u><u>307,562</u></u>	<u><u>385,501</u></u>



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

27 Other financial assets (contd...)

27.3 Movements in total provisions for impairment loss

27.3.1 Movements in gross values and provisions for impairment loss during the year ended 31 December 2025

Gross instrument value

	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2025	547,267,518	128,647,046	1,442,503	677,357,067
Financial assets transferred to Stage 1	4,737,326	(4,715,032)	(22,294)	-
Financial assets transferred to Stage 2	(52,074,806)	52,083,938	(9,132)	-
Financial assets transferred to Stage 3	(37,408)	(16,813)	54,221	-
New financial assets acquired	44,882,971	7,175,056	25,143	52,083,170
Reversals due to maturities/ repayments/write offs	(55,180,273)	(6,090,905)	(957,385)	(62,228,563)
Changes in risk parameters (in LGD and PD)				-
Other changes (in off balance sheet and other assets)	(44,161,678)	(29,441,119)	(32,311)	(73,635,108)
Closing balance as at 31 December 2025	445,433,650	147,642,171	500,745	593,576,566

Provisions for impairment loss

	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1 January 2025	1,114,976	1,966,593	1,100,137	4,181,706
Financial assets transferred to Stage 1	37,755	(35,999)	(1,756)	-
Financial assets transferred to Stage 2	(81,361)	81,541	(180)	-
Financial assets transferred to Stage 3	(123)	(944)	1,067	-
New financial assets acquired	108,231	77,530	1,445	187,207
Reversals due to maturities/ repayments/write offs	(372,610)	(400,887)	(572,339)	(1,345,836)
Changes in risk parameters (in LGD and PD)				-
Other changes (in off balance sheet and other assets)	101,565	(51,501)	(82,614)	(32,551)
Closing balance as at 31 December 2025	908,433	1,636,333	445,760	2,990,526

27.3.2 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)
Changes in risk parameters (in LGD and PD)				-
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
Changes in risk parameters (in LGD and PD)				-
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)

28 Property, plant and equipment (contd)

28.1 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	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%	1,323	1,083	1,203
Colombo 01	Yield rate	1%	2,849	2,393	2,601
Colombo 07	Rate per sq ft	10%	2,234	1,828	2,031

AS AT 31ST DECEMBER

29	Deferred tax assets/(liabilities)	2025	2024
		LKR.'000	LKR.'000
	Deferred tax assets	2,368,323	1,051,653
	Deferred tax liabilities	(1,318,318)	(1,318,318)
		1,050,005	(266,665)

29.1 Temporary differences

Deferred tax assets and liabilities are attributable to the following:

	Property, plant and equipment	Retirement Benefit Obligations	Revaluation Reserve	Right-of-Use Asset	Others	Total
As at 31st 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 31st December 2024	61,280	402,771	(1,318,318)	50,941	536,661	(266,665)
(Charged)/credited						
- to profit or loss	5,896	1,422,900	-	30,741	(998,571)	460,967
- to other comprehensive income	-	(17,062)	-	-	872,765	855,703
As at 31st December 2025	67,176	1,808,609	(1,318,318)	81,682	410,855	1,050,005

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 2025 -30%, 2024 - 30%.



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

AS AT 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
30 Other assets		
Receivables	9,915,302	8,537,321
Deposits and prepayments	110,669	99,772
Acceptances and endorsements	36,936,161	58,170,962
Right-of-use assets (Note 30.1)	37,370	485,650
Others	1,047,060	9,818
Impairment (Note 30.3)	(86,241)	(89,947)
	<u>47,960,321</u>	<u>67,213,576</u>
Less: Assets classified under held for sale	<u>911,352</u>	<u>-</u>
	<u>47,048,969</u>	<u>67,213,576</u>
30.1 Right-of-use assets and lease liabilities		
30.1.1 Amounts recognised in Statement of Financial Position		
Right-of-use assets - land and buildings	400,301	485,650
Less: Assets classified under held for sale	<u>362,931</u>	<u>-</u>
	<u>37,370</u>	<u>485,650</u>
Average lease period	5 years	5 years
Lease Payments made during the year	115,580	143,607
30.2 Acceptances and endorsements		
Acceptances and other receivables	36,936,161	58,170,962
(-) Impairment	(4,838)	(8,544)
	<u>36,931,323</u>	<u>58,162,418</u>
30.3 Movements in provision for impairment loss during the year		
Impairment classification - Other financial assets		
Stage 1		
Opening balance as at 1st January	5,050	222,994
(Write back)/charge to income statement	(212)	(172,380)
Other Movement		(45,564)
Closing balance as at 31st December	<u>4,838</u>	<u>5,050</u>
Stage 2		
Opening balance as at 1st January	3,494	36,488
Charge/(write back) to income statement	(3,494)	100,886
Other movement	-	(133,880)
Closing balance as at 31st December	<u>-</u>	<u>3,494</u>
Stage 3		
Opening balance as at 1st January	81,403	-
Charge to income statement	-	81,403
Other movement	-	-
Closing balance as at 31st December	<u>81,403</u>	<u>81,403</u>
Total	<u>86,241</u>	<u>89,947</u>

AS AT 31ST DECEMBER

30	Other assets		
		2025	2024
30.4	Right-of-use assets and lease liabilities	LKR.'000	LKR.'000
30.4.1	Amounts recognised in the statement of profit or loss		
	Depreciation charges	168,391	331,121
	Interest expense	27,825	26,807
	Expense relating to short-term leases	12,606	9,039
	Loss on lease modifications	14,191	421

30.4.2 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 assets 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, and
- * 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.



AS AT 31ST DECEMBER

30 Other assets

30.5 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 assets 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.

30.6 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 the 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.

AS AT 31ST DECEMBER

	2025	2024
	LKR.'000	LKR.'000
31 Due to banks		
Borrowings	17,038,450	3,524,757
Demand deposits (current accounts)	15,067,882	10,320,201
Vostro balances with HSBC offices and other banks	374,107	302,309
	<u>32,480,439</u>	<u>14,147,267</u>



AS AT 31ST DECEMBER		2025	2024
		LKR.'000	LKR.'000
32	Derivative financial instruments		
	Forward foreign exchange contracts	341,497	470,583
		<u>341,497</u>	<u>470,583</u>
33	Financial liabilities at amortised cost - due to depositors		
	Total amount due to other customers (Note 33.1)	412,105,239	393,967,852
	Less: Liabilities classified under held for sale	133,069,960	-
		<u>279,035,279</u>	<u>393,967,852</u>
33.1	Analysis		
33.1.1	By product		
	Demand deposits (current accounts)	116,154,919	97,615,262
	Savings deposits	124,695,635	152,104,816
	Fixed deposits	165,257,208	142,214,513
	Other deposits	5,997,477	2,033,261
	Total	<u>412,105,239</u>	<u>393,967,852</u>
33.1.2	By currency		
	Sri Lankan Rupees	192,099,528	184,445,674
	United States Dollars	201,503,777	189,144,582
	Great Britain Pounds	9,641,075	8,850,771
	Others	8,860,859	11,526,825
	Total	<u>412,105,239</u>	<u>393,967,852</u>
34	Net defined benefit liability/(asset)		
	Present value of defined benefit obligations (Note 34.1)	1,208,988	1,342,571
	Fair value of plan assets (Note 34.2)	(1,047,050)	(1,107,136)
	Defined benefit liability/(asset) - net	<u>161,938</u>	<u>235,435</u>

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 31st December 2025, carried out by Messrs Willis Towers Watson India, actuaries. There are 16 active members in the fund as of 31st December 2025.

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.



AS AT 31ST DECEMBER	2025 LKR.'000	2024 LKR.'000
34 Net defined benefit liability/(asset)		
34.1 Movement in the present value of defined benefit obligations		
Opening balance as at 31st December 2024	1,342,571	1,012,526
Current service cost	6,855	4,333
Interest cost	147,060	126,928
Benefits paid during the year	(127,583)	(131,284)
Actuarial gain / (loss) for the year	(159,915)	330,068
Closing balance as at 31 December 2025	<u>1,208,988</u>	<u>1,342,571</u>
34.2 Movement in fair value of plan assets		
Opening balance as at 31st December 2024	1,116,509	1,098,496
Expected return on plan assets	121,364	133,404
Contribution by employers	5,239	6,526
Benefits paid during the year	(127,582)	(131,284)
Actuarial gain / (loss) for the year	(68,480)	(6)
Closing balance as at 31 December 2025	<u>1,047,050</u>	<u>1,107,136</u>

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

34.3 Sensitivity analysis of the defined benefit obligation	2025	2024
a. Discount rate		
Discount rate	10.50%	11.50%
1. Effect due to the increase in the discount rate by 1.00% (Rs '000)	(92,340)	(110,633)
2. Effect due to the decrease in the discount rate by 1.00% (Rs '000)	109,246	132,484
b. Increase in salary escalation rate and post retirement pension		
Salary escalation rate		
- Union members	5%	7%
- Non-union members	5%	5%
Post retirement pension	2%	5%
1. Effect on DBO due to increase in the salary escalation and post-retirement pension rate by 1% p.a. (Rs '000)	24,549	119,286
2. Effect on DBO due to decrease in the salary escalation and post-retirement pension rate by 1% p.a. (Rs '000)	(21,416)	(103,278)
Weighted average duration of defined benefit obligation	8.8 years	9.6 years



AS AT 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
35 Other liabilities and provisions		
Interest payable	2,123,334	2,215,378
Acceptances and endorsements	36,936,161	58,170,962
Impairment in respect of off-balance sheet credit exposures	307,562	385,501
Lease liabilities	242,719	225,638
Accrued expenses	6,098	787,794
Payable to Group entities		1,192,515
Other payables	21,605,664	10,338,447
Value Added Tax, Social Security Contribution levy and other taxes	8,011,005	4,259,064
	<u>69,232,543</u>	<u>77,575,299</u>
Less: Liabilities classified under held for sale	<u>9,733,528</u>	-
	<u>59,499,014</u>	<u>77,575,299</u>

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

36 Assigned capital

Assigned Capital	3,152,358	3,152,358
	<u>3,152,358</u>	<u>3,152,358</u>

37 Statutory reserve fund

Opening balance as of 1st January	3,152,358	3,152,358
Transferred during the year	-	-
Closing balance as of 31st December	<u>3,152,358</u>	<u>3,152,358</u>

The statutory reserve fund is maintained as required by the Section 20 (1) and (2) of the Banking Act No. 30 of 1988 and the ammended Act No 24 of 2024. 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 and the ammended Act No 24 of 2024 . Statutory reserve fund was built up until it reached the assigned capital, hence, no further transfers are required from 2024 onwards.



AS AT 31ST DECEMBER

	2025 LKR.'000	2024 LKR.'000
38 Other reserves		
Exchange equalisation reserve (Note 38.1)	37,425,161	32,041,875
Fair value through other comprehensive income reserve (Note 38.2)	858,284	1,152,184
Revaluation reserve (Note 38.3)	3,076,076	3,076,076
Share based payment reserve (Note 38.4)	161,343	153,028
	<u>41,520,864</u>	<u>36,423,163</u>

38.1 Exchange equalisation reserve

Opening balance as at 31st December 2024	32,041,875	40,583,606
Movement during the period	5,383,286	(8,541,731)
Closing balance as at 31st December 2025	<u>37,425,161</u>	<u>32,041,875</u>

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

	2025 LKR.'000	2024 LKR.'000
38.2 Fair value through other comprehensive income reserve		
Opening balance as at 31st December 2024	1,152,184	283,721
Net movement in revaluation and impairment	(293,900)	868,463
Closing balance as at 31 December 2025	<u>858,284</u>	<u>1,152,184</u>

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.

