The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

31 December 2023

HSBC

Contents

General disclosures

Registered Bank

The Hongkong and Shanghai Banking Corporation Limited ("HBAP")
1 Queen's Road Central
Hong Kong SAR
HBAP was incorporated in Hong Kong in 1866 under the Laws of Hong Kong.

New Zealand Branch

The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch ("Branch") is defined as the New Zealand business of HBAP (overseas incorporated bank).

New Zealand Head Office:
188 Quay Street
Auckland
New Zealand

New Zealand Banking Group

The New Zealand Banking Group ("Banking Group") is the New Zealand operations of HBAP and all New Zealand incorporated subsidiaries of HBAP. The entities that have been considered for aggregation to form the Banking Group are detailed in the Notes to and forming part of the Financial Statements, Note 1: Statement of accounting policies.

Overseas Banking Group

The Overseas Banking Group ("HBAP Group") includes all entities consolidated for the purposes of public reporting of Group financial statements in Hong Kong including HBAP and its subsidiaries.

Ultimate Non–Bank Holding Company

The ultimate non-bank holding company of HBAP is:

HSBC Holdings plc
8 Canada Square
London E14 5HQ
United Kingdom

Access to parental disclosures

The most recent publicly available financial statements of HBAP Group and HSBC Holdings plc ("Group" or "HSBC Group") can be found at HSBC Holdings plc's website, www.hsbc.com.

Ranking of Local Creditors in a Winding-up

Under Section 265(1) (db) of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of the Hong Kong SAR, as amended in 2010, which HBAP is subject to, in the event of a winding up of HBAP, there shall be paid in priority to all other unsecured debts the aggregate amount held on deposit, up to a maximum of HKD 500,000, to each depositor and this Section has no geographic limitation. No other material legislative or regulatory restrictions in Hong Kong SAR exist which would subordinate the claims of any class of New Zealand branch unsecured creditors on the assets of HBAP to those of any other class of unsecured creditors of HBAP in a winding up of HBAP.

Guarantee Arrangements

No material obligations of HBAP that relate to the Branch are guaranteed as at the date of signing this Disclosure Statement.

Climate Disclosures

The Banking Group's climate-related disclosures, which are in compliance with Aotearoa New Zealand Climate Standards, will be published in a separate Climate Statement. This Climate Statement can be accessed on the Banking Group's website www.hsbc.co.nz under the Disclosure Statement link on or before 30 April 2024.

Other Material Matters

On 13 June 2023, the Branch announced that it will be exiting its Wealth and Personal Banking ("WPB") business in New Zealand via a wind-down (the "Retail Wind-Down").

On 1 September 2023, as part of the Retail Wind-Down, the Branch announced that it had entered into an agreement to sell its New Zealand mortgage portfolio to Pepper Money Limited. The mortgage portfolio transferred to Pepper Money Limited on 1 December 2023 and a loss of $74.3m was recognised in relation to this sale.

On 7 November 2023, the Reserve Bank of New Zealand ("RBNZ") announced key decisions arising from its review of their policy in respect of branches of overseas registered banks, and sought views on implementation considerations. The key decisions announced do not have a material impact on the Branch or the Retail Wind-Down.

The Branch remains committed to the New Zealand market and will continue to operate and grow its Wholesale Banking business, which includes Commercial Banking and Financial Institutions & Government, along with its Markets & Securities Services business.

There are no other material matters that, if disclosed, would adversely affect the decision of a person to subscribe for debt securities of which HBAP and the Banking Group is the issuer.

Pending Proceedings and Arbitration

HBAP is named in and is defending legal actions in various jurisdictions arising from its normal business.

Auditor

New Zealand Banking Group

PricewaterhouseCoopers
PricewaterhouseCoopers Tower
15 Customs Street West
Auckland
New Zealand

Overseas Banking Group

PricewaterhouseCoopers
22nd floor
Prince's Building
10 Chater Road
Hong Kong SAR

New Zealand Chief Executive Officer / Responsible Person

The New Zealand Interim Chief Executive Officer, Noel McNamara, has been authorised in writing by each Director named below, in accordance with section 82 of the Banking (Prudential Supervision) Act 1989 (formerly the Reserve Bank of New Zealand Act 1989), to sign this Disclosure Statement on the Directors' behalf. Accordingly, Noel McNamara is a Responsible Person under the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"). He joined the HSBC Group in 1995 and is currently residing in New Zealand. He has a Post Graduate Diploma in International Management from the Institute of Management Adelaide South Australia.

Communications addressed to the responsible person may be sent to:

c/o The Hongkong and Shanghai Banking Corporation Limited,
New Zealand Branch
PO Box 5947
Victoria Street West
Auckland 1142
New Zealand

Dealings with Responsible Person

No dealings with any Responsible Person or Director, the immediate relative or professional associate of a Responsible Person or Director, have been entered into by HBAP and the Banking Group other than those given in the ordinary course of business.

Board of Directors of HBAP

The Directors of HBAP at the time this Disclosure Statement was signed are:

Peter Tung Shun WONG, GBS, JP

Non-executive Chairman (since June 2021)

He is also an advisor to the Group Chairman and the Group Chief Executive of HSBC Holdings plc, and Chairman and a non-executive Director of HSBC Bank (China) Company Limited. He holds a Bachelor of Arts, a Master of Business Administration and a Master of Science from Indiana University, a Doctor of Laws, honoris causa, from the Hang Seng University of Hong Kong and a Doctor of Business Administration, honoris causa, from Lingnan University.

Before his retirement as a HSBC employee in June 2021, he was an executive Director, Chief Executive and Deputy Chairman of the Bank. He was also a non-executive Director of Hang Seng Bank Limited.

David Gordon ELDON, GBS, CBE, JP

Non-executive Deputy Chairman (since June 2021)

He holds an Honorary Doctor of Business Administration from City University of Hong Kong and is a Fellow of the UK Chartered Institute of Bankers and the Hong Kong Institute of Bankers.

Before his retirement as a HSBC employee in 2005, he was an executive Director, Chief Executive Officer and Chairman of the Bank. He was also non-executive Chairman of Hang Seng Bank Limited and a Director of HSBC Holdings plc. He was non-executive Chairman of HSBC Bank Middle East Limited from 2011 to 2021. He was non-executive Chairman and a Director of Octopus Holdings Limited, Octopus Cards Limited and Octopus Cards Client Funds Limited from 2016 to 2022.

David Yi Chien LIAO

Co-Chief Executive Officer (since June 2021)

He is also a member of the Group Executive Committee of HSBC Holdings plc and a non-executive Director of Hang Seng Bank Limited and Bank of Communications Co., Ltd. He holds a Bachelor of Arts (major in Japanese and Economics) from the University of London.

He has previously held a number of senior positions within the Group, including the Head of Global Banking Coverage for Asia-Pacific and a Director and Chief Executive Officer of HSBC Bank (China) Company Limited.

Surendranath Ravi ROSHA

Co-Chief Executive Officer (since June 2021)

He is also a member of the Group Executive Committee of HSBC Holdings plc and an executive Director of HSBC Bank Malaysia Berhad. He holds a Bachelor of Commerce from Sydenham College of Commerce & Economics, Bombay University and a Master of Business Administration from the Indian Institute of Management, Ahmedabad.

He has previously held a number of senior positions within the Group, including the Chief Executive Officer of HSBC India and Regional Head of Financial Institutions Group, Asia-Pacific.

Paul Jeremy BROUGH

Independent non-executive Director (since June 2023)

He is also an independent non-executive Director of Guoco Group Limited and Vitasoy International Holdings Limited. He holds a Bachelor of Arts (Hons) in Business Studies from Nottingham Trent University, and is an Associate of the Institute of Chartered Accountants in England and Wales and the Hong Kong Institute of Certified Public Accountants.

He was previously an independent non-executive Director of Habib Bank Zurich (Hong Kong) Limited from 2013 to February 2023. He worked at KPMG Hong Kong for around 30 years and left the firm in 2012 as Senior Regional Partner.

Edward Wai Sun CHENG, GBS, JP

Independent non-executive Director (since May 2023)

He is also Deputy Chairman and Chief Executive of Wing Tai Properties Limited and Chairman of Lanson Place Hospitality Management Limited. He holds a Bachelor of Arts (Economics and Politics) from Cornell University, Ithaca, New York, and a Bachelor of Arts in Jurisprudence and a Master of Arts from the University of Oxford. He is qualified as a solicitor in England and Wales as well as in Hong Kong.

He was previously a non-executive Director of the Securities and Futures Commission of Hong Kong, and an independent non-executive Director of Standard Chartered Bank (Hong Kong) Limited. He was also the former Chairman of the Urban Renewal Authority and the University Grants Committee of Hong Kong.

Sonia Chi Man CHENG

Independent non-executive Director (since November 2020)

She is also the Chief Executive Officer of Rosewood Hotel Group. She is the Vice-Chairman and executive Director of Chow Tai Fook Jewellery Group Limited, an executive Director of New World Development Company Limited and a Director of New World China Land Limited. She holds a Bachelor of Arts with a field of concentration in Applied Mathematics from Harvard University.

Yiu Kwan CHOI

Independent non-executive Director (since October 2017)

He holds a higher certificate in Accountancy from The Hong Kong Polytechnic University and is a Fellow member of The Hong Kong Institute of Bankers.

He was an independent non-executive Director of HSBC Bank (China) Company Limited from December 2016 to December 2022. He was Deputy Chief Executive of the Hong Kong Monetary Authority ('HKMA') in charge of Banking Supervision when he retired in January 2010. Before this, he was Deputy Chief Executive of the HKMA in charge of Monetary Policy and Reserves Management from June 2005 to August 2007 and held various senior positions in the HKMA including Executive Director (Banking Supervision), Head of Administration, and Head of Banking Policy from 1993 to 2005.

* Andrea Lisa DELLA MATTEA

Independent non-executive Director (since March 2022)

She is also the Asia Pacific President of Microsoft Operations Pte Ltd. She holds a Bachelor of Engineering and an Honorary Doctor of Engineering from James Cook University of North Queensland, Australia.

She has previously held senior leadership roles at Insight Enterprises, Inc from 2007 to 2017, including Asia Pacific Managing Director, and at Software Spectrum Inc from 1996 to 2006.

* Pam KAUR

Non-executive Director (since November 2023)

She is also the Group Chief Risk and Compliance Officer and a member of the Group Executive Committee of HSBC Holdings plc. She serves as an independent non-executive Director of abrdn plc. She holds an MBA in Finance, and a BCom (Hons) from Panjab University in India, and is a Fellow member of The Institute of Chartered Accountants in England and Wales.

She was previously an independent non-executive Director of Centrica plc. She joined HSBC in April 2013 and has held the roles of Group Head of Internal Audit and Head of Wholesale Market and Credit Risk. She previously held senior leadership roles at Deutsche Bank, Royal Bank of Scotland Group plc, Lloyds TSB and Citigroup.

* Rajnish KUMAR

Independent non-executive Director (since August 2021)

He is also non-executive Chairman of Resilient Innovations Pvt. Ltd., non-executive Director and Chairman of Mastercard India Services Private Limited, an independent Director of Larsen and Toubro Limited and Brookprop Management Services Private Limited, an independent non-executive Director of Hero MotoCorp Limited and Ambuja Cements Limited, a Director of Lighthouse Communities Foundation, and Chairman of Board of Governors of Management Development Institute in India. He is also a senior adviser to EQT AB and an advisor to Think & Learn Private Limited. He holds a Master of Science in Physics from Meerut University and a Post Graduate Certificate in Business Management from XLRI Jamshedpur in India. He is an Associate of the Indian Institute of Bankers.

He was previously Chairman of the State Bank of India until he retired in October 2020.

Beau Khoon Chen KUOK

Independent non-executive Director (since August 2020)

He is also Chairman and Managing Director of Kerry Group Limited. He holds a Bachelor of Economics from Monash University. He was previously Chairman and Chief Executive Officer of Shangri-La Asia Limited, Chairman of Kerry Properties Limited, and a non-executive Director of Wilmar International Limited.

Irene Yun-lien LEE

Independent non-executive Director (since October 2013)

She is also executive Chairman of Hysan Development Company Limited. She is also independent non-executive Chairman of Hang Seng Bank Limited and an independent non-executive Director of Alibaba Group Holding Limited. She holds a Bachelor of Arts (Distinction) in History of Art from Smith College, Northampton, Massachusetts, USA. She is also a member of the Honourable Society of Gray's Inn, UK and a Barrister-at-Law in England and Wales.

She was an independent non-executive Director of HSBC Holdings plc from 2015 to 2022.

* Annabelle Yu LONG

Independent non-executive Director (since August 2022)

She is also the Founding and Managing Partner of BAI Capital Fund I, L.P. and a Group Management Committee Member of Bertelsmann SE & Co. KGaA. She is an independent Director of Tapestry Inc., LexinFintech Holdings Ltd., Nio Inc. and Linmon Media Limited. She holds a Master in Business Administration from Stanford Graduate School of Business, United States and a Bachelor of Science in Electrical Engineering from University of Electronic Science and Technology, China.

Kevin Anthony WESTLEY, BBS

Independent non-executive Director (since September 2016)

He is also an independent non-executive Director of Fu Tak Iam Foundation Limited and a member of the investment committee of the West Kowloon Cultural District Authority. He holds a Bachelor of Arts (Hons) from the University of London (LSE) and is a Fellow of the Institute of Chartered Accountants in England and Wales.

He was Chairman (from 1996) and Chief Executive (from 1992) of HSBC Investment Bank Asia Limited (formerly named Wardley Limited) until his retirement in 2000 and subsequently acted as an advisor to the Bank and the Group in Hong Kong. He was an independent non-executive Director of the Bank from 2013 to 2015 and rejoined the Board in September 2016.

Country of Residence

With the exception of those denoted with an *, all directors reside in Hong Kong. Rajnish Kumar resides in India, Andrea Lisa Della Mattea resides in Singapore, Annabelle Yu Long resides in China and Pam Kaur resides in the United Kingdom.

Communications addressed to the Directors may be sent to:
c/o The Hongkong and Shanghai Banking Corporation Limited
GPO Box 64
Hong Kong

Change in Board of Directors for HBAP

During the year, Edward Wai Sun Cheng and Paul Jeremy Brough were appointed independent non-executive Directors with effect from 19 May and 20 June 2023 respectively, and Pam Kaur was appointed a non-executive Director with effect from 23 November 2023. Victor Tzar Kuoi Li retired as a Director with effect from 9 May 2023, being the date of passing the written resolutions of the Bank's shareholder in lieu of holding the 2023 Annual General Meeting ('AGM'). Save for the above, all the Directors served throughout the year.

Directors' Policy on Conflicts of Interests

The Board has a conflicts of interest policy. It sets out HBAP's policy on the notification, review or approval process of Directors' conflicts or potential conflicts of interest and the Board's approach to dealing with any non-compliance with the policy. Directors are required to notify all directorships and appointments, and any other conflict or potential conflicts of interest. The notified matter will be referred to the Board for its noting or consideration in accordance with the conflicts of interest policy. In addition, under Division 5 of Part 11 of the Companies Ordinance (Cap. 622) of the Laws of Hong Kong, Directors who are interested either directly or indirectly in a transaction, arrangement or contract, or a proposed transaction, arrangement or contract that is significant to HBAP's business shall, if such Director's interest is material, declare the nature and extent of their interest as soon as reasonably practicable.

Article 100(h) of HBAP's Articles of Association states:

"The office of a Director shall automatically be vacated if the Director acts in contravention of the Company's conflicts of interest policy adopted by the Board from time to time and the Board has resolved that his or her office be vacated."

Audit Committee

The Banking Group does not have an Audit Committee. The Audit Committee of HBAP has non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting and internal financial controls. The current members of the Committee are Kevin Westley (Chairman of the Committee), Paul Brough, Yiu Kwan Choi, David Eldon, Rajnish Kumar and Irene Lee. Except for David Eldon, who is a non-executive Director, all members are independent non-executive Directors. The Committee met four times in 2023.

The Audit Committee monitors the integrity of HBAP's consolidated financial statements, banking disclosure statements, and disclosures relating to financial performance, the effectiveness of the internal audit function and the external audit process, and the effectiveness of internal financial control systems. The Committee reviews the adequacy of resources and expertise as well as succession planning for the finance function. It reviews, and considers changes to, the Bank's accounting policies. The Committee advises the Board on the appointment, re-appointment, or removal of the external auditor and reviews and monitors the external auditor's independence and objectivity. The Committee reviews matters escalated for its attention by subsidiaries' audit committees and receives minutes of meetings of the HBAP Asset and Liability Committee.