	2025 LKR.'000	2024 LKR.'000
38.3 Revaluation reserve		
Opening balance as at 31st December 2024	3,076,076	2,969,814
Net Revaluation surplus/(deficit) for the year	-	106,262
Closing balance as at 31 December 2025	<u>3,076,076</u>	<u>3,076,076</u>

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.



AS AT 31ST DECEMBER		2025	2024
		LKR.'000	LKR.'000
38	Other reserves (contd)		
38.4	Share based payment reserve		
	Opening balance as at 31st December 2024	153,028	168,976
	Transferred during the year	8,315	(15,948)
	Closing balance as at 31 December 2025	<u>161,343</u>	<u>153,028</u>

38.5 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. Although, this scheme has ceased, the related liability towards the group has been accounted in books as a part of equity.

AS AT 31ST DECEMBER		2025	2024
		LKR.'000	LKR.'000
38.5.1	Restricted share awards -No of shares		
	Outstanding at the beginning	12,222	8,132
	Awards during the year	17,204	36,787
	Vested during the year	-	(32,697)
	Outstanding at the end	<u>29,426</u>	<u>12,222</u>
38.6	Share-based payments income statement charge	LKR.'000	LKR.'000
	Restricted and performance share awards	(124,107)	(122,287)
		<u>(124,107)</u>	<u>(122,287)</u>

39 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 would require adjustments to, or disclosure in the Financial Statements.

40 Comparative figures

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



41 Commitments and contingencies

41.1 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.

AS AT 31ST DECEMBER	2025 LKR.'000	2024 LKR.'000
Commitments		
Undrawn loan commitments	222,409,318	261,578,676
Foreign exchange contracts	68,983,021	50,455,017
Other contra accounts	96,633,782	54,092,131
Total	388,026,121	366,125,824
Contingencies		
Performance bonds	52,568,794	53,743,595
Letters of credit	48,588,436	40,113,290
Guarantees	14,528,434	18,446,452
Total	115,685,664	112,303,337
Total commitments and contingencies	503,711,785	478,429,161

41.2 Movements in Impairment during the Year

Opening balance as at 31st December 2024	385,501	646,152
(Write back)/charge to income statement	(77,939)	(454,752)
Exchange rate variance and other adjustments	-	194,101
Closing balance as at 31st December 2025	307,562	385,501

41.3 Pending litigations against the Branch as at 31st December 2025

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.



AS AT 31 DECEMBER 2025

41 Commitments and contingencies (contd...)

41.3 Pending litigations against the Branch as at 31st December 2025

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 Tennakoon - 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) and 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/- together with legal interest thereon.
10. Mohamed Junaideen Mohamed Nazim (Deceased) , F Fathima Ramza alias Fathima Ramza Deen (Petitioner) Vs HSBC(8 Respondent) and 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. LT 8/15/2025 filed before the Labour Tribunal by former staff members for alleged unfair termination.



FOR THE YEAR ENDED 31st DECEMBER

42 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.

42.1 Transactions with related parties

(a) Interest paid to other HSBC branches and group companies	2025 LKR'000	2024 LKR'000
Other HSBC Branches		
HSBC Hongkong	171,506	334,723
	<u>171,506</u>	<u>334,723</u>
Group companies		
HSBC London	-	23
HSBC Canada	-	-
HSBC Data Processing Ltd	107,838	161,693
HSBC Singapore	-	14
HSBC Japan	-	1
HSBC New Zealand	-	7
HUSI North America	34	-
HSBC Australia	2	-
	<u>107,874</u>	<u>161,738</u>
(b) Interest received from other HSBC branches and group companies		
Other HSBC branches		
HSBC Hongkong	110,529	403,914
HSBC China	120	936
	<u>110,649</u>	<u>404,850</u>
Group companies		
HSBC Singapore	4,172,459	6,644,837
HSBC Data Processing Ltd	9,416	128,506
HSBC North America HUSI	11,703	6,841
HSBC Mauritius	-	-
HSBC Malaysia	1,898,171	2,386,804
HSBC United Arab Emirates	-	1,005,147
HASE - Head Office	6,683	35,946
HBME -Head Office	1,170,584	-
HBME -United Arab Emirates	48,123	-
HSBC Bank Taiwan	58,383	-
HSBC Amanah Malaysia Berhad	13,874	-
	<u>7,389,396</u>	<u>10,208,081</u>



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR'000	2024 LKR'000
42 Related party disclosures (contd...)		
42.1 Transactions with related parties (contd...)		
(c) Charges paid to other HSBC branches and group companies		
HSBC Hongkong	1,598,819	1,604,000
Group companies	8,989,648	8,931,454
	<u>10,588,467</u>	<u>10,535,454</u>
(d) Commission paid to other HSBC branches and group companies		
Other HSBC Branches		
HSBC Hongkong	597	636
HSBC Japan	513	411
HSBC New Zealand	202	252
HSBC Singapore	308	487
HSBC Thailand	1,140	1,144
HSBC Australia	5,046	5,251
	<u>7,806</u>	<u>8,181</u>
Group companies		
HSBC China	282	303
HSBC Canada	-	435
HSBC UAE	40	516
HSBC UK	-	-
HSBC Continental Europe	187	147
	<u>509</u>	<u>1,401</u>



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR'000	2024 LKR'000
42 Related Party Disclosures (contd...)		
42.1 Transactions with related parties (contd...)		
(e) Commission received from other HSBC branches and group companies		
Other HSBC branches		
HSBC Hongkong	8,833	6,720
HSBC Japan	3,910	4,619
HSBC Singapore	8,993	9,239
HSBC India	8,876	13,601
HSBC Vietnam		42
	<u>30,612</u>	<u>34,221</u>
Group companies		
HSBC London	11,881	11,164
HSBC Canada	-	-
HSBC China	10,050	9,992
HSBC Australia	71	131
HSBC Zurich	2,195	2,179
HSBC Data Processing Ltd	4,201	5,492
HSBC United Arab Emirates	394	464
HSBC Bank Malaysia Berhad	6,889	3,130
HUSI Indonesia	212	104
HSBC Continental Europe	4,074	4,298
HSBC Mauritius	150	75
HUSI North America	3,540	2,595
	<u>43,657</u>	<u>39,624</u>
(f) Other operating income - Other HSBC branches and group companies		
Other HSBC branches		
HSBC Maldives	-	98,594
HSBC India	920	9,068
HSBC Thailand	239,562	-
	<u>240,482</u>	<u>107,662</u>
Group companies		
HSBC Data Processing Ltd - Sri Lanka	-	1,137
	<u>-</u>	<u>1,137</u>



FOR THE YEAR ENDED 31ST DECEMBER

	2025 LKR '000	2024 LKR '000
42 Related Party Disclosures (contd...)		
42.1 Transactions with related parties (contd...)		
(g) Receivable from other HSBC branches and group companies		
Other HSBC branches		
HSBC Hongkong	9,246,671	1,134,794
HSBC New Zealand	48,816	39,785
HSBC Japan	76,999	42,700
HSBC Singapore	141,623	234,502
HSBC India	1,072,376	15,251
HSBC Thailand	57,402	49,881
HSBC Maldives	-	-
	10,643,887	1,516,913
Group companies		
HSBC London	623,700	917,762
HSBC China	43,724	44,891
HSBC Canada	-	-
HSBC Data Processing Ltd	-	262,250
HSBC United Arab Emirates	9,343,253	26,409,904
HSBC Australia	140,128	101,003
HSBC Bank (Singapore) Limited	125,506,706	127,762,446
HSBC Bank Malaysia Berhad	21,863,185	44,541,633
HSBC Data Processing (Malaysia) Sdn Bhd	-	6
HSBC Continental Europe	558,058	2,934,828
HUSI North America	-	10,632,610
HBME - Dubai Office	21,998,376	-
HSBC Bank (Taiwan) Limited	21,729,212	-
HUSI North America	6,115,528	-
HSBC Amanah Malaysia Bhd	18,912,921	-
	226,834,791	213,607,333





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

FOR THE YEAR ENDED 31ST DECEMBER

	2025	2024
	LKR '000	LKR '000
42 Related party disclosure (contd...)		
42.1 Transactions with related parties (contd...)		
(h) Payable to other HSBC branches and group companies		
Other HSBC branches		
HSBC Hongkong	14,516,911	4,045,498
HSBC Japan	84	11
HSBC Singapore	22,172	25,569
HSBC India	14,943	7,600
HSBC Bangladesh	2,363	2,467
HSBC Maldives	-	1,661
HSBC Vietnam	57	54
HSBC Germany	89	-
HSBC Mauritius	18,833	655
	<u>14,575,452</u>	<u>4,083,515</u>
Group companies		
HSBC Bank plc UK Ops	270,525	360,206
HSBC Baharain	779	18,200
HSBC Canada	-	-
HSBC China (Bank) Co. Ltd	9,729	6,309
HSBC Bank Malaysia Berhad	9,380	4,047
HSBC Bank (Singapore) Limited	347	13,837
HSBC Qatar	572	370
HSBC UAE	53,412	26,924
HSBC Australia	17	15
HSBC Continental Europe Netherlands Branch	1,132	1,642
HSBC Data Processing Ltd - India	65,755	42,625
HSBC Data Processing Ltd - Sri Lanka	7,110,868	5,209,712
HSBC Data Processing (Guangdong) Ltd	1,148	7,549
HBAP Philippines	486	228
HBAP Thailand	114	215
HBEU Branch Zurich	138	134
HBME - Qatar		1,280
HSBC Continental Europe	16,658	249
HSBC Global Services (HK) Ltd	748	7,361
HSBC Global Services (UK) Limited	204,222	1,066,694
HSBC Global Services Limited	-	1,713,411
HSBC Group Management Services Limited	189,138	372,077
HSBC Software Dev (Guangdong) Ltd	120,702	291,425
HSBC Software Develop (India) Pvte Ltd	98,768	95,748
HSBC UK Bank plc	24,467	7,596
HSBC EDP(Malaysia)sdn bhd	263	-
HSBC Elecronic Data Processing (PHP)	548	-
HUSI North America	328,062	491,884
	<u>8,507,978</u>	<u>9,739,738</u>

* This balance includes borrowings from HSBC Hongkong

FOR THE YEAR ENDED 31 DECEMBER

42 Related party disclosure (contd...)

42.2 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	2025 LKR.'000	2024 LKR.'000
Short term employment benefits	501,749	547,435
Post employment benefits	29,490	44,674
	<u>531,239</u>	<u>592,109</u>
(b) Transactions with KMPs and their close relations	2025 LKR.'000	2024 LKR.'000
Total deposits	197,822	142,374
Total loans, advances and undrawn facilities granted	251,690	156,200
	<u>449,512</u>	<u>298,574</u>
(c) Direct and indirect accommodation		
Direct and indirect accommodation as a percentage of the Branch's Regulatory capital	0.25%	0.16%
(d) Income statement	2025 LKR.'000	2024 LKR.'000
Interest income	9,377	8,464
Interest expenses	2,692	5,396
Compensation to KMP	531,239	592,109
	<u>543,308</u>	<u>605,969</u>

(e) Share based transactions of KMP

Share based payments are only made to certain KMP and the movements during the year is recorded under the Note 38.4



43 Financial risk management

43.1 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.

Risk appetite and tolerance limits for key types of risks

Bank'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 Risks and Risk Appetite Statement (RAS) to help ensure consistency in risk management practices.

The Bank sets out the aggregated level of risk and risk types it accepts in order to achieve its business objectives in the Risk Appetite Statement (RAS), as defined by the Key Risk Indicators (KRI). This is reviewed on an ongoing basis, and formally approved by Risk Management Regional Meeting at an agreed frequency, with the Regional Risk Appetite and Governance team providing oversight. The Bank's actual performance is reported monthly against the approved RAS / KRIs 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. KRIs 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 Bank's overall profitability, asset portfolio, liquidity, operations and capital strength under remote, yet plausible, stressed environments by assessing a variety of risks that the Bank 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 Bank's annual ICAAP submission. The exercise covers Wholesale Credit Risk (including concentration risk), WPB Credit Risk, Traded Credit Risk and Market Risk, Liquidity / Funding Risk (including IRRBB) and Operational Risk.



43 Financial risk management (contd...)

43.1 Risk management framework (contd...)

Stress testing (contd...)

Stress tests that can be applied to a bank 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 Bank'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 2020 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 the 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 absorb through capital if they were to crystallise.

43.2 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. (Eg: 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.



THE HONGKONG AND SHANGHAI BRANCHING CORPORATION LIMITED
SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

43 Financial risk management (contd...)

43.2 Credit risk

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. For WPB Credit Risk Credit approval authorities are delegated by Regional Office (ASP) to both Chief Executive Officer (CEO) and Senior IWPB Risk Manager. Senior IWPB Risk Manager who in turn delegates limit to local credit executives.

The principal 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.
- 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.

43.2.1 Credit risk management

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) or Head of WPB Risk for Wealth and Personal Branching and CEO for Wholesale Branching 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.

43 Financial risk management (contd...)

43.2 Credit risk (contd...)

43.2.1 Credit risk management (contd...)

Credit impaired loans (contd...)

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

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 expects 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 realisable 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.



43 Financial risk management (contd...)

43.2 Credit risk (contd...)

43.2.1 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. Details of rebuttals pertaining to the SICR criteria stipulated in the Banking Direction No. 13 of 2021 issued by Central Bank of Sri Lanka, will be disclosed, together with the estimated expected credit loss impact in the annual audited Financial Statements in line with the with the regulatory requirement.

In the absence of a significant increase in credit risk, 12-month ECL should be recognised 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 recognised when there has been a significant increase in credit risk since initial recognition.

The transfers between the stages are symmetrical, i.e. 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.



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

43 Financial risk management (contd...)

43.2 Credit risk (contd...)

43.2.1 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 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.

Credit cards, personal installment 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 31st December	2025	2024
	LKR.'000	LKR.'000
Wealth and Personal Banking (WPB)	494,154	491,525
Wholesale Banking (WSB)	-	-
	<u>494,154</u>	<u>491,525</u>

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 utilise 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 this facilities are limited only to Bank staff), facilities against shares properties and cash back facilities.

43 Financial risk management (contd...)

43.2 Credit risk (contd...)

43.2.1 Credit risk management (contd...)

Collateral management and valuation

Accordingly, the nature of collateral relating to WPB facilities consists 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 31st Decemeber	2025 LKR.'000	2024 Rs.'000
Balances with Central Bank of Sri Lanka	29,310,408	35,002,199
Placements with other banks	227,076,070	198,065,217
Balances with other banks	8,588,051	16,252,257
Derivative financial instruments	503,344	239,457
Financial assets measured at fair value through profit or loss	4,319,393	14,457
Financial assets at amortised cost - loans and advances	203,975,107	203,593,016
Financial assets measured at fair value through other comprehensive income	117,362,875	85,135,590
Acceptance and endorsements	36,936,161	58,170,962
Total on balance sheet credit exposure	<u>628,071,409</u>	<u>596,473,155</u>
Total off balance sheet credit exposure	406,770,441	423,951,529

Impairment movement of financial assets/ liabilities

Consolidated

LKR.'000	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1st January 2025	1,114,976	1,966,593	1,100,137	4,181,706
Write back to income statement	(198,080)	(293,748)	(749,955)	(1,241,782)
Exchange/other	(8,464)	(36,512)	17,638	(27,339)
Closing balance as at 31st December 2025	<u>908,432</u>	<u>1,636,333</u>	<u>367,820</u>	<u>2,912,585</u>
LKR.'000	Stage 1	Stage 2	Stage 3	Total
Opening balance as at 1st January 2024	1,342,645	3,512,139	2,082,561	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 31st December 2024	<u>1,114,976</u>	<u>1,966,593</u>	<u>1,100,136</u>	<u>4,181,706</u>



43 Financial risk management (contd...)

43.2 Credit risk (contd...)

43.2.2 Quantitative Disclosures (contd...)

Gross Loans and Receivables

Gross loans and receivables, impairment and net loans and receivables from customers are disclosed in Note 24 in the Financial Statements. Movements in impairment during the period are disclosed in Note 24.2 in the Financial Statements.

Gross loans and receivables - by product

	Gross exposure 2025 LKR.'000	Average gross exposure 2025 LKR.'000	Gross exposure 2024 LKR.'000	Average gross exposure 2024 LKR.'000
By product - local currency				
Overdrafts	19,077,587	19,463,297	18,828,813	30,180,668
Term loans	60,645,524	57,228,036	59,586,856	47,679,455
Credit cards	22,209,438	22,058,420	22,092,449	21,504,079
Trade Loans	1,162,558	1,195,933	1,294,632	1,926,120
Sub total	103,095,107	99,945,686	101,802,750	101,290,323
By product - foreign currency				
Overdrafts	12,928,503	11,880,237	11,844,010	8,537,674
Term loans	36,517,162	43,123,028	47,093,077	51,172,768
Trade Loans	53,172,288	47,041,467	42,853,179	36,403,536
Sub total	102,617,953	102,044,732	101,790,266	96,113,978
Total	205,713,060	201,990,418	203,593,016	197,404,301

Gross loans and receivables - by currency

	2025 LKR.'000	2024 LKR.'000
By Product - currency		
Sri Lankan Rupee	103,095,108	101,986,016
United States Dollar	102,604,454	97,151,201
Great Britain Pound	-	-
Others	13,498	4,455,799
Total	205,713,060	203,593,016

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

	Stage 1 2025 LKR.'000	Stage 2 2025 LKR.'000	Stage 3 2025 LKR.'000	Total 2025 LKR.'000	Total 2024 LKR.'000
WPB	304,057	330,076	285,458	919,591	1,036,834
WSB	421,431	396,931	-	818,362	1,354,034
	725,488	727,007	285,458	1,737,953	2,390,868

WPB - Wealth and Personal Banking
WSB - Wholesale Banking



43 Financial risk management (contd...)

43.2 Credit risk (contd...)

43.2.2 Quantitative Disclosures (contd...)

Distribution of financial instruments by credit quality

Financial instrument	Strong LKR.000	Good LKR.000	Satisfactory LKR.000	Sub Standard LKR.000	Past Due but not Impaired LKR.000	Impaired LKR.000	Impairment Allowance LKR.000	2025 Total LKR.000	2024 Total LKR.000
Cash and cash equivalents	134,192,596	-	-	-	-	-	(3,804)	134,188,792	140,671,871
Balances with Central Bank of Sri Lanka	29,337,131	-	-	-	-	-	(26,723)	29,310,408	35,002,199
Placements with banks	102,540,490	-	-	-	-	-	(16,386)	102,524,104	74,802,994
Derivative financial instruments	-	503,344	-	-	-	-	-	503,344	239,457
Financial assets measured at fair value through profit or loss	4,319,393	-	-	-	-	-	-	4,319,393	14,457
Loans and receivables to customers	841,712	640,169	192,426,468	8,048,879	3,392,247	363,584	(1,737,953)	203,975,107	201,202,148
Financial assets measured at fair value through other comprehensive income	117,362,875	-	-	-	-	-	-	117,362,875	85,135,590
Financial assets at amortised cost - debt instruments	111,021	-	-	-	-	-	(4,648)	106,373	98,241
Acceptances and endorsements	-	-	36,936,161	-	-	-	(4,838)	36,931,323	58,081,015
Total	388,705,218	1,143,513	229,362,629	8,048,879	3,392,247	363,584	(1,794,351)	629,221,720	595,247,972



43 Financial Risk Management (contd...)

43.2 Credit risk (contd...)

43.2.2 Quantitative Disclosures (contd...)

Gross Loans and Receivables - Sector wise analysis

Sector	Import lending LKR.'000	Export lending LKR.'000	Overdrafts LKR.'000	Credit Cards LKR.'000	Short term loans LKR.'000	Medium and long term loans LKR.'000	Mortgages LKR.'000	2025 Total LKR.'000	2024 Total LKR.'000
Agriculture and fishing	-	414,677	1,830,487	-	421,797	113,581	-	2,780,542	2,451,845
Manufacturing	834,440	53,085,736	8,638,677	-	7,073,146	7,399,377	-	77,031,376	59,777,810
Tourism	5,682,332	-	177,014	-	-	5,328,185	-	11,187,531	33,771,645
Transport	-	-	1,010,196	-	43,670	3,241,759	-	4,295,626	3,715,976
Construction	-	-	248,789	-	-	5,346,356	-	5,595,145	25,815,000
Traders	-	-	756,729	-	7,304,122	3,341,269	-	11,402,120	3,683,358
Financial and business services	-	-	1,538,919	-	-	3,830,000	-	5,368,919	12,089,428
Infrastructure	-	-	-	-	-	-	-	-	-
Other services	-	-	3,965,428	-	1,324,701	7,965,638	-	13,255,767	28,744,056
Credit card	-	-	-	22,083,439	-	-	-	22,083,439	22,092,449
Other	3,817,299	-	6,364,316	-	11,355,783	28,986,149	2,189,048	52,712,595	11,451,449
Total	10,334,071	53,500,413	24,530,556	22,083,439	27,523,219	65,552,314	2,189,048	205,713,060	203,593,016



43 Financial Risk Management (contd...)

43.2 Credit risk (contd...)

43.2.2 Quantitative Disclosures (contd...)

Total gross loans and receivables including acceptances - Residual contractual maturity

Product category	Less than	7-30	1-3	3-6	6-12	1-3	3-5	Over	2025	2024
	7 days	Days	Months	Months	Months	Years	Years	5 years	Total	Total
	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000	LKR. '000
Overdrafts	32,009,633	-	-	-	-	-	-	-	32,009,633	30,672,823
Term lending	6,198,884	28,925,498	34,993,371	10,169,408	10,178,872	36,994,949	21,187,405	137,045	148,785,432	147,254,352
Non-eligible bills	566,321	121,844	386,206	123,331					1,197,702	1,785,999
Money market placements	-	-	-	-	-	-	-	-	-	-
Credit card advances	22,083,438	-	-	-	-	-	-	-	22,083,438	22,092,449
Mortgages	358	-	419	362	2,774	32,689	75,192	1,525,062	1,636,855	1,787,393
Total gross loans and receivables	60,858,634	29,047,342	35,379,996	10,293,101	10,181,646	37,027,638	21,262,597	1,662,107	205,713,060	203,593,016
Acceptances and endorsements	5,280,224	6,016,397	23,408,337	2,120,348	110,855	-	-	-	36,936,161	58,170,962
Total	66,138,857	35,063,739	58,788,333	12,413,449	10,292,501	37,027,638	21,262,597	1,662,107	242,649,221	261,763,978



43 Financial risk management

43.2 Credit risk

43.2.2 Quantitative disclosures

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

Sector	Past due not impaired		Impaired	
	2025	2024	2025	2024
	Total	Total	Total	Total
	LKR.'000	LKR.'000	LKR.'000	LKR.'000
Agriculture and fishing	-	-	-	-
Manufacturing	453,029	635,107	-	-
Tourism	-	-	-	631,271
Transport	-	-	-	-
Construction	-	-	-	-
Traders	170,158	-	-	-
New economy	-	-	-	-
Financial and business services	-	-	-	-
Infrastructure	-	-	-	-
Other services	-	-	-	-
Credit card	-	-	212,287	274,493
Others	179,827	308,296	363,584	455,434
Total	803,014	943,404	575,871	1,361,199

Other Financial Assets - Past due not impaired and impaired loans

	Past due not impaired		Impaired	
	2025	2024	2025	2024
	Total	Total	Total	Total
	LKR.'000	LKR.'000	LKR.'000	LKR.'000
Amount receivable from Government Treasury	-	-	81,403	81,403
Total	-	-	81,403	81,403





43 Financial risk management

43.2 Credit risk

43.2.2 Quantitative disclosures

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

Period	Contractual residual maturity									Total LKR.'000
	Less than 7 Days LKR.'000	7-30 Days LKR.'000	1-3 Months LKR.'000	3-6 Months LKR.'000	6-12 Months LKR.'000	1-3 Years LKR.'000	3-5 Years LKR.'000	Over 5 Years LKR.'000		
	2025	3,012,125	645	1,507	849	15,001	204,119	93,406	64,595	
2024	635,608	275	5,075	12,186	47,515	80,303	98,588	63,854	943,404	

The impairment charges for loans and receivables is disclosed in Note 11. The movement in provision for impairment is disclosed in Note 24.