Credit Rating

HBAP has the following long term debt ratings for non-HK$ long-term senior unsecured obligations which are payable in New Zealand in New Zealand dollars:

	Current Rating	Previous Rating[1]	Date of Change
Moody's Investor Service Inc.	Aa3 (negative outlook)	Aa3 (stable outlook)	8 Dec 2023
Standard & Poor's Corporation	AA- (stable outlook)	Not changed	-
Fitch IBCA Inc	AA- (stable outlook)	AA- (negative outlook)	23 Sep 2022

1 *Included if there has been a change in the previous two years.*

Rating scales are:

Credit Ratings	Moody's[1]	S&P[2]	Fitch[2]
Highest quality/Extremely strong capacity to pay interest and principal	Aaa	AAA	AAA
High quality/Very strong	Aa	AA	AA
Upper medium grade/Strong	A	A	A
Medium grade (lowest investment grade)/Adequate	Baa	BBB	BBB
Predominantly speculative/Less near term vulnerability to default	Ba	BB	BB
Speculative, low grade/Great vulnerability	B	B	B
Poor to default/identifiable vulnerability	Caa	CCC	CCC
Highest speculations	Ca	CC	CC
Lowest quality, no interest	C	C	C
Defaulted on obligations	-	D	D

1 *Moody's - A numeric modifier is applied to each generic rating category from Aa to B, indicating that the counterparty is (1) in the higher end of its letter-rating category, (2) in mid-range, (3) in lower end.*

2 *Standard & Poor's and Fitch - Ratings are modified by the addition of a plus (+) or minus (-) sign to show relative standing within the major rating categories.*

Conditions of registration

Conditions of registration for The Hongkong and Shanghai Banking Corporation Limited in New Zealand

These conditions of registration apply on and after 1 June 2023.

The registration of The Hongkong and Shanghai Banking Corporation Limited ("the registered bank") in New Zealand is subject to the following conditions:

1. That the banking group does not conduct any non-financial activities that in aggregate are material relative to its total activities. In this condition of registration, the meaning of "material" is based on generally accepted accounting practice.
2. That the banking group's insurance business is not greater than 1% of its total consolidated assets. For the purposes of this condition of registration, the banking group's insurance business is the sum of the following amounts for entities in the banking group:

   a. if the business of an entity predominantly consists of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total consolidated assets of the group headed by the entity; and

   b. if the entity conducts insurance business and its business does not predominantly consist of insurance business and the entity is not a subsidiary of another entity in the banking group whose business predominantly consists of insurance business, the amount of the insurance business to sum is the total liabilities relating to the entity's insurance business plus the equity retained by the entity to meet the solvency or financial soundness needs of its insurance business.

   In determining the total amount of the banking group's insurance business –

   a. all amounts must relate to on balance sheet items only, and must comply with generally accepted accounting practice; and

   b. if products or assets of which an insurance business is comprised also contain a non-insurance component, the whole of such products or assets must be considered part of the insurance business.

   For the purposes of this condition of registration, –

   "insurance business" means the undertaking or assumption of liability as an insurer under a contract of insurance; and

   "insurer" and "contract of insurance" have the same meaning as provided in sections 6 and 7 of the Insurance (Prudential Supervision) Act 2010.
3. That the business of the registered bank in New Zealand does not constitute a predominant proportion of the total business of the registered bank.
4. That no appointment to the position of the New Zealand chief executive officer of the registered bank shall be made unless:

   a. the Reserve Bank has been supplied with a copy of the curriculum vitae of the proposed appointee; and

   b. the Reserve Bank has advised that it has no objection to that appointment.
5. That The Hongkong and Shanghai Banking Corporation Limited complies with the requirements imposed on it by the Hong Kong Monetary Authority.
6. That, with reference to the following table, each capital adequacy ratio of The Hongkong and Shanghai Banking Corporation Limited must be equal to or greater than the applicable minimum requirement.

Capital adequacy ratio	Minimum requirement (on and after 1 January 2015) (%)
Common Equity Tier 1 capital	4.5
Tier 1 capital	6.0
Total capital	8.0

   For the purposes of this condition of registration, the capital adequacy ratios

   a. must be calculated as a percentage of the registered bank's risk weighted assets; and

   b. are otherwise as administered by the Hong Kong Monetary Authority.
7. That liabilities of the registered bank in New Zealand, net of amounts due to related parties (including amounts due to a subsidiary or affiliate of the registered bank), do not exceed NZ$15 billion.
8. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of property-investment residential mortgage loans with a loan-to-valuation ratio of more than 65%, must not exceed 5% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
9. That, for a loan-to-valuation measurement period ending on or after 30 November 2023, the total of the business of the registered bank in New Zealand's qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans with a loan-to-valuation ratio of more than 80%, must not exceed 15% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the loan-to-valuation measurement period.
10. That the business of the registered bank in New Zealand must not make a residential mortgage loan unless the terms and conditions of the loan contract or the terms and conditions for an associated mortgage require that a borrower obtain the registered bank's agreement before the borrower can grant to another person a charge over the residential property used as security for the loan.

In these conditions of registration, –

"banking group" means the New Zealand business of the registered bank and its subsidiaries as required to be reported in group financial statements for the group's New Zealand business under section 461B(2) of the Financial Markets Conduct Act 2013.

"business of the registered bank in New Zealand" means the New Zealand business of the registered bank as defined in the requirement for financial statements for New Zealand business in section 461B(1) of the Financial Markets Conduct Act 2013.

"generally accepted accounting practice" has the same meaning as in section 8 of the Financial Reporting Act 2013.

"liabilities of the registered bank in New Zealand" means the liabilities that the registered bank would be required to report in financial statements for its New Zealand business if section 461B(1) of the Financial Markets Conduct Act 2013 applied.

In conditions of registration 8 to 10,-

"loan-to-valuation ratio", "non property-investment residential mortgage loan", "property-investment residential mortgage loan", "qualifying new mortgage lending amount in respect of property-investment residential mortgage loans", "qualifying new mortgage lending amount in respect of non-property-investment residential mortgage loans", and "residential mortgage loan" have the same meaning as in the Reserve Bank of New Zealand document entitled "Framework for Restrictions on High-LVR Residential Mortgage Lending" (BS19) dated October 2021, and where the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents referred to in BS19 for the purpose of defining these terms are –

BPR document	Version date
BPR131: Standardised credit risk RWAs	1 October 2021
BRP001: Glossary	1 July 2021

"loan-to-valuation measurement period" means a period of six calendar months ending on the last day of the sixth calendar month.

Changes to Conditions of Registration since the 31 December 2022 Disclosure Statement

The conditions of registration were amended effective 1 June 2023 to reflect the changes made to Loan-to-Value thresholds (conditions 8 and 9) and the "measurement period" of those conditions.

Financial statements

Historical summary of financial statements

Five year comparison

Summary of Financial Results

	2023	2022	2021	2020	2019
	$000	$000	$000	$000	$000
Interest income	**408,253**	213,208	102,458	127,842	176,484
Interest expense	**(274,304)**	(115,912)	(33,730)	(59,175)	(96,884)
Net interest income	**133,949**	97,296	68,728	68,667	79,600
Net trading income	**11,819**	11,587	9,306	9,153	8,732
Loss on sale of the retail mortgage portfolio	**(74,303)**	—	—	—	—
Other net operating income	**41,826**	38,113	41,762	37,092	36,850
Net operating income before credit impairment charges	**113,291**	146,996	119,796	114,912	125,182
Change in expected credit losses and other credit impairment charges	**306**	(4,557)	3,074	(1,569)	2,494
Net operating income	**113,597**	142,439	122,870	113,343	127,676
Operating expenses excluding goodwill impairment	**(85,790)**	(77,237)	(71,990)	(73,477)	(71,672)
Goodwill impairment	**(12,841)**	—	—	—	—
Operating profit before tax	**14,966**	65,202	50,880	39,866	56,004
Income tax expense	**(4,239)**	(18,282)	(14,446)	(11,188)	(15,840)
Profit after tax attributable to the owners of the Banking Group	**10,727**	46,920	36,434	28,678	40,164
Retained profit repatriated	**—**	(33,039)	(41,867)	(27,473)	(42,133)

Balance Sheet

	31 Dec 2023	31 Dec 2022	31 Dec 2021	31 Dec 2020	31 Dec 2019
	$000	$000	$000	$000	$000
Total assets	**7,223,268**	7,772,468	7,540,127	7,085,529	6,641,631
of which: Individually impaired assets	**—**	—	—	894	2,657
Total Liabilities	**7,184,606**	7,753,055	7,526,770	7,054,393	6,617,609
Head Office Account	**41,510**	30,783	16,902	22,335	21,130
Total Equity	**38,662**	19,413	13,357	31,136	24,022

The amounts included in this historical summary have been taken from the audited financial statements of the Banking Group.