Qualitative disclosures on Collaterals held on past due not impaired

	2025	2024
Quality of the collateral held	NIL	Corporate guarantees from the two Joint Venture partners and Property Mortgage.
Any significant changes in the quality of the 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	NIL
Quantitative information about the collateral held as security and other credit enhancements	NIL	NIL

Collateral held and other credit enhancements and their financial effect

	2025		2024	
	Carrying amount of the exposure LKR.'000	Carrying amount of the collateral LKR.'000	Carrying amount of the exposure LKR.'000	Carrying amount of the collateral LKR.'000
Loans and receivables to customers	203,975,107	125,660,377	201,202,148	153,849,656

43 Financial risk management

43.3 Liquidity risk

Liquidity and funding risk is the risk that the Branch may 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:

- Measured using the Prudential Regulation Authority - Delegated Act - Liquidity Coverage Ratio (PRA DA LCR) and Net Stable Funding Ratio (NSFR),
- 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 routinely established business as usual market practice.

43.3.1 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.





43 Financial risk management (contd)

43.3 Liquidity risk (contd)

43.3.1 Management of liquidity and funding risk (contd)

NSFR

This ratio monitors whether 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 discounted cash flows

Exposure	Less than 7 Days LKR. '000	7-30 Days LKR. '000	1-3 Months LKR. '000	3-6 Months LKR. '000	6-12 Months LKR. '000	1-3 Years LKR. '000	3-5 Years LKR. '000	Over 5 Years LKR. '000	2025 Total LKR. '000	2024 Total LKR. '000
Due to banks	15,445,087		10,843	3,098		-	-	-	15,459,028	14,147,267
Derivative financial instruments	341,497	-	-	-	-	-	-	-	341,497	470,583
Financial liabilities at amortised cost - due to depositors	279,060,566	26,376,505	57,162,614	26,734,521	18,716,797	2,773,026	276,053	1,005,159	412,105,241	150,448,071
Acceptances and endorsements	5,280,224	6,016,397	23,408,337	2,120,348	110,855	-	-	-	36,936,161	58,170,962
Total	300,127,375	32,392,902	80,581,794	28,857,967	18,827,652	2,773,026	276,053	1,005,159	464,841,927	223,236,883

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 LKR. '000	7-30 Days LKR. '000	1-3 Months LKR. '000	3-6 Months LKR. '000	6-12 Months LKR. '000	1-3 Years LKR. '000	3-5 Years LKR. '000	Over 5 Years LKR. '000	2025 Total LKR. '000	2024 Total LKR. '000
Due to banks	15,445,087		10,843	3,098		-	-	-	15,459,028	14,147,267
Derivative financial instruments	341,497	-	-	-	-	-	-	-	341,497	470,583
Financial liabilities at amortised cost - due to depositors	279,256,979	26,456,068	57,679,897	27,218,380	19,403,703	3,078,336	326,708	1,189,605	414,609,676	150,448,071
Acceptances and endorsements	5,283,970	6,034,694	23,343,503	2,159,037	114,957	-	-	-	36,936,161	58,170,962
Total	300,327,534	32,490,762	81,034,243	29,380,515	19,518,660	3,078,336	326,708	1,189,605	467,346,362	223,236,883



43 Financial risk management (contd)

43.3 Liquidity risk (contd)

43.3.1 Management of liquidity and funding risk (contd)

Maturity analysis of financial Assets based on discounted cash flows

Exposure	Less than 7 Days LKR. '000	7-30 Days LKR. '000	1-3 Months LKR. '000	3-6 Months LKR. '000	6-12 Months LKR. '000	1-3 Years LKR. '000	3-5 Years LKR. '000	Over 5 Years LKR. '000	2025 Total LKR. '000	2024 Total LKR. '000
Cash in hand	9,657,016	-	-	-	-	-	-	-	9,657,016	17,436,824
Non-statutory balances with Central Bank of Sri Lanka	25,780,000	-	-	-	-	-	-	-	25,780,000	33,755,000
Loans and advances	60,399,066	30,044,670	39,521,126	9,584,535	14,081,755	28,769,137	20,300,311	1,274,506	203,975,106	227,881,664
Placements with banks	124,535,580	46,468,500	37,484,590	18,587,400	-	-	-	-	227,076,070	223,704,973
Governemnt securities	-	13,656,562	41,150,903	38,753,150	7,595,048	19,602,342	786,620	248,664	121,793,289	93,374,194
Acceptances and Endorsements	5,280,224	6,016,397	23,408,337	2,120,348	110,855	-	-	-	36,936,161	58,170,962
Total	225,651,886	96,186,129	141,564,956	69,045,433	21,787,658	48,371,479	21,086,931	1,523,170	625,217,642	654,323,617

Maturity analysis of financial Assets based on undiscounted cash flows

Exposure	Less than 7 Days LKR. '000	7-30 Days LKR. '000	1-3 Months LKR. '000	3-6 Months LKR. '000	6-12 Months LKR. '000	1-3 Years LKR. '000	3-5 Years LKR. '000	Over 5 Years LKR. '000	2025 Total LKR. '000	2024 Total LKR. '000
Cash in hand	-	-	-	-	-	-	-	-	-	17,436,824
Non-statutory balances with Central Bank of Sri Lanka	25,780,000	-	-	-	-	-	-	-	25,780,000	33,755,000
Loans and advances	60,499,147	30,258,028	40,363,089	9,992,915	15,298,418	36,226,097	29,070,045	1,825,092	223,532,831	227,881,664
Placements with banks	124,623,949	46,609,815	37,826,573	18,926,556	-	-	-	-	227,986,893	223,704,973
Governemnt securities	-	13,742,767	41,930,177	40,220,886	8,178,347	24,118,720	1,088,682	344,152	129,623,731	93,374,194
Acceptances and Endorsements	5,283,970	6,034,694	23,343,503	2,159,037	114,957	-	-	-	36,936,161	58,170,962
Total	216,187,066	96,645,304	143,463,342	71,299,394	23,591,722	60,344,817	30,158,727	2,169,244	643,859,616	654,323,617

43 Financial risk management (contd)

43.4 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 the 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 and financial investments designated as available for sale.

43.4.1 Monitoring and limiting market risk exposures

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

The 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 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 augments 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.

43.4.2 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 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.

Both the VAR and Stressed VAR models the Branch uses are based predominantly on historical simulation. These models derive plausible future scenarios from the 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 utilised 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



43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

Income Statement - Foreign Currency Banking Unit For the year ended 31st December 2025	USD'000	LKR'000
Net Interest Income	31,583.47	9,501,887.77
Interest Income in Foreign Currency	52,732.38	15,864,536.42
<u>Loans and Receivables - Banks</u>	24,847.97	7,475,511.45
NII-Int Inc-ICP-Amortised cost-L&A to Banks-Nosotros and Overdrawn Vostro	20.69	6,224.00
NII-Int Inc-ICP-Amortised cost-L&A to Banks-Money Market Call	5,656.14	1,701,650.32
NII-Int Inc-ICP-Amortised cost-L&A to Banks and Customers-Others	19,171.14	5,767,637.12
<u>Loans and Receivables-Other Customers</u>	20,937.03	6,298,905.36
NII-Int Inc-L&A To Customer-Overdrafts	2,365.91	711,783.71
NII-Int Inc-L&A To Customer-Other Term Lending	9,655.04	2,904,719.23
NII-Int Inc-L&A To Customer-Trade receivables	8,916.08	2,682,402.42
<u>Financial Assets - Recognised at fair value through other comprehensive income</u>	6,947.38	2,090,119.62
NII-Int Inc-T/P-Debt Securities-FVOCI	1,716.09	516,284.26
NII-Int Inc-T/P-T Bills & Sim Securities-FVOCI	5,231.30	1,573,835.36
		-
<u>Interest Expenses</u>	21,148.91	6,362,648.65
Interest Expenses in Foreign Currency	21,148.91	6,362,648.65
<u>Deposits - Banks (excludes ICP)</u>	67.89	20,423.41
NII-Int Exp-AC-Deposits By Bank- MM Term	67.56	20,324.09
NII-Int Exp-AC-Deposits By Bank-Money Market Call -Overnight	0.23	68.53
NII-Int Exp-AC-Deposits By Bank-Other Accounts -Current ac/Overnight deposits	0.10	30.79
<u>Deposits - Non-Bank Customers</u>	2,988.73	899,158.75
NII-Int Exp-AC-Customer A/Cs-Interest Bearing	107.20	32,252.48
NII-Int Exp-AC-Customer A/C-Saving&Deposit-Savings-Term dep-With agreed maturity	2,690.64	809,478.18
NII-Int Exp-AC-Customer A/Cs-Other Accounts -Current ac / Overnight deposits	190.89	57,428.08
<u>Others</u>	18,092.29	5,443,066.49
NII-Int Exp-ICP-Deposit by Bank and Customer-Amortised Cost	18,092.29	5,443,066.49
<u>Net Fee and Commission Income/(Expenses) (+/-)</u>	3,952.12	1,188,994.45
<u>Fee and Commission Income</u>	3,978.98	1,197,075.64
Loans and Advances	51.55	15,508.82
NFI - Fee Inc-T/P-Credit Facilities - Loan commitments given	51.55	15,508.82



43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

Trade Finance and Remittances	3,757.63	1,130,483.17
NFI - Fee Inc-T/P-Credit Facilities-Financial guarantees given	85.58	25,745.75
NFI - Fee Inc-T/P-Exports - Others	296.63	89,240.25
NFI - Fee Inc-T/P-Imports - Others	1,441.61	433,707.88
NFI - Fee Inc-T/P-Remittances	1,042.52	313,643.10
NFI - Fee Inc-T/P-Collection Bills	7.53	2,265.40
NFI - Fee Inc-T/P-Other	883.77	265,880.78
Deposits	18.96	5,704.16
NFI - Fee Inc-T/P-Account Services	18.96	5,704.16
Other Financial Services	150.84	45,379.50
NFI - Fee Inc - ICP	150.84	45,379.50
Fee and Commission Expenses	26.86	8,081.19
Other Financial Services	26.86	8,081.19
NFI - Fee Expense-T/P-Custody	25.54	7,683.78
NFI - Fee Expense-T/P-Others	0.45	134.42
NFI - Fee Expense-ICP	0.62	186.87
FI - Fee Expense-T/P- Other Payment Services	0.25	76.12
Net Gain/(Loss) from Trading (+/-)	346.03	104,102.79
Gain from Trading	9,705.83	2,919,998.85
Foreign Exchange-Banks	0.19	55.91
Foreign Exchange-Other Customers	21.48	6,463.13
Other Gains	9,684.16	2,913,479.81
Loss from Trading	9,359.80	2,815,896.06
Foreign Exchange-Banks	0.21	63.67
Other Losses	9,359.59	2,815,832.39
Impairment for Loans and Other Losses (+/-)	560.54	168,639.14
LKR Loans and Advances to Other Customers at Amortised Cost- Collective Impairment (+/-)	715.43	215,237.57
	715.43	215,237.57
Foreign Currency Loans and Advances to Other Customers at Amortised Cost- Collective Impairment (+/-)	(357.00)	(107,403.45)
	(357.00)	(107,403.45)
Other Financial Assets at amortised cost	6.39	1,922.74
ECL -Excl Modification gains or (losses) Acceptance	6.39	1,922.74
Financial Assets Measured at Fair Value Through Other Comprehensive Income	0.58	174.15
ECL - Excl Modification gains or (losses) - FA at FVOCI - TBills&OEB	0.09	26.24
ECL - Excl Modification gains or (losses) - FA at FVOCI - Debt securities	0.49	147.91
Impairment on off balance sheet items	195.14	58,708.13
ECL - Excluding Modification gains or (losses) -Fin Guarantee	7.14	2,148.33
ECL - Excluding Modification gains or (losses) - Commitments	188.00	56,559.80
Net Operating Income	35,321.08	10,626,345.87
Operating Expenses	2,585.94	777,980.53
Other Expenses	2,585.94	777,980.53
Operating Profit/(Loss) Before Tax	32,735.14	9,848,368.34



43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

Statement of financial Position - Foreign Currency Banking Unit As at 31st December 2025	USD'000	LKR'000
<u>On-Balance Sheet Assets</u>	1,139,860	353,117,232
Cash, Due from Financial Institutions and Gold and Bullion	753,205	233,335,359
<u>Balances with Financial Institutions Abroad-In Foreign Currency</u>	753,205	233,335,359
Banks and Other Financial Institutions-On Demand	323,163	100,112,735
Head Office and Branches within the Group-On Demand	28,418	8,803,494
Banks and Other Financial Institutions-Other Deposits	401,000	124,225,790
Head Office and Branches within the Group-Other Deposits	624	193,339
<u>Derivative Financial Instruments</u>	158	49,042
Forward Foreign Exchange Contracts	158	49,042
<u>Loans and receivables to other customers at Amortised Cost (net)</u>	294,738	91,306,757
Performing Loans and Advances (Stage 1 and 2) -Capital Outstanding	294,972	91,379,370
Performing Loans and Advances (Stage 1 and 2) -Amortised Interest	1,095	339,167
Collective Impairment (-)	(1,329)	(411,780)
<u>Financial Assets at Fair Value Through Other Comprehensive Income (net)</u>	69,417	21,504,821
Foreign Sovereign/Central Bank Securities and Bonds	69,417	21,504,821
<u>Other Assets (net)</u>	22,342	6,921,253
Receivables	2,998	928,607
Inter branch/Head Office working balances "due from"	3,368	1,043,477
Others	15,993	4,954,550
Impairment (-)	(17)	(5,381)
<u>On-Balance Sheet Liabilities</u>	788,537	244,280,927
Total Deposits-Banks	22	6,684
Demand Deposits	22	6,684
<u>Derivative Financial Instruments</u>	145	45,027
Forward Foreign Exchange Contracts	145	45,027
<u>Total Deposits-Non-Bank Customers (Resident)</u>	361,604	112,021,341
Demand Deposits	153,286	47,486,422
Savings Accounts	35,118	10,879,223
Time Deposits	172,570	53,460,519
Margin Accounts	264	81,891
Other Deposits	366	113,286



43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

<u>Total Deposits-Non-Bank Customers (Non-resident)</u>	23,292	7,215,722
Demand Deposits	17,525	5,429,006
Savings Accounts	5	1,595
Time Deposits	5,762	1,785,121
Total Borrowings	55,000	17,038,450
In Foreign Currency (in Sri Lanka)	10,000	3,097,900
Borrowings from Banks	10,000	3,097,900
<u>In Foreign Currency (From Abroad)</u>	45,000	13,940,550
Other Borrowings from Own Head Office and Branches Abroad within the Group	45,000	13,940,550
<u>Other Liabilities</u>	348,474	107,953,703
Interest Payables	569	176,247
Other Payables	3,497	1,083,325
Sundry Creditors	10	3,098
Impairment in respect of off-balance sheet credit exposures	356	110,292
Due to Domestic Banking Unit	2,579	799,059
Others	341,463	105,781,682
<u>Equity Capital and Reserves</u>	351,322	108,836,182
Statutory Reserve Fund	8,528	2,641,960
OCI Reserves	311	96,406
Retained Profit/(Loss) (+/-)	309,748	95,956,799
Current Year Profit/(Loss) (+/-)	32,735	10,141,017
Total On-Balance Sheet Liabilities plus Equity Capital and Reserves	1,139,860	353,117,109
Total Off-Balance Sheet Items (Contingencies and Commitments) and Contra Accounts	718,703	222,647,088



43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

Foreign exchange position Currency (LKR' million)	Spot			Forward			Net Open Position	Net position in other exchange contracts	Overall exposure in other respective foreign currency	Overall exposure in Sri Lankan Rupees
	Assets	Liabilities	Net	Assets	Liabilities	Net				
US Dollars	150,659	(132,250)	18,409	31,570	(50,738)	(19,168)	(8,977)	-	(29)	(8,977)
Pound Sterling	1,737	(11,536)	(9,799)	10,119	(334)	9,784	5,218	-	22	5,218
Euro	14,074	(15,714)	(1,641)	8,648	(7,024)	1,624	1,868	-	7	1,868
Japanese Yen	4,811	(5,311)	(500)	1,018	(525)	493	193	-	0	193
Australian Dollar	3,840	(7,099)	(3,259)	5,642	(2,387)	3,255	(456)	-	(1)	(456)
Canadian Dollar	5,626	(5,876)	(250)	385	(136)	249	(12)	-	(0)	(12)
Other currencies	102,163	(105,137)	(2,975)	24,925	(21,163)	3,763	1,336	-	2	1,336
Total exposure	282,910	(282,923)	(15)	82,307	(82,307)	0	(830)	-	-	(830)
Total capital funds as per the latest audited financial statements										98,827
Total exposure as a % of total capital funds (Basel III) as per the latest audited financial statements (Should not exceed 30%)										-0.8%

* Monitored at the Branch level

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





43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

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	(628.4)	628.4	(628.4)	628.4
Pound Sterling	365.3	(365.3)	365.3	(365.3)
Euro	130.8	(130.8)	130.8	(130.8)
Japanese Yen	13.5	(13.5)	13.5	(13.5)
Australian Dollar	(31.9)	31.9	(31.9)	31.9
Canadian Dollar	(0.8)	0.8	(0.8)	0.8
Other currencies	93.5	(93.5)	93.5	(93.5)

* 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 Behaviouralisation 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 specialised 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 analysed in detail and action taken to correct any issues.



43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

Maturities of assets and liabilities as at 31st December 2025

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	2025 Total
Cash and cash equivalents	130,115,627	-	-	-	-	-	-	(5,553)	130,110,074
Balances with Central Bank	29,310,408	-	-	-	-	-	-	(16,127)	29,294,281
Placements with banks	46,452,114	37,484,590	18,587,400	-	-	-	-	(16,386)	102,507,718
Derivative financial instruments	503,344	-	-	-	-	-	-	-	503,344
Financial assets measured at fair value through profit or loss	-	1,625,525	-	1,627,578	31,006	1,035,285	-	-	4,319,394
Financial assets at amortised cost - loans and advances	90,443,736	39,521,126	9,584,535	14,081,755	28,769,138	20,300,311	1,200,644	73,863	203,975,107
Financial assets measured at fair value through other comprehensive income	8,576,640	44,494,279	38,753,150	5,967,470	19,571,336	-	-	-	117,362,875
Financial assets at amortised cost - debt instruments	-	-	-	-	106,373	-	-	(12,280)	94,093
Property, plant and equipment	-	-	-	-	-	-	-	5,477,489	5,477,489
Other assets	11,296,621	23,408,337	2,120,348	110,855	-	-	-	16,510,261	53,446,422
Total assets	316,698,490	146,533,857	69,045,433	21,787,658	48,477,853	21,335,596	1,200,644	22,011,267	647,090,797
Due to banks	15,445,087	10,843	3,098	-	-	-	-	-	15,459,028
Derivative financial instruments	341,497	-	-	-	-	-	-	-	341,497
Financial liabilities at amortised cost - due to depositors	305,437,071	57,162,614	26,734,521	18,716,797	2,773,026	276,053	-	1,005,159	412,105,241
Retirement benefit obligation	-	-	-	-	-	-	-	161,938	161,938
Current tax liability	-	-	-	2,876,421	-	-	-	-	2,876,421
Deferred Tax Liabilities	-	-	-	-	-	-	-	-	-
Other liabilities	11,296,621	23,408,337	2,120,348	110,855	-	-	-	32,296,378	69,232,539
Equity	-	-	-	-	-	-	-	129,943,066	129,943,066
Total liabilities	332,520,276	80,581,794	28,857,967	21,704,073	2,773,026	276,053	-	163,406,540	630,119,731
Cumulative gap	(15,821,786)	65,952,063	40,187,466	83,585	45,704,828	21,059,543	1,200,644	(141,395,273)	16,971,066

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	2,143,708	9,743,285	4,352,217	11,048,486	16,707,665	518,081	8,055,351	52,568,794
Letters of credit	4,158,780	37,278,309	3,057,499	4,093,849	-	-	-	48,588,436
Other guarantees and contingent items	1,033,205	2,861,506	4,466,383	5,545,894	367,556	-	253,891	14,528,434
Undrawn loan commitments	222,409,318	-	-	-	-	-	-	222,409,318
Foreign exchange contracts	28,524,894	31,418,231	6,514,809	2,525,087	-	-	-	68,983,021
Other contra accounts	96,633,782	-	-	-	-	-	-	96,633,782
Total	354,903,685	81,301,331	18,390,908	23,213,317	17,075,221	518,081	8,309,242	503,711,785



43 Financial risk management (contd)

43.4.3 Market risk (contd)

Currency wise liability maturity gaps in foreign currencies

Exposure	Less than 7 Days LKR. '000	7-30 Days LKR. '000	1-3 Months LKR. '000	3-6 Months LKR. '000	6-12 Months LKR. '000	1-3 Years LKR. '000	3-5 Years LKR.	Over 5 Years LKR.	2025 Total LKR. '000
Due to banks	9,560	-	10,843	3,098	-	-	-	-	23,501
Financial liabilities at amortised cost - due to depositors	-	11,064	36,312	10,679	7,236	-	-	-	65,290
Acceptances and endorsements	5,278,087	6,016,397	23,408,337	2,120,348	110,855	-	-	-	36,934,025
Total	5,287,647	6,027,461	23,455,492	2,134,125	118,091	-	-	-	37,022,816

Currency wise asset maturity gaps in foreign currencies

Exposure	Less than 7 Days LKR. '000	7-30 Days LKR. '000	1-3 Months LKR. '000	3-6 Months LKR. '000	6-12 Months LKR. '000	1-3 Years LKR. '000	3-5 Years LKR. '00	Over 5 Years LKR. '0	2025 Total LKR. '000
Loans and advances	-	19,483	32,737	5,027	11,721	11,272	5,211	-	85,451
Placements with banks	-	46,461	37,478	18,584	-	-	-	-	102,524
Government securities	-	-	4,656	-	-	16,849	-	-	21,505
Acceptances and Endorsements	5,278,087	6,016,397	23,408,337	2,120,348	110,855	-	-	-	36,934,025
Total	5,278,087	6,082,341	23,483,208	2,143,959	122,576	28,121	5,211	-	37,143,505

43 Financial risk management (contd)

43.4 Market risk (contd)

43.4.2 Risk management (contd)

Maturities of assets and liabilities as at 31st December 2024

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	Total 2024
Cash and cash equivalents	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 liabilities 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 obligation	-	-	-	-	-	-	-	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	(133,563,026)	-

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	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 guarantees 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
Total	356,960,986	54,510,637	23,773,130	16,774,722	18,368,559	221,591	7,819,535	478,429,160

43 Financial risk management (contd)

43.5 Operational risk

The objective of our Non-Financial Risk management is to manage risks consistent with 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 the 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 in place 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 is 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 and 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 an essential part of the HSBC vendor due diligence process in managing the risk.