Statement of comprehensive income

For the year ended 31 December 2023

	Notes*	2023 $000	2022 $000
Interest income	3	**408,253**	213,208
Interest expense	3	**(274,304)**	(115,912)
Net interest income	3	**133,949**	97,296
Net trading income	3	**11,819**	11,587
Loss on sale of the retail mortgage portfolio[1]	1	**(74,303)**	—
Other net operating income	3	**41,826**	38,113
Net operating income before credit impairment charges		**113,291**	146,996
Change in expected credit losses and other credit impairment charges	7	**306**	(4,557)
Net operating income		**113,597**	142,439
Operating expenses excluding goodwill impairment	4	**(85,790)**	(77,237)
Goodwill impairment	19	**(12,841)**	—
Operating profit before tax		**14,966**	65,202
Income tax expense	18	**(4,239)**	(18,282)
Profit after tax attributable to the owners of the Banking Group		**10,727**	46,920
Other comprehensive income / (expense)			
Items that may be reclassified subsequently to profit or loss:			
Financial assets at fair value through other comprehensive income:			
Fair value gains / (losses) in other comprehensive income		**11,886**	(10,858)
Income taxes		**(3,318)**	3,039
Other comprehensive income / (expense) for the period		**8,568**	(7,819)
Total comprehensive income for the period attributable to the owners of the Banking Group		**19,295**	39,101

1 *Includes transaction related costs of $2.2m. For further detail on the sale of the retail mortgage portfolio, refer to note 1.2(k) on page 20.*

* *For Notes on the financial statements, see page 12.*

Statement of changes in equity

For the year ended 31 December 2023

	2023 $000	2022 $000
Head Office Account[1]		
At 1 Jan	**30,783**	16,902
Repatriation to Head Office[2]	**—**	(33,039)
Profit after tax	**10,727**	46,920
At 31 Dec	**41,510**	30,783
Financial assets at Fair Value through Other Comprehensive Income Reserve		
At 1 Jan	**(13,391)**	(5,572)
Fair value changes taken to equity	**11,886**	(10,858)
Tax on movements and transfers	**(3,318)**	3,039
At 31 Dec	**(4,823)**	(13,391)
Share-based Payment Reserve		
At 1 Jan	**2,021**	2,027
Transferred to the profit or loss	**(46)**	(6)
At 31 Dec	**1,975**	2,021
Total equity at 31 Dec	**38,662**	19,413

1 *The Head Office account is interest free, repayable at the discretion of the Branch and subordinated to all other debts.*

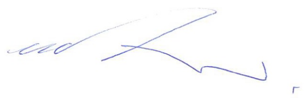
2 *During 2023, the Banking Group did not repatriate any retained profits to Head Office. This was due to management consideration of the potential impact to the operating profit and balance sheet arising from the undertaking to exit the WPB business in New Zealand.*

Balance sheet

As at 31 December 2023

		At	
		31 Dec 2023	31 Dec 2022
	*Notes**	**$000**	$000
Assets			
Cash and demand balances with central banks		**2,798,495**	1,701,305
Advances to banks		**177**	160,051
Financial investments	*11*	**1,017,621**	282,556
Derivative financial instruments	*21*	**428**	2,005
Advances to customers	*6*	**2,944,908**	4,720,830
Amounts due from related parties	*20*	**387,589**	835,393
Other assets	*15*	**32,887**	24,629
Current tax asset		**9,086**	—
Property, plant and equipment		**22,468**	26,628
Deferred tax asset	*18*	**7,794**	2,789
Goodwill and intangible assets	*19*	**1,815**	16,282
Total assets		**7,223,268**	7,772,468
Liabilities			
Deposits by banks		**257,671**	425,848
Derivative financial instruments	*21*	**427**	2,012
Customer deposits	*12*	**4,070,528**	4,826,958
Debt securities	*13*	**400,000**	400,000
Amounts due to related parties	*20*	**2,390,777**	2,024,320
Current tax liability		**—**	3,669
Other liabilities	*16*	**65,203**	70,248
Total liabilities		**7,184,606**	7,753,055
Net assets		**38,662**	19,413
Equity			
Head Office account		**41,510**	30,783
Financial assets at fair value through other comprehensive income reserve		**(4,823)**	(13,391)
Share-based payment reserve	*27*	**1,975**	2,021
Total equity		**38,662**	19,413

* *For Notes on the financial statements, see page 12.*



Noel McNamara

21 March 2024

For and on behalf of the Directors of The Hongkong and Shanghai Banking Corporation Limited by their attorney.

Letters from each of the Directors appointing the Country Head/Chief Executive Officer as their agent to sign this Disclosure Statement are still in force and have not been revoked.

Statement of cash flows

For the year ended 31 December 2023

	31 Dec 2023 $000	31 Dec 2022 $000
Cash flows from/(to) operating activities		
Interest received	**391,759**	213,241
Fees and commissions	**40,468**	38,398
Trading income	**12,563**	12,022
Interest paid	**(265,089)**	(98,741)
Operating expenses	**(79,153)**	(68,843)
Income tax paid	**(30,816)**	(10,137)
Net cash flows from operating activities before changes in operating assets and liabilities	**69,732**	85,940
Changes in operating assets and liabilities arising from cash flow movements		
Cash was provided net from/applied net (to):		
Advances to customers	**716,371**	(331,331)
Amounts due from related parties	**448,760**	(167,082)
Other assets	**1,222**	3,810
Other liabilities	**(1,536)**	(3,446)
Debt securities issued / (repaid)	**—**	(200,000)
Deposits by banks	**(168,181)**	123,415
Customer deposits	**(756,430)**	(151,301)
Amounts due to related parties	**358,449**	447,290
Net change in operating assets and liabilities	**598,655**	(278,645)
Net cash flows from/(to) operating activities	**668,387**	(192,705)
Cash flows from/(to) investing activities		
Financial investments purchased	**(831,328)**	(29,928)
Financial investments matured	**120,601**	170,500
Proceeds from sale of fixed assets	**9**	—
Proceeds from sale of the retail mortgage portfolio	**982,044**	—
Acquisition of property, plant and equipment	**(113)**	(1,031)
Net cash flows to investing activities	**271,213**	139,541
Cash flows to financing activities		
Repatriation to head office	**—**	(33,039)
Principal payments on lease liabilities	**(2,037)**	(1,946)
Net cash flows to financing activities	**(2,037)**	(34,985)
Net (decrease)/increase in cash and cash equivalents	**937,563**	(88,149)
Effect of exchange rate fluctuations on cash held	**(251)**	(183)
Cash and cash equivalents at the beginning of the year	**1,861,354**	1,949,686
Cash and cash equivalents at the end of the year	**2,798,666**	1,861,354

Analysis of cash and cash equivalents

	31 Dec 2023 $000	31 Dec 2022 $000
Cash and demand balances with central banks	**2,798,495**	1,701,305
Items in the course of collection from other banks[1]	**64**	45
Gross advances to banks - demand	**113**	160,006
Less: items in the course of transmission to other banks[1]	**(6)**	(2)
Cash and cash equivalents at the end of the year	**2,798,666**	1,861,354

1 *Items in the course of collection from / transmission to other banks are presented on the balance sheet within Advances to banks and Deposits by banks respectively.*

Reconciliation of profit after tax to net cash flows from operating activities

	31 Dec 2023 $000	31 Dec 2022 $000
Profit after tax	**10,727**	46,920
Adjustments to reconcile profit after tax to net cash flow from operating activities:		
Change in interest accruals	**(82)**	10,869
Change in fair value of derivatives	**249**	304
Depreciation of property, plant and equipment	**3,903**	3,864
Amortisation and impairment of intangible asset	**1,626**	1,230
Goodwill impairment	**12,841**	—
Amortisation of premium and discounts	**(7,197)**	6,336
Change in deferred income and accrued expense	**245**	3,716
Change in expected credit loss	**(306)**	4,557
Loss on sale of the retail mortgage portfolio	**74,303**	—
Change in current and deferred taxation	**(26,577)**	8,144
Adjust operating cash flows not included in profit after tax:		
Net change in operating assets and liabilities	**598,655**	(278,645)
Net cash flows (to) / from operating activities	**668,387**	(192,705)

Notes on the financial statements

1 Statement of accounting policies

1.1 General accounting policies

(a) Reporting entity

These financial statements are for The Hongkong and Shanghai Banking Corporation Limited, New Zealand Banking Group ("Banking Group").

The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the financial years presented, unless otherwise stated.

Intra-group balances are eliminated in preparing the Banking Group's financial statements (if any). The following entities have been aggregated to form the Banking Group:

– ***The Hongkong and Shanghai Banking Corporation Limited, New Zealand Branch***
– ***HSBC Nominees (New Zealand) Limited***
  This New Zealand incorporated entity is the Branch's nominee company which provides custodian services. HSBC Nominees (New Zealand) Limited is wholly owned by HBAP. Income and expenses of the custodian services business are included in the Branch's financial statements.

(b) Basis of reporting

These financial statements are general purpose financial statements prepared in accordance with the requirements of the Financial Markets Conduct Act 2013, the Banking (Prudential Supervision) Act 1989, and the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order").

These financial statements comply with Generally Accepted Accounting Practice in New Zealand, applicable New Zealand equivalents to International Financial Reporting Standards ("NZ IFRS") and other authoritative pronouncements of the External Reporting Board ("XRB"), as appropriate for for-profit entities. These financial statements also comply with International Financial Reporting Standards Accounting Standards ("IFRS Accounting Standards"), as issued by the International Accounting Standards Board.

(c) Measurement base

These financial statements are based on the general principles of historical cost accounting, as modified by applying fair value accounting to financial assets at fair value through other comprehensive income, financial assets and financial liabilities at fair value through profit or loss and all financial derivative contracts. They are prepared on a going concern basis and the accrual basis of accounting has been adopted. The presentation currency and functional currency is New Zealand dollars. All amounts are rounded to thousands of New Zealand dollars and all references to "$" is to New Zealand dollars unless otherwise stated.

(d) Comparative figures

These financial statements include comparative information as required by NZ IAS 1 and the Order.

(e) Regulatory changes

In November 2023, the Reserve Bank of New Zealand ("RBNZ") published key decisions from the review of their policy in respect of branches of overseas registered banks. The key decisions include:

- all branches in New Zealand will be restricted to engaging in wholesale business;
- the maximum size of a branch is limited to $15 billion in total assets; and
- dual registration of branches is permitted, subject to various conditions in relation to the relevant subsidiary and branch being sufficiently separate, and any identified risks are mitigated by specific conditions, and business is only conducted with large wholesale customers.

These key decisions do not have any significant impact on the Branch or the exit of the Wealth and Personal Banking business in New Zealand (the "Retail Wind-Down") that was announced by the Branch on 13 June 2023.

(f) Changes in accounting policies

Amendments to NZ IAS 12 'International Tax Reform - Pillar Two Model Rules'

In July 2023, the XRB issued amendments to NZ IAS 12 'International Tax Reform - Pillar Two Model Rules', which became effective in August 2023.

On 20 June 2023, legislation was substantively enacted in the UK (the jurisdiction of the group's ultimate parent entity, HSBC Holdings plc) to introduce the 'Pillar Two' global minimum tax model rules of the OECD's Inclusive Framework on Base Erosion and Profit Shifting ("BEPS"), with effect from 1 January 2024. Under these rules, a top-up tax liability arises where the effective tax rate of HBAP's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any additional tax arising in relation to jurisdictions in which a Qualified Domestic Minimum Top-up Tax ("QDMTT") applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, any resulting tax is payable by HSBC Holdings plc, being the Group's ultimate parent, to the UK tax authority.

On 18 May 2023, the government of New Zealand released draft Pillar Two legislation to incorporate the OECD Model Rules, associated Commentary and Agreed Administrative Guidance by reference in New Zealand legislation with an expected effective date of 1 January 2024. The draft legislation contains a Domestic Income Inclusion Rule which is proposed to apply to in-scope New Zealand headquartered multinational enterprises. There is currently no proposal to introduce a QDMTT rule in New Zealand.

On 11 March 2024, the draft Pillar Two legislation was reported back by the Finance and Expenditure Committee with a number of recommendations which included:

- the Income Inclusion and Under-Taxed Profits Rules will apply from 1 January 2025; and
- the Domestic Income Inclusion Rule applying from 1 January 2026.

Based on the Group's forecasts, no top-up tax liability is expected to arise in New Zealand. Nonetheless, the impact is dependent upon the ongoing evolution of rules and guidance in New Zealand and other jurisdictions.

Amendments to NZ IAS 1 'Presentation of Financial Statements'

The Banking Group adopted the amendments to NZ IAS 1 'Presentation of Financial Statements'. Effective 1 January 2023, these amendments require material accounting policy information to be disclosed instead of significant accounting policies.

There were no other changes in accounting policy during 2023. There have been no changes in methods of computation.

(g) Authorisation of financial statements

These financial statements were authorised for issue on 21 March 2024 by Noel McNamara on behalf of the directors of The Hongkong and Shanghai Banking Corporation Limited.

(h) Future accounting developments

The Banking Group has considered all standards issued but not yet effective and determined that they will have no material impact on the financial statements.

(i) Climate-Related Disclosures (effective 1 January 2023)

In December 2022, the External Reporting Board published New Zealand Climate Standards 1, 2, & 3. The Banking Group is a climate-reporting entity under the Financial Markets Conduct Act 2013 and is required to prepare climate-related disclosures from the year ended 31 December 2023. The Banking Group will publish these climate-related disclosures in a separate Climate Statement. This Climate Statement can be accessed on the Banking Group's website www.hsbc.co.nz under the Disclosure Statement link on or before 30 April 2024.

1.2 Summary of material accounting policies

The accounting policies that are deemed critical to our results and financial position, in terms of the materiality of the items to which the policies are applied and the high degree of judgement involved, including the use of assumptions and estimation, are discussed below.

The results of the Banking Group are sensitive to the accounting policies, assumptions and estimates that underlie the preparation of the aggregated financial statements.

(a) Interest income and expense

Interest income and expense for all financial instruments, excluding those classified as held for trading or designated at fair value are recognised in 'Interest income' and 'Interest expense' in the statement of comprehensive income using the effective interest method. Interest income on impaired financial assets is recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

(b) Non-interest income and expenses

The Banking Group generates fee income from services provided at a fixed price over time, such as account services, or when delivering a specific transaction at a point in time such as broking services and import/export services. Fees are generated at a fixed price. Fee income is generally earned from short term contracts with payment terms that do not include a significant financing component.

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

The Banking Group recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement. Where the Banking Group offers a package of services that contain multiple non-distinct performance obligations, such as those in account service packages, the promised services are treated as a single performance obligation.

(c) Employee benefits

Short-term benefits

Short-term benefits for services received from employees are recognised as an expense during the accounting period in which employee service is rendered. Any difference between the expense recognised and cash payments made is recognised as a liability or prepayment as appropriate. The expense recognised should be undiscounted.

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense as the employees render service.

(d) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest, such as most loans and advances, are initially measured at fair value and subsequently measured at amortised cost less allowances for credit losses. Most financial liabilities are initially measured at fair value and subsequently measured at amortised cost. The carrying value of these financial instruments 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, unless the loan becomes impaired.

(e) Financial assets measured at fair value through other comprehensive income ("FVOCI")

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling financial assets and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise the Banking Group's debt securities held for liquidity management purposes. They are recognised on the trade date when the Banking Group enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the profit or loss as 'Other net operating income'. Financial assets measured at FVOCI are included in the impairment calculations and impairment is recognised in the profit or loss.

(f) Derivative financial instruments

Derivatives are financial instruments that derive their value from the price of underlying items such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices. Derivatives are recognised initially, and are subsequently remeasured, at fair value, with changes in fair value recorded in the statement of comprehensive income. Fair values of derivatives are obtained either from quoted market prices or by using valuation techniques. Gains and losses from changes in the fair value of derivatives, including the contractual interest are reported in 'Net trading income'.

Derivatives are classified as assets when their fair value is positive, or as liabilities when their fair value is negative.

Derivative assets and liabilities arising from different transactions are only offset for accounting purposes if the offsetting criteria presented in the Offsetting policy ('Financial Instruments – right to offset') are met.

(g) Financial instruments – Right to offset

Financial assets and liabilities are offset, and the net amount reported in the Balance Sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or realise the asset and settle the liability simultaneously.

Derivative agreements included in the amounts subject to enforceable netting arrangements but not offset in the balance sheet relate to transactions where:

- The counterparty has an offsetting exposure with the Banking Group and a master netting or similar arrangement is in place with a right of set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- Cash and non-cash collateral received/pledged in respect of the transactions described above.

(h) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ("ECL") are recognised for advances to banks and customers, other financial assets held at amortised cost, debt instruments measured at fair value through other comprehensive income, and certain loan commitments and financial guarantee contracts. At initial recognition, allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) ("12-month ECL"). In the event of a significant increase in credit risk, allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument ("lifetime ECL"). Financial assets where 12-month ECL is recognised are considered to be 'stage 1'; financial assets which are considered to have experienced a significant increase in credit risk are in 'stage 2'; and financial assets for which there is objective evidence of impairment are considered to be in default or otherwise credit-impaired are in 'stage 3'. Purchased or originated credit-impaired financial assets ("POCI") are treated differently as set out below.

Credit-impaired (stage 3)

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

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

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit a longer period. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit impaired. Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e. gross carrying amount less ECL allowance.

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. Collection procedures may continue after write-off.