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.

Group Insurable Risk (IR) is mandated by the Group Management Board (GMB) to arrange global insurance policies covering: Crime, Civil and Cyber Liability (CCC), Directors' and Officers' Liability including Outside Directors' and Officers' (D&O/ODL), Pension Trustees Liability (PTL). Collectively the three policies are the "Financial Lines Insurance Programmes/Policies". Cover is provided for HSBC Holdings PLC and all wholly and majority owned subsidiaries. Policies are placed with insurers in the UK, US, Bermuda and other international markets by the Group's global insurance broker (Aon).



AS AT 31ST DECEMBER

43 Financial risk management (contd)

43.5 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 payment 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 is in place for the reporting of material Risks, Event management and Issues/Actions. Risk and Control Assessments are scoped 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 2025 was Rs. 30,860,714.

43.6 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 of 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. However, as per the guideline issued by CBSL on 27th March 2020, the minimum requirements were reduced by 50 basis points as Capital Conservation Buffer reduced by the same amount for Non D-SIB banks.

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.



AS AT 31ST DECEMBER

43 Financial risk management (contd)

43.6 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 standardised approach being applicable for the Tier 2 capital.

Quantative disclosures

Composition of regulatory capital	2025 LKR.'000	2024 LKR.'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	82,117,486	79,149,846
Accumulated other comprehensive income (OCI)	8,842,220	8,560,759
General and other disclosed reserves	-	153,028
Total common equity tier 1 (CET1) capital	97,264,422	94,168,349
Deductions to tier 1 capital	940,980	(52,015)
Revaluation losses of property, plant and equipment	-	-
Net deferred tax assets	1,050,005	-
Intangible assets	10,610	16,966
Defined benefit pension fund assets	-	-
Amounts due to head office and branches outside Sri Lanka in Sri Lanka Rupees (-)	(119,635)	(68,981)
Total tier 1 capital	96,323,441	94,220,364
Components of tier 2 capital		
Revaluation reserves (as approved by CBSL)	1,049,765	1,049,765
General provisions*	1,453,795	1,468,386
Total qualifying tier 2 capital prior to deductions	2,503,560	2,518,151
Total capital	98,827,001	96,738,515

* Please refer qualitative disclosure on tier 2 capital for explanation



AS AT 31ST DECEMBER

43 Financial risk management (contd)

43.6 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.

All 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, exchange rate fluctuations to a maximum of 20% are taken into account when forecasting CAR, which is carried out on a monthly basis. HSBC Sri Lanka will ensure that all business growth and profit remittances are carried out in full compliance with the prudential limits set by CBSL, while ensuring sufficient capital to absorb the impact of a 20% movement in foreign exchange rates. The minimum expected CAR will ensure optimal Single Borrower Limits, optimal Deposit Insurance fee levels and also ensure ability to continue Derivative Trading activity.

	<u>2025</u>	<u>2024</u>
Capital ratios		
Common equity tier 1 capital ratio	23.94%	23.19%
Tier 1 ratio	24.00%	23.19%
Total capital ratio	24.62%	23.81%



AS AT 31ST DECEMBER

44 Fair value of financial assets and liabilities

44.1 Fair value of financial instruments not carried at fair value

	2025		2024	
	Carrying value LKR'000	Fair value LKR'000	Carrying value LKR'000	Fair value LKR'000
Assets				
Cash and cash equivalents	130,115,626	130,115,626	140,671,871	140,671,871
Balances with Central Bank of Sri Lanka	29,310,408	29,310,408	35,002,199	35,002,199
Placements with banks	102,524,104	102,524,104	74,802,994	74,802,994
Financial assets at amortised cost - loans and advances	172,857,703	172,857,703	201,202,148	201,202,148
Acceptances and endorsements	36,936,161	36,936,161	58,170,962	58,170,962
Liabilities				
Due to banks	32,480,439	32,480,439	14,147,267	14,147,267
Financial liabilities at amortised cost - due to depositors	279,035,279	279,035,279	393,967,852	393,967,852
Acceptances and endorsements	36,936,161	36,936,161	58,170,962	58,170,962

Note

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



44 Fair value of financial assets and liabilities (contd...)

44.1 Fair value of financial instruments carried at fair value

44.1.1 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 31st December 2025	Level 1 Rs'000	Level 2 Rs'000	Level 3 Rs'000
Assets			
Financial assets measured at fair value through profit or loss		4,319,393	-
Derivatives	1,065	270,466	-
Financial assets measured at fair value through other comprehensive income	21,504,821	95,858,053	-
	<u>21,505,886</u>	<u>100,447,912</u>	<u>-</u>
Liabilities			
Derivative financial instruments	554	174,589	-
	<u>554</u>	<u>174,589</u>	<u>-</u>
As at 31st December 2024			
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	-
	<u>299,686</u>	<u>85,089,818</u>	<u>-</u>
Liabilities			
Derivatives	1,394	469,189	-
	<u>1,394</u>	<u>469,189</u>	<u>-</u>



AS AT 31ST DECEMBER

44 Fair value of financial assets and liabilities (contd)

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

44.1.2 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. Judgment 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. Judgment 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;
- Judgment to determine what model to use to calculate fair value in areas where the choice of the 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.



AS AT 31ST DECEMBER

44 Fair value of financial assets and liabilities (contd)

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

44.1.2 Valuation of financial instruments (contd)

Control framework

Fair values are subject to a controlled 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, the 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, and
- the manner in which the data was sourced.

Fair value adjustments

Fair value adjustments are adopted when the 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.



AS AT 31ST DECEMBER

45	Assets held for sale and discontinued operations	2025 LKR.'000	2024 LKR.'000
45.1	Assets held for sale		
	Cash and cash equivalents	4,073,166	-
	Financial assets at amortised cost - loans and advances (Net)	31,117,404	-
	Right-of-use assets	362,931	-
	Property, plant and equipment	158,993	-
	Other assets	911,352	-
		<u>36,623,846</u>	<u>-</u>
45.2	Liabilities held for sale		
	Financial liabilities at amortised cost - due to depositors	133,069,960	-
	Other liabilities and provisions	9,733,528	-
		<u>142,803,488</u>	<u>-</u>



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

Key Regulatory Ratios - Capital and Liquidity

	As at 31 December 2025	As at 31 December 2024
Regulatory Capital Adequacy		
Common Equity Tier 1, Rs.'Mn	96,323	94,220
Tier 1 Capital, Rs.'Mn	96,323	94,220
Total Capital, Rs.'Mn	98,827	96,739
Common Equity Tier 1 Capital Ratio, as % of Risk Weighted Assets (Minimum Requirement, 7%)	24.00%	23.20%
Tier 1 Capital Ratio, as % of Risk Weighted Assets (Minimum Requirement, 8.5%)	24.00%	23.20%
Total Capital Ratio, as % of Risk Weighted Assets (Minimum Requirement, 12.5%)	24.62%	23.81%

	As at 31 December 2025	As at 31 December 2025
Regulatory Liquidity		
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement, 100%)	217.00%	211.74%
Liquidity Coverage Ratio (%) - All currency (Minimum Requirement, 100%)	337.50%	335.50%
Net Stable Funding Ratio (%) (Minimum Requirement 100%)	149.61%	134.71%
Leverage Ratio (%) (Minimum Requirement 3%)	13.86%	14.24%



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 2025 Rs. 'Mn
Common Equity Tier I (CET1) Capital after Adjustments	96,323
Total Common Equity Tier I (CET1) Capital	97,264
Equity capital or stated capital/assigned capital	3,152
Reserve fund	3,152
Published retained earnings/(Accumulated retained losses)	82,117
Accumulated other comprehensive income (OCI)	8,842
General and other disclosed reserves	-
Total Adjustments to CET1 Capital	941
Revaluation losses of property, plant and equipment	-
Defined benefit pension fund assets	-
Deferred tax assets (net)	1,050
Other intangible assets (net)	11
Amount due to head office & branches outside Sri Lanka in Sri Lanka Rupees	(120)
Amount due from head office & branches outside Sri Lanka in Foreign Currency (net)	-
Tier 2 Capital after Adjustments	2,504
Total Tier 2 Capital	-
Revaluation gains	1,050
General provisions	1,454
Total Adjustments to Tier 2 Capital	-
Total Tier 1 Capital	96,323
Total Capital	98,827
Total Risk Weighted Assets (RWA)	401,278
RWAs for Credit Risk	329,885
RWAs for Market Risk	18,473
RWAs for Operational Risk	52,920
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	24.00%
of which: Capital Conservation Buffer (%)	-
of which: Countercyclical Buffer (%)	-
of which: Capital Surcharge on D-SIBs (%)	-
Total Tier 1 Capital Ratio (%)	24.00%
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	24.62%
of which: Capital Conservation Buffer (%)	-
of which: Countercyclical Buffer (%)	-
of which: Capital Surcharge on D-SIBs (%)	-



**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)

Computation of Leverage Ratio

Item	As at 31st December 2025	As at 31st December 2024
	Rs. 'Mn	Rs. 'Mn
Tier 1 Capital	96,323	94,220
Total Exposures	694,920	661,624
On Balance Sheet Items (Excluding Derivatives and Securities Financing Transactions, but including Collateral)	648,376	612,159
Derivative Exposures	1,670	1,042
Securities Financing Transaction Exposures	-	-
Other Off-Balance Sheet Exposures	45,815	48,370
Basel III Leverage Ratio	13.86%	14.24%

Basel III Computation of Liquidity Coverage Ratio (All Currency)

Item	As at 31st December 2025		As at 31 December 2024	
	Rs'Mn		Rs'Mn	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	148,537	148,537	117,804	117,804
Total Adjusted Level 1A Assets	148,537	148,537	117,804	117,804
Level 1 Assets	148,537	148,537	117,804	117,804
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	813,258	176,044	800,328	140,451
Deposits	133,025	13,303	141,968	14,197
Unsecured Wholesale Funding	307,457	125,075	262,210	99,842
Secured Funding Transactions	-	-	-	-
Undrawn Portion of Committed (Irrevocable) Facilities and Other Contingent Funding Obligations	337,934	2,825	373,882	4,145
Additional Requirements	34,842	34,842	22,267	22,267
Total Cash Inflows	241,169	203,312	204,791	169,562
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	229,132	203,208	186,355	169,490
Operational Deposits	11,933	-	18,364	-
Other Cash Inflows	104	104	72	72
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		337.50%		335.50%

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 31st December 2025					
	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	129,626	-	129,626	-	-	0.00%
Claims on Foreign Sovereigns and their Central Banks	21,505	-	21,505	6	-	-
Claims on Public Sector Entities	-	4	-	4	2	50.00%
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	226,330	58,542	226,330	10,763	57,272	24.16%
Claims on Financial Institutions	3,830	276	3,830	-	766	20.00%
Claims on Corporates	141,712	291,250	141,712	36,127	172,463	96.98%
Retail Claims	30,283	56,845	24,436	517	18,763	75.19%
Claims Secured by Residential Property	848	-	776	-	776	100.00%
Claims Secured by Commercial Real Estate	27,781	-	27,781	-	27,781	100.00%
Non-Performing Assets (NPAs)	93	-	93	-	82	87.51%
Higher-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	55,725	-	55,725	-	51,980	93.28%
Total	637,733	406,917	631,815	47,417	329,885	-