Renegotiation

Loans are identified as renegotiated and classified as credit-impaired when we modify the contractual payment terms due to significant credit distress of the borrower. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial instrument. Any new loans that arise following 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 renegotiated are considered to be commercial restructuring. Where a commercial restructuring results in a modification (whether legalised through an amendment to the existing terms or the issuance of a new loan contract) such that the Banking Group's rights to the cash flows under the original contract have expired, the old loan is derecognised and the new loan is recognised at fair value. The rights to cash flows are generally considered to have expired if the commercial restructure is at market rates and no payment-related concession has been provided.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant, and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending. 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 corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default which encompasses a wide range of information including the obligor’s customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average probability of default (“PD”) for the remaining term estimated at origination with the equivalent estimation at reporting date (or where the origination PD has doubled in the case of origination credit risk rating (“CRR”) is less than ‘satisfactory’). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of NZ IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle (“TTC”) PDs and TTC migration probabilities, consistent with the instrument’s underlying modelling approach and the CRR at origination.

For certain portfolios of debt securities where external market ratings are available and credit ratings are not used in credit risk management, the debt securities will be in stage 2 if their credit risk increases to the extent, they are no longer considered investment grade. Investment grade is where the financial instrument has a low risk of incurring losses, the structure has a strong capacity to meet its contractual cash flow obligations in the near term and adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil their contractual cash flow obligations.

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from delinquency levels. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by product. Within each portfolio, the stage 2 accounts are defined as accounts where there have been any delinquency pre-90 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs. During 2023, we ceased retail lending as a result of the Retail Wind-Down. As at 31 December 2023, the balance for retail lending was nil due to the sale of the mortgage portfolio.

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.

Purchased or originated credit-impaired (“POCI”)

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower’s financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition. The Banking Group does not have any POCI financial assets.

Movement between stages

Financial assets can be transferred between the different categories (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans that are not POCI will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

Measurement of ECL

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

In general, the Banking Group calculates ECL using three main components, a probability of default (“PD”), a loss given default (“LGD”) and the exposure at default (“EAD”).

The 12-month ECL is calculated by multiplying the 12-month PD, LGD and EAD. Lifetime ECL is calculated using the lifetime PD instead. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument respectively.

The EAD represents the expected balance at default, considering the repayment of principal and interest from the balance sheet date to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

The Banking Group leverages the Basel IRB framework issued by the Basel Committee on Banking Supervision where possible, with recalibration to meet the differing NZ IFRS 9 requirements as follows:

Model	Basel IRB framework	NZ IFRS 9
PD	– Through the cycle (represents long-run average PD throughout a full economic cycle) – The definition of default includes a backstop of 90+ days past due	– Point in time (based on current conditions, adjusted to take into account estimates of future conditions that will impact PD) – Default backstop of 90+ days past due for all portfolios
EAD	– Cannot be lower than current balance	– Amortisation captured for term products
LGD	– Downturn LGD (consistent losses expected to be suffered during a severe but plausible economic downturn) – Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data – Discounted using cost of capital – All collection costs included	– Expected LGD (based on estimate of loss given default including the expected impact of future economic conditions such as changes in value of collateral) – No floors – Discounted using the original effective interest rate of the loan – Only costs associated with obtaining/selling collateral included
Other		– Discounted back from point of default to balance sheet date

While 12-month PDs are recalibrated from Basel models where possible, the lifetime PDs are determined by projecting the 12-month PD using a term structure. For the wholesale methodology, the lifetime PD also takes into account credit migration, i.e. a customer migrating through the CRR bands over its life.

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow methodology. The expected future cash flows are based on the wholesale credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest.

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

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under three different scenarios are probability-weighted by reference to the four economic scenarios applied more generally and the judgement of the credit risk officer in relation to the likelihood of the workout strategy succeeding or receivership being required. For less significant cases, the effect of different economic scenarios and work-out strategies is approximated and applied as an adjustment to the most likely outcome.

Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Banking Group is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Banking Group's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Banking Group remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised within other liabilities. During 2023, we ceased retail lending as a result of the Retail Wind-Down. As at 31 December 2023, the balance for retail lending was nil due to the sale of the mortgage portfolio.

Forward-looking economic inputs

The Banking Group will in general apply multiple forward-looking global economic scenarios determined by Group with reference to external forecast distributors representative of our view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected loss in most economic environments.

Critical accounting judgements

Impairment of amortised cost and FVOCI financial assets

The application of NZ IFRS 9 creates critical accounting estimates and judgements related to impairment of financial assets. In determining ECL management is required to exercise judgement in defining what is considered to be a significant increase in credit risk and in making assumptions and estimates to incorporate relevant information about past events, current conditions and forecasts of economic conditions.

Judgement has been applied in:

- Defining what is considered to be a significant increase in credit risk;
- Determining the lifetime and point of initial recognition of revolving facilities;
- Selecting and calibrating the PD, LGD and EAD models which support these calculations including making reasonable and supportable judgements about how models react to current and future economic conditions;
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss;
- Making management adjustments to account for late breaking events, model and data limitations and deficiencies, and expert credit judgements.

Model redevelopment

The HBAP Model Risk Management team, in conjunction with local management, continues to review NZ IFRS 9 model performance at a country level on an annual basis to assess whether the models in place can deliver reliable outputs. Where model redevelopment is required to improve the reliability to outputs, the models are independently validated by the HBAP Model Risk Management team and the impact on ECL is described in Note 7: Asset quality – gross exposure and expected credit loss. There were no material recalibrations or redevelopment of the model in the current reporting period.

Measurement uncertainty and sensitivity of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses and probability-weight the results to determine an unbiased ECL estimate. Management judgemental adjustments are used to address late-breaking events, data and model limitations, and expert credit judgements.

Methodology

At 31 December 2023, four economic scenarios were used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and estimates every quarter.

Three scenarios, the Upside, Central and Downside are drawn from consensus forecasts, market data and distributional estimates of a range of economic outcomes. The fourth scenario, the Downside 2, represents management's view of severe downside risks.

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

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

The fourth scenario, Downside 2, is designed to represent management's view of severe downside risks. It is a globally consistent, narrative-driven scenario that explores a more extreme economic outcome than those captured by the consensus scenarios. In this scenario, variables do not, by design, revert to long-term trend expectations and may instead explore alternative states of equilibrium, where economic activity moves permanently away from past trends.

At 31 December 2023, the standard approach to scenario weightings was applied as key uncertainty and risk metrics were aligned to their historical averages. Economic forecasts for the Central scenario have remained stable and the dispersion within consensus forecast panels has remained low.

Description of consensus economic scenarios

The economic assumptions presented in this section have been formed by the Banking Group with reference to external forecasts and estimates, specifically for the purpose of calculating ECL.

Forecasts remain subject to uncertainty and variability. Outer scenarios are constructed so that they capture risks that could alter the trajectory of the economy and are designed to encompass the potential crystallisation of number of key macro-financial risks.

Central scenario forecasts remained broadly stable in the fourth quarter of 2023. The key exception was with regard to monetary policy, where expectations for interest rate cuts were brought forward. There continues to be expectations that 2024 will be a period of below trend growth, with inflation remaining above central bank targets.

At the end of 2023, risks to the economic outlook included a number of significant geopolitical issues. Within our downside scenarios, the economic consequences from the crystallisation of those risks are captured by higher commodity and goods prices, the re-acceleration of inflation, a further rise in interest rates and a global recession.

The consensus Central scenario

The Banking Group's Central scenario reflects expectations for a low growth and high interest rate environment where GDP growth is expected to be lower in 2024, than in the previous year.

GDP is expected to grow by 2.0% in 2024 in the Central scenario, and the average rate of GDP growth is forecast to be 2.4% over the five-year forecast period. This is below the average growth rate over the five-year period prior to the onset of the pandemic.

The consensus Upside scenario

Compared with the Central scenario, the consensus Upside scenario features stronger economic activity in the near term, before converging to long-run trend expectations. It also incorporates a faster fall in the rate of inflation than incorporated in the Central scenario.

The scenario is consistent with a number of key upside risk themes. These include a faster fall in the rate of inflation that allows central banks to reduce interest rates more quickly; an easing in financial conditions; and de-escalation in geopolitical tensions, as the Israel-Gaza and Russia-Ukraine wars moves towards conclusions, and the US-China relationship improves.

Downside scenarios

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

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

A wage-price spiral, triggered by higher inflation and labour supply shortages could put sustained upward pressure on wages and services prices, aggravating cost pressures and increasing the squeeze on household real incomes and corporate margins. In turn, it raises the risk of a more forceful policy response from central banks, a steeper trajectory for interest rates, significantly higher defaults and, ultimately, a deep economic recession.

The consensus Downside scenario

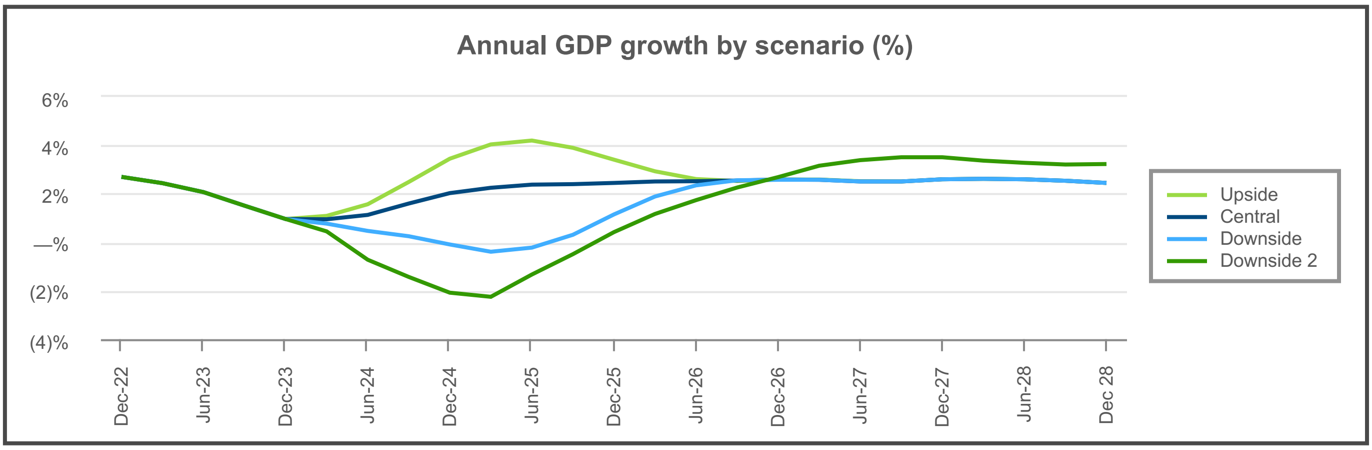
In the consensus Downside scenario, economic activity is weaker compared to the Central Scenario. In this scenario, GDP declines, unemployment rates rise, and asset prices fall. The scenario features an escalation of geopolitical tensions, which causes a rise in inflation, as supply chain constraints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

The Downside 2 scenario

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

The following tables describe key macroeconomic variables used in the various scenarios as at 4Q23.

Central Scenario	GDP growth % (annual)	House price growth % (annual)	Unemployment %
As at Q423			
December 2024	**2.0**	**4.0**	**4.6**
1Q25 - 4Q28: average	**2.4**	**4.6**	**4.4**
As at Q422			
December 2023	1.6	(6.0)	4.1
1Q24 - 4Q27: average	2.3	1.8	4.4



Outer Scenarios	Best period		Worst period	
	Annual change %	Year ending	Annual change %	Year ending
As at Q423				
GDP growth %	**4.2**	**Jun-25**	**(2.2)**	**Mar-25**
House price growth %	**7.4**	**Sep-24**	**(4.2)**	**Sep-25**
As at Q422				
GDP growth %	4.9	Sep-24	(3.1)	Dec-23
House price growth %	5.3	Dec-24	(14.3)	Jun-23

Outer Scenarios	Best period		Worst period	
	Annual change %	As at	Annual change %	As at
As at Q423				
Unemployment rate%	**3.7**	**Jun-24**	**8.9**	**Dec-25**
As at Q422				
Unemployment rate%	3.2	Jun-23	8.8	Dec-24

The calculation of ECL under NZ IFRS 9 involves significant judgements, assumptions and estimates at 31 December 2023. These included:

- the selection of weights to apply to the economic scenarios given the rapidly changing economic conditions and the inherent uncertainty of the underlying forecast under each scenario;
- the selection of scenarios to consider given the changing nature of macroeconomic and geopolitical risks that the Bank and wider economy faces; and
- estimating the economic effects of those scenarios on ECL, particularly sector and portfolio specific risks and the uncertainty of default and recovery experience under all scenarios.

How economic scenarios are reflected in of ECL calculations

The Group has developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. For wholesale portfolios, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates. For LGD calculations we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For our retail portfolios, the models are predominantly based on historical observations and correlations with default rates and collateral values. For PD, the impact on economic scenarios is modelled for each portfolio, leveraging historical relationships between default rates and macro-economic variables. These are included within NZ IFRS 9 ECL estimates using either economic response models or models which contain internal, external and macro-economic variables. The macro-economic impact on PD is modelled over a period equal to the remaining maturity of underlying assets. For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value profiles for the remaining maturity of the asset, leveraging national level house price index forecast and applying the corresponding LGD expectation relative to the updated forecast collateral values. During 2023, we ceased retail lending as a result of the Retail Wind-Down. As at 31 December 2023, the balance for retail lending was nil due to the sale of the mortgage portfolio.

Management judgemental adjustments

In the context of NZ IFRS 9, management judgemental adjustments are typically short-term increases or decreases to the modelled ECL at either a customer or portfolio level where management believes ECL results do not sufficiently reflect the credit risk/expected credit losses at the reporting date. These can relate to risks or uncertainties which are not reflected in the models and/or to any late breaking events with significant uncertainty, subject to management review and challenge. The Banking Group has internal governance in place to regularly monitor management judgemental adjustments and where possible to reduce the reliance on these through model recalibration or redevelopment, as appropriate. The drivers of management judgemental adjustments continue to evolve with the economic environment, and as new risks emerge.

At 31 December 2023, the expected credit loss on corporate exposures in our wholesale portfolio was not impacted by model adjustments (31 December 2022: wholesale ECL adjusted down by $10 million to $6.2 million).

Economic scenarios sensitivity analysis of ECL estimates

Management considered the sensitivity of the ECL outcome against the economic forecasts as part of the ECL governance process by recalculating the ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting ECL.

The ECL calculated for the Upside and Downside scenarios should not be taken to represent the upper and lower limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating ECL for loans at the balance sheet date. There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

The sensitivity analysis below includes ECL on all assets exposed to credit risk and incorporates model adjustments as appropriate.

Sensitivity: Total ECL	Central $000	Upside $000	Downside $000	Downside 2 $000	Reported $000
31 December 2023	**6,166**	**5,298**	**7,772**	**17,985**	**6,831**
of which:					
Stage 1	***3,530***	***3,140***	***4,290***	***9,549***	***3,868***
Stage 2	***2,636***	***2,158***	***3,482***	***8,436***	***2,963***
31 December 2022	5,084	2,093	10,038	29,332	7,138

In 2023, the sensitivity values for the Downside and Downside 2 scenarios have decreased mainly due to a larger proportion of exposures classified as stage 2. The sensitivity weightings for are reported in the table below:

Sensitivity weightings	Central %	Upside %	Downside %	Downside 2 %
31 December 2023	**75**	**10**	**10**	**5**
31 December 2022	70	5	20	5

In early 2023, as the threat of severe disruption (for example, from lockdowns) receded, scenario weightings were recalibrated to the Group's standard scenario probability framework.

(i) Property, Plant and Equipment

Leasehold improvements are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on a straight-line basis to write off the assets over the unexpired term of the lease.

Equipment, fixtures and fittings are stated at cost less accumulated depreciation and impairment losses. Depreciation is calculated on the straight-line basis to write off the assets over their estimated useful lives, which are generally between 3 and 5 years. Where material parts of an asset have different useful lives, they are accounted for as separate assets.

(j) Foreign currencies

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

(k) Intangible assets

Goodwill

Goodwill represents the difference between the cost of an acquisition and the fair value of the net identifiable assets acquired. Acquisition expenses such as professional fees and legal fees directly attributable to an acquisition are expensed. If the amount of the identifiable assets and liabilities acquired is greater than the cost, the difference is recognised immediately in the profit or loss.

Goodwill is stated at cost less any accumulated impairment losses.

Goodwill is allocated to cash generating units ("CGU") for the purpose of impairment testing, which is undertaken at the lowest level at which goodwill is monitored for internal management purposes. Impairment testing is performed at least annually, or whenever there is an indication of impairment, by comparing the carrying amount of the CGU with its recoverable amount, which is the higher of the fair value less costs of disposal ("FVLCOD") or the value in use ("VIU"). The carrying amount of a CGU is based on its assets and liabilities, including attributable goodwill.

When the recoverable amount of a CGU is less than its carrying value, an impairment loss is recognised in the profit or loss. Goodwill is carried on the balance sheet at cost less accumulated impairment losses.