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

Market Risk under Standardised Measurement Method

As at 31st December 2025	RWA Amount Rs.'Mn
(a) RWA for Interest Rate Risk	2,309
General Interest Rate Risk	1,129
(i) Net Long or Short Position	1,129
(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	1,180
Capital Charge for Market Risk [(a) + (b) + (c)] * CAR	18,473

Operational Risk under Basic Indicator Approach

	Capital Charge	Gross Income For the period ending 30th September		
		1st Year Rs.'Mn	2nd Year Rs.'Mn	3rd Year Rs.'Mn
The Basic Indicator Approach	Factor 15%	40,885	41,625	49,789
Capital Charges for Operational Risk (LKR'Mn)				
The Basic Indicator Approach	6,615			
Risk Weighted Amount for Operational Risk (LKR'Mn)				
The Basic Indicator Approach	52,920			



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 31st December 2025 (Post CCF & CRM)							Total Credit Exposures Amount
	0%	20%	50%	75%	100%	150%	>150%	
Asset classes\ Risk Weight								
Claims on Central Government and Central Bank of Sri Lanka	129,626	-	-	-	-	-	-	129,626
Claims on Foreign Sovereigns and their Central Banks	21,511	-	-	-	-	-	-	21,511
Claims on Public Sector Entities	-	-	4	-	-	-	-	4
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-	-
Claims on Banks Exposures	-	204,860	32,049	-	3	182	-	237,093
Claims on Financial Institutions	-	3,830	-	-	-	-	-	3,830
Claims on Corporates	-	5,458	2,020	-	170,361	-	-	177,840
Retail Claims	-	-	-	24,761	192	-	-	24,953
Claims Secured by Residential Property	-	-	-	-	776	-	-	776
Claims Secured by Commercial Real Estate	-	-	-	-	27,781	-	-	27,781
Non-Performing Assets (NPAs)	-	-	24	-	69	1	-	93
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	1,069	3,345	-	-	51,312	-	-	55,725
Total	152,206	217,492	34,097	24,761	250,494	182	-	679,232



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 31st December 2025				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements Rs'Mn	Carrying Values under Scope of Regulatory Reporting Rs'Mn	Subject to Credit Risk Framework Rs'Mn	Subject to Market Risk Framework Rs'Mn	Not subject to Capital Requirements or Subject to Deduction from Capital Rs'Mn
Assets					
Cash and Cash Equivalents	130,116	130,116	115,827	-	9,527
Balances with Central Banks	29,310	29,310	29,310	-	-
Placements with banks	102,524	102,524	102,524	-	-
Derivative Financial Instruments	503	503	-	503	-
Other Financial Assets Held-For-Trading	4,319	4,319	-	4,319	-
Loans and Receivables to Other Customers	172,858	172,858	172,858	-	-
Financial Investments - Fair value through other comprehensive income	117,363	117,363	117,363	-	-
Financial Investments - Amortised cost	106	106	106	-	-
Retirement benefit obligations surplus	-	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	5,318	5,318	5,308	-	11
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	-	-	-	-	-
Deferred Tax Assets	1,050	1,050	-	-	1,050
Other Assets	47,049	47,049	47,049	-	-



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 31st December 2025				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements Rs'Mn	Carrying Values under Scope of Regulatory Reporting Rs'Mn	Subject to Credit Risk Framework Rs'Mn	Subject to Market Risk Framework Rs'Mn	Not subject to Capital Requirements or Subject to Deduction from Capital Rs'Mn
Liabilities					
Due to Banks	32,480	32,480	-	-	-
Derivative Financial Instruments	341	341	-	-	-
Other Financial Liabilities Held-For-Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	279,035	279,035	-	-	-
Other Borrowings	-	-	-	-	-
Retirement Benefit Obligations	162	162	-	-	-
Current Tax Liabilities	2,876	2,876	-	-	-
Deferred Tax Liabilities	-	-	-	-	-
Other Provisions	-	-	-	-	-
Other Liabilities	59,498	59,499	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	-	-	-	-	-



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 31st December 2025				
	a	b	c	d	e
	Carrying Values as Reported in Published Financial Statements Rs'Mn	Carrying Values under Scope of Regulatory Reporting Rs'Mn	Subject to Credit Risk Framework Rs'Mn	Subject to Market Risk Framework Rs'Mn	Not subject to Capital Requirements or Subject to Deduction from Capital Rs'Mn
Off-Balance Sheet Liabilities					
Guarantees	14,085	14,085	14,085	-	-
Performance Bonds	53,389,023	53,389,023	53,389,023	-	-
Letters of Credit	49,355	49,355	49,355	-	-
Other Contingent Items	-	-	-	-	-
Undrawn Loan Commitments	253,735	253,735	253,735	-	-
Other Commitments	223,349	223,349	68,983	-	-
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	82,117	82,117	-	-	-
Accumulated Other Comprehensive Income	-	-	-	-	-
Statutory reserve fund	3,152	3,152	-	-	-
Other Reserves	41,522	41,521	-	-	-
Total Shareholders' Equity	129,943	129,943	-	-	-



Sustainability Disclosure

Cautionary Statements Regarding Forward-Looking Statements

This Annual Report and Accounts 2025 contain certain forward-looking statements with respect to the financial condition; 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 environmental, social and governance (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 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak 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 statements.

Any such forward-looking statements are not a reliable indicator of future performance, as they may involve significant stated or implied assumptions and subjective judgements which may or may not prove to be correct.

Forward-looking statements can be made in writing but may also be made verbally by directors, officers and employees of the Group including during management presentations) in connection with this document.

Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors, including ESG-related factors, could cause actual results, performance or other future events to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. This may be due to a variety of risks, uncertainties and other factors including, without limitation, [those which relate to general market or economic conditions, regulatory and government policy changes, continued volatility in trade and tariff policies, increased volatility in interest rates and inflation levels and other macroeconomic risks, geopolitical tensions such as the Russia-Ukraine war or the conflict in the Middle East, the US military operation in Venezuela and potential further US action in the Western Hemisphere and, elsewhere, or the efficacy of the Group's and the Group's actions in managing and mitigating ESG related risks, and in progressing towards the Group's ESG ambitions, targets and commitments.

For these reasons, recipients should not place reliance on, and are cautioned about relying on, any forward-looking statements.

This Annual Report and Accounts 2025 contains a number of graphics, text boxes and credentials which aim to give a high-level overview of certain elements of Group's disclosures and to improve accessibility for readers. These graphics, text boxes and credentials are designed to be read within the context of the Annual Report and Accounts 2025 as a whole.

The information, statements and opinions set out in this Annual Report and Accounts 2025 do not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any advice or recommendation in respect of such securities or other financial instruments.



Approach to Sustainability Disclosure

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.

References to ‘HSBC’, ‘the Group’ or ‘the HSBC Group’ within this document mean HSBC Holdings plc together with its subsidiaries.

Overview of Sustainable Finance Policies, Activities, and way forward

The Group defines sustainable finance and investment as any form of financial service that integrates ESG criteria into business or investment decisions. This includes financing, investing and related activities that support the achievement of the UN Sustainable Development Goals, including but not limited to the aims of the Paris Agreement on climate change.

As a global financial institution, the Group exists to serve its customers. The Group believes supporting its customers’ transition is one of the most significant roles it can play in the global transition to net zero. This will help to deliver long-term value for customers and shareholders. The Group has refined its approach to continue to be responsive to the diverse realities faced by its different customers across the world, from individuals through to multinational corporates and institutions.

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

The Group offers a suite of ESG and sustainable investing solutions to institutional and individual investors who want to mitigate risk or seek value creation through considering climate, nature or other sustainability factors in their investment horizon. Covering both traditional and alternative investment areas, the Group’s solutions aim to advance ESG and sustainable goals. The Group takes different approaches to achieve this, such as investing in issuers or securities that may either seek stronger ESG performance, align to themes such as climate or the net zero transition, or seek to deliver environmental or social outcomes.

Sustainable finance related risks and associated mitigation measures

HSBC has sector-specific sustainability risk policies covering the energy sector, thermal coal, agricultural commodities, forestry, and mining and metals. These are summarised in the Group’s Sustainability Risk Policies Framework which also contains HSBC’s Thermal Coal Phase-Out Policy. The Group also implements a cross-sector policy for project-related financing, informed by international standards.

The Group Risk and Compliance function has specialists who review and support implementation of its sustainability risk policies. The Group’s 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. Where considered appropriate, policy matters are escalated to relevant governance committees. 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.



The Group's sustainability risk management approach helps define its risk appetite in sectors, or to customers and activities, which may pose heightened risks in relation to critical themes such as climate change, nature and human rights, and forms part of its broader risk management framework. The Group conducts periodic policy reviews. The latest review sought to ensure its policies approach remains aligned to its strategic and risk management objectives, and, where relevant, considered the latest scientific evidence, sector-specific pathways, and real-world lessons from its customers' transition experiences. For further details of how the Group manages sustainability risk and its Sustainability Risk Policies Framework, see <https://www.hsbc.com/sustainability-risk>.

Climate risk

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

The Group continues to identify a thematic issue related to climate risk that could manifest as reputational, regulatory compliance, and litigation risks: the risk of greenwashing. This risk arises from knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to its stakeholders. Net zero alignment risk had previously been identified as a thematic issue and is now replaced and managed under the HSBC Group's new risk type, Sustainability Execution Risk, to help identify and manage the risks associated with the delivery and execution of the HSBC Group's sustainability strategy.

Key developments in 2025

The following outlines key developments in 2025:

- The Group enhanced its approach to assessing the impact of climate change on capital, focusing on credit, traded and operational risk.
- The Group updates Sustainable Finance and Investment Data Dictionary annually, including reviewing its product definitions, adding new qualifying products and removing products that no longer qualify, making enhancements to its internal standards, and developing its reporting and governance.
- 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 further embedded climate risk considerations into credit risk assessments by leveraging the revised HSBC climate risk guidelines for relationship managers.

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

Embedding the Group's climate risk approach

The below details how the Group has embedded the management of climate risk across key risk types:



Wholesale credit risk

The Group has metrics in place to monitor the exposure of its wholesale corporate lending portfolio to six high transition risk sectors which are: automotive; chemicals; construction, contracting and building materials; metals and mining; oil and gas; and power and utilities.

The Group's relationship managers engage with their key wholesale customers, including those in higher transition risk sectors, through a transition engagement questionnaire ('TEQ'). The TEQ helps to gather information and assess the wholesale customers' business model alignment to a net zero transition and their exposure to physical and transition risks. The Group uses the responses to the questionnaire to risk-assess its key wholesale customers.

The Group's credit policies require that relationship managers comment on climate risk factors in credit applications for new money requests and annual credit reviews. The Group's credit policies also require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating.

In 2025, the Group continued to develop its approach towards credit risk management, and refine climate risk guidelines for relationship managers to further embed climate risk considerations into credit risk assessments.

Key challenges for further embedding climate risk into credit risk management relate to the availability of adequate physical risk data to assess impacts on the Group's wholesale customers.

Regulatory compliance risk

Regulatory Compliance oversees and supports the business in the management of climate-related risks that could cause breaches of the Group's regulatory duties to customers and inappropriate market conduct. The Group's policies include sustainability considerations, particularly in relation to new and ongoing product management, sales outcomes, conflicts of interest and product marketing. The Group continues to enhance the associated control frameworks, processes and customer outcomes.

Reputational risk

The Group manages the reputational impact of climate risk through its broader reputational risk framework, which plays a role in managing the risk of greenwashing, and is supported by its sustainability risk policies and metrics.

The Group's global network of sustainability risk managers provides local policy guidance to relationship managers maintaining oversight of policy compliance, and in support of implementation across its wholesale banking activities.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report and Accounts 2025 contains certain forward-looking statements with respect to the Group's financial condition; results of operations and business, including the strategic priorities; financial, investment and capital targets; and ESG ambitions, targets and commitments described herein.



THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED
SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS 2025

Statements that are not historical facts, including statements about the Group's beliefs and expectations, are forward-looking statements. Words such as 'may', 'will', 'should', 'expects', 'targets', 'anticipates', 'intends', 'plans', 'believes', 'seeks', 'estimates', 'potential' and 'reasonably possible', or the negative thereof, other variations thereon or similar expressions are intended to identify forward-looking statements. These statements are based on current plans, information, data, estimates and projections, and therefore undue reliance should not be placed on them. Forward-looking statements speak 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 statements. Written and/or oral forward-looking statements may also be made in the periodic reports to the US Securities and Exchange Commission, summary financial statements to shareholders, offering circulars and prospectuses, press releases and other written materials, and in oral statements made by the Group's directors, officers or employees to third parties, including financial analysts. Forward-looking statements involve inherent risks and uncertainties. Readers are cautioned that a number of factors could cause actual results to differ, in some instances materially, from those anticipated or implied in any forward-looking statement. These include, but are not limited to:

- changes in general economic conditions in the markets in which the Group operates, such as new, continuing or deepening recessions, prolonged inflationary pressures and fluctuations in employment levels and the creditworthiness of customers beyond those factored into consensus forecasts; the Russia-Ukraine war, further conflict in the Middle East or elsewhere and their impact on global economies and the markets where the Group operates, which could have a material adverse effect on (among other things) the Group's financial condition, results of operations, prospects, liquidity, capital position and credit ratings; deviations from the market and economic assumptions that form the basis for the Group's ECL measurements (including, without limitation, as a result of the Russia-Ukraine war, further conflict in the Middle East or elsewhere, inflationary pressures, commodity price changes, and ongoing developments in the commercial real estate sector in mainland China and Hong Kong); potential changes in the Group's dividend policy; changes and volatility in foreign exchange rates and interest rates levels, including fluctuations in HIBOR and the accounting impact resulting from financial reporting in respect of hyperinflationary economies; volatility in equity markets and the risk of disruptive correction stemming from high company valuations; lack of liquidity in wholesale funding or capital markets, which may affect the Group's ability to meet the Group's obligations under financing facilities or to fund new loans, investments and businesses; geopolitical tensions or diplomatic developments producing social instability or legal uncertainty, such as the Russia-Ukraine war, the conflict in the Middle East, the US military operation in Venezuela and any potential military action or conflict elsewhere, and the related imposition of sanctions, export-control, trade and investment restrictions, supply chain restrictions and disruptions, sustained increases in energy prices and key commodity prices, claims of human rights violations, diplomatic tensions between China and the US, which may extend to and involve other countries and territories, and developments in Hong Kong and Taiwan and the surrounding maritime region, alongside other potential areas of tension, which may adversely affect the Group by creating regulatory, reputational and market risks; the efficacy of government, customer, and the Group's actions in managing and mitigating ESG-related risks, in particular climate risk, nature-related risks and human rights risks, and in supporting the global transition to net zero carbon emissions, each of which can impact the Group both directly and indirectly through the Group's customers and which may result in potential financial and non-financial impacts; illiquidity and downward price pressure in national real estate markets; adverse changes in central banks' policies with respect to the provision of liquidity support to financial markets; heightened market concerns over sovereign creditworthiness in over-indebted countries; adverse changes in the funding status of public or private defined benefit pensions; the significant depreciation of the US dollar through 2025; societal shifts in customer financing and investment needs, including consumer perception as to the continuing availability of credit; exposure to counterparty risk, including third parties using the Group as a conduit for illegal activities without the Group's knowledge; and price competition in the market segments the Group serves;

- changes in government policy and regulation, as well as monetary, interest rate and other policies of central banks and other regulatory authorities in the principal markets in which the Group operates and the consequences thereof (including, without limitation, actions taken as a result of changes in government following national elections in the markets where the Group operates); continued volatility in trade and tariff policies, changes in tariff rates, including sector-specific levies, imposed by various nations, including the US, which could further disrupt trade growth and supply chains; initiatives to change the size, scope of activities and interconnectedness of financial institutions in connection with the implementation of stricter regulation of financial institutions in key markets worldwide; revised capital and liquidity benchmarks, which could serve to deleverage bank balance sheets and lower returns available from the current business model and portfolio mix; changes to tax laws and tax rates applicable to the Group, including the imposition of levies or taxes designed to change business mix and risk appetite; the practices, pricing or responsibilities of financial institutions serving their consumer markets; expropriation, nationalisation, confiscation of assets and changes in legislation relating to foreign ownership; the UK's relationship with the EU, particularly with respect to the potential divergence of UK and EU law on the regulation of financial services; 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; changes in UK macroeconomic and fiscal policy, which may result in fluctuations in the value of the pound sterling; general changes in government policy (including, without limitation, actions taken as a result of changes in government following national elections in the markets where the Group operates) that may significantly influence investor decisions; the costs, effects and outcomes of regulatory reviews, actions or litigation, including any additional compliance requirements; and the effects of competition in the markets where the Group operates including increased competition from non-bank financial services companies; and

- factors specific to the Group, including its success in adequately identifying the risks the Group faces, such as the incidence of loan losses or delinquency, and managing those risks (through account management, hedging and other techniques); the Group's ability to achieve the Group's financial, investment, capital and ESG ambitions, targets and commitments (including the positions set forth in the Group's thermal coal phase-out policy and the Group's energy policy and the Group's targets to reduce the Group's on-balance sheet financed emissions and, where applicable, facilitated emissions in the Group's portfolio of selected high-emitting sectors), which may result in the Group's failure to achieve any of the expected outcomes of the Group's strategic priorities and may result in reputational risks; evolving regulatory requirements and the development of new technologies, including artificial intelligence, affecting how the Group manages risk, including model risk; model limitations or failure, including, without limitation, the impact that high inflationary pressures and interest rates have had on the performance and usage of financial models, which may require the Group to hold additional capital, incur losses and/or use compensating controls, such as judgmental post-model adjustments, to address model limitations; changes to the judgements, estimates and assumptions the Group bases the Group's financial statements on; changes in the Group's ability to meet the requirements of regulatory stress tests; a reduction in the credit ratings assigned to the Group or any of the Group's subsidiaries, which could increase the cost or decrease the availability of the Group's funding and affect the Group's liquidity position and net interest margin; changes to the reliability and security of the Group's data management, data privacy, information and technology infrastructure, including threats from cyber-attacks, which may impact the Group's ability to service clients and may result in financial loss, business disruption and/or loss of customer services and data; the accuracy and effective use of data, including internal management information that may not have been independently verified; changes in insurance customer behaviour and insurance claim rates; the Group's dependence on loan payments and dividends from subsidiaries to meet the Group's obligations; changes in the Group's reporting frameworks and accounting standards, which have had and may continue to have a material impact on the way the Group prepares the Group's financial statements; the Group's ability to successfully execute planned strategic acquisitions and disposals; the Group's success in adequately integrating acquired businesses into the Group's business; the Group's ability to successfully execute and implement the announced strategic reorganisation of the Group; changes in the Group's ability to manage third-party, fraud, financial crime and reputational risks

inherent in the Group's operations; employee misconduct, which may result in regulatory sanctions and/or reputational or financial harm; changes in skill requirements, ways of working and talent shortages, which may affect the Group's ability to recruit and retain senior management and an inclusive and skilled workforce; and changes in the Group's ability to develop sustainable finance and ESG-related products consistent with the evolving expectations of the Group's regulators, and the Group's capacity to measure the environmental and social impacts from the Group's financing activity (including as a result of data limitations and changes in methodologies), which may affect the Group's ability to achieve the Group's ESG ambitions, targets and commitments, including the Group's net zero ambition, the Group's targets to reduce on-balance sheet financed emissions and, where applicable, facilitated emissions in the Group's portfolio of selected high-emitting sectors and the positions set forth in the Group's thermal coal phase-out policy and the Group's energy policy, and increase the risk of greenwashing.

This Annual Report and Accounts 2025 contains a number of images, graphics, infographics, text boxes and illustrative case studies and credentials which aim to give a high-level overview of certain elements of the Group's disclosures and to improve accessibility for readers. These images, graphics, infographics, text boxes and illustrative case studies and credentials are designed to be read within the context of the Annual Report and Accounts 2025 as a whole.

The information, statements and opinions set out in this Annual Report and Accounts 2025 do not constitute a public offer for the purposes of any applicable law or an offer to sell or solicitation of any offer to purchase any securities or other financial instruments or any advice or recommendation in respect of such securities or other financial instruments.

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

The Annual Report and Financial Statements 2025 contains a number of forward-looking statements (as defined above) with respect to the Group's ESG-related 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 Financial Statements 2025, 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 ambitions, targets and commitments 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 Financial Statements 2025 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-related 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-related 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. The Group (including the group) may not be able to fully mitigate financial reporting risks related to its climate and ESG disclosures due to the limited quantity and consistency of available data. The accuracy and reliability of data is also impacted by the diverse range of internal and external data sources and data structures needed for climate-related reporting. 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 ambitions, targets and commitments 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; Consequently, the Group (including the group) might need to reassess its progress towards ESG-related ambitions, targets and commitments in the future; 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-related 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 raise reputational concerns; 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-related 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. The Group (including the group) may face additional risks if it knowingly or unknowingly makes inaccurate, unclear, misleading, or unsubstantiated claims regarding sustainability to its stakeholders.

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 the US Securities and Exchange Commission, summary financial statements to shareholders, proxy statements, offering circulars and prospectuses, 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-responsiblebusiness/esg-reporting-centre.



Annex I

Rs. Million

D-SIBs Assessment Exercise*

General Information	
Name of the bank	HSBC
SIZE	
Indicator 1 - Total Exposure	694,919.90
INTERCONNECTEDNESS	
Indicator 2 - Intra-financial System Assets	282.66
a. Funds deposited with or lent to other financial institutions (including unused portion of committed lines extended)	205.79
i) Funds deposited	205.79
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	76.87
Indicator 3 - Intra-financial System Liabilities	15,082.36
a. Funds deposited by or borrowed from other financial institutions (including unused portion of committed lines obtained)	15,067.88
i) Funds deposited	15,067.88
ii) Borrowings	
b. Net negative current exposure of securities financing transactions with other financial institutions	-
c. Over-the-counter derivatives with other financial institutions that have a net negative mark to mark value	14.48
Indicator 4 - Securities Outstanding	-
SUBSTITUTABILITY/FINANCIAL INSTITUTION INFRASTRUCTURE	
Indicator 5 - Payments made in the reporting year (excluding intragroup payments)	12,412,527.09
Indicator 6 - Gross Loans and Receivables to Non-bank Customers (excluding Government)	205,713.06
Indicator 7 - Deposits of Non-bank Customers (excluding Government)	412,105.24
COMPLEXITY	
Indicator 8 - Notional Amount of Over-the-Counter (OTC) Derivatives	68,983.02
Indicator 9 - Cross-Jurisdictional Claims (excluding derivatives and intragroup claims)	51,623.31
Indicator 10 - Cross-jurisdictional Liabilities (excluding derivatives and intragroup liabilities)	24,943.04
Indicator 11 - Trading and Available for Sale (AFS) Securities	121,682.27

* As per the Banking Act Direction No. 02 of 2025 - Domestic Systemically Important Banks. Please refer Annex I for the guidelines.



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 LKR 53,539,767 (USD 172,826). This accounts for 3.19% 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 31.12.2025 has been reported excluding the incremental ECL of USD 172,826.