Critical accounting judgements

Goodwill impairment – Value in use

The review of goodwill for impairment reflects management's best estimate of the future cash flows of the cash generating unit ("CGU") and the rates used to discount these cash flows, both of which are subject to uncertain factors. The accuracy of forecast cash flows is subject to a high degree of uncertainty in volatile market conditions.

Goodwill assessment for the Wealth and Personal Banking CGU ("WPB CGU")

At 31 December 2022, goodwill was assessed using a FVLCOD assessment. FVLCOD was calculated by applying observable price earnings multiples of comparable companies to the adjusted earnings of the WPB CGU as at 31 December 2022. There was no impairment of goodwill identified.

On 13 June 2023, the Branch announced that it will be exiting its WPB business in New Zealand via a wind-down. As a result of this announcement, at 30 June 2023 goodwill was assessed using a VIU assessment for the WPB CGU which resulted in an impairment write-down of $12.8m which reduced the WPB goodwill carrying value to nil.

In determining the recoverable amount of the WPB CGU, management considered both VIU and FVLCOD assessments and concluded that the VIU assessment provided the higher recoverable amount.

The table below outlines key assumptions used in the VIU impairment test for 30 June 2023:

Key Assumption	30 June 2023 basis (WPB CGU only)
Forecast period	Three year operating plan approved by New Zealand senior management
Terminal growth rate	—%
Discount rate	17.0% pre tax
Result	Impairment recorded as carrying value exceeds recoverable value

On 1 September 2023, as part of the Retail Wind-Down, the Branch announced that it had entered into an agreement to sell its New Zealand mortgage portfolio to Pepper Money Limited. The mortgage portfolio transferred to Pepper Money Limited on 1 December 2023 and a loss of $74.3m was recognised in relation to this sale.

At 31 December 2023, the goodwill amount for WPB CGU was nil as a result of the impairment write-down during 2023.

Goodwill assessment for the Global Banking and Markets CGU ("GBM CGU")

At 31 December 2023, goodwill was assessed using a VIU assessment for the GBM CGU. The table below outlines key assumptions used in the VIU impairment test compared to the most recent annual test performed.

Key Assumption	31 December 2023	31 December 2022
Forecast period	Five year operating plan approved by HBAP senior management.	Five year operating plan approved by HBAP senior management.
Terminal growth rate	2.44% being 20 year average of New Zealand GDP growth.	2.38% being 20 year average of New Zealand GDP growth.
Discount rate	14.5% pre-tax.	13.1% pre-tax.
Result	No impairment recorded as recoverable value exceeds carrying value.	No impairment recorded as recoverable value exceeds carrying value.

Other intangible assets

Intangible assets include internally generated computer software and customer relationships purchased. Intangible assets that have an indefinite useful life or are not yet ready for use are tested at least annually for impairment or at each reporting date where there is an indicator of impairment.

Intangible assets that have a finite useful life are stated at cost less amortisation and accumulated impairment losses and are amortised on a straight line basis over their useful lives as follows:

- Software – 5 years.

Intangible assets are subject to impairment review at each reporting date to determine if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

(l) Provisions, contingent liabilities and guarantees

Provisions for liabilities and charges are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation which has arisen as a result of past events and for which a reliable estimate can be made.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security and contingent liabilities related to legal proceedings or regulatory matters are not recognised in the financial statements but are disclosed unless the probability of settlement is remote.

Liabilities under financial guarantee contracts which are not classified as insurance contracts are recorded initially at their fair value, which is generally the fee received or the present value of the fee receivable.

Critical accounting judgement

Provisions and contingent liabilities

The recognition and measurement of provisions and contingent liabilities requires the Banking Group to make a number of judgements, assumptions and estimates. This includes whether a present obligation exists, the probability of an outflow of resources embodying economic benefits will be required to settle the obligation and the estimate of the amount of those outflows.

(m) Statement of cash flows

The Statement of Cash Flows has been prepared using the direct approach modified by the netting of certain items as appropriate to provide more meaningful disclosure in compliance with the standards.

Cash and cash equivalents reflect the balance of cash and liquid assets used in the day-to-day cash management of the Banking Group, which are unconditionally convertible into cash within no more than two working days. For the purpose of the statement of cash flows, cash and cash equivalents include highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value.

(n) Taxation

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

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The group provides for potential current tax liabilities that may arise on the basis of the amounts expected to be paid to the tax authorities.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the balance sheet, and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax is calculated using the tax rates expected to apply in the periods in which the assets will be realised or the liabilities settled.

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

2 Risk management

Our approach to risk

Our risk appetite

We recognise the importance of a strong culture, which refers to our shared attitudes, values and standards that shape behaviours related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk, with the ultimate accountability residing with the Board.

We seek to build our business for the long term by balancing social, environmental and economic considerations in the decisions we make. Our strategic priorities are underpinned by our endeavour to operate in a sustainable way. This helps us to carry out our social responsibility and manage the risk profile of the business. We are committed to managing and mitigating climate-related risks, both physical and transition risk, and continue to incorporate consideration of these into how we manage and oversee risks internally and with our customers.

The following principles guide the Group's overarching appetite for risk and determine how our businesses and risks are managed.

Financial position

- We aim to maintain a strong capital position, defined by regulatory and internal capital ratios.
- We carry out liquidity and funding management for each operating entity, on a stand-alone basis.

Operating model

- We seek to generate returns in line with our risk appetite and strong risk management capability.
- We aim to deliver sustainable and diversified earnings and consistent returns for shareholders.

Business practice

- We have no appetite for deliberately or knowingly causing detriment to consumers, or incurring a breach of the letter or spirit of regulatory requirements.
- We have no appetite for inappropriate market conduct by any member of staff or by any group business.
- We are committed to managing the climate risks that have an impact on our financial position, and delivering on our net zero ambition.
- We consider and, where appropriate, mitigate reputational risk that may arise from our business activities and decisions.
- We monitor non-financial risk exposure against risk appetite, including inadequate or failed internal processes, people and systems, or events that impact our customers or can lead to sub-optimal returns to shareholders, censure, or reputational damage.

Enterprise-wide application

Our risk appetite encapsulates the consideration of financial and non-financial risks. We define financial risk as the risk of a financial loss as a result of business activities. We actively take these types of risks to maximise shareholder value and profits. Non-financial risk is the risk to achieving our strategy or objectives as the result of failed internal processes, people and systems or from external events.

Our risk appetite is expressed in both quantitative and qualitative terms and applied at the global business level and to material operating entities. It continues to evolve and expand its scope as part of our regular review process.

Management reviews and approves the Banking Group's risk appetite annually to make sure it remains fit for purpose. The Banking Group's risk appetite is considered, developed and enhanced through:

- an alignment with our strategy, purpose, values and customer needs;
- trends highlighted in other group risk reports;
- communication with risk stewards on the developing risk landscape;
- strength of our liquidity and balance sheet;
- compliance with applicable laws and regulations;
- effectiveness of the applicable control environment to mitigate risk, informed by risk ratings from risk control assessments;
- functionality, capacity and resilience of available systems to manage risk; and
- the level of available staff with the required competencies to manage risks.

We formally articulate our risk appetite through our risk appetite statement ('RAS'), which is approved at the New Zealand Risk Management Meeting ('RMM'). Setting out our risk appetite ensures that we agree a suitable level of risk for our strategy. In this way, risk appetite informs our financial planning process and helps senior management to allocate capital to business activities, services and products.

The RAS consists of qualitative statements and quantitative metrics, covering financial and non-financial risks. It is applied to the development of business line strategies, strategic and business planning, and remuneration. Performance against the RAS is reported to the New Zealand RMM alongside key risk indicators to support targeted insight and discussion on breaches of risk appetite and associated mitigating actions. This reporting allows risks to be promptly identified and mitigated, and informs risk-adjusted remuneration to drive a strong risk culture.

Risk management policies

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

The implementation of our business strategy remains a key focus. As we implement change initiatives, we actively manage the execution risks. We also perform periodic risk assessments, including against strategies to help ensure retention of key personnel for our continued safe operation.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by the HSBC Group's culture and values. This outlines key principles, policies and practices that we employ in managing material risks, both financial and non-financial.

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

Our risk culture

Our executive risk governance structure is responsible for the enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Banking Group. The fostering of a strong risk culture is a key responsibility of our senior executives.

We use clear and consistent employee communications on risk to convey strategic messages and set the tone from senior management and the Board. We also deploy mandatory training on risk and compliance topics to embed skills and understanding in order to strengthen our risk culture and reinforce the attitude to risk in the behaviour expected of employees, as described in our risk policies.

Our responsibilities

All our people are responsible for identifying and managing risk within the scope of their role as part of the three lines of defence model.

To create a robust control environment to manage risks, we use an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment. The model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities. The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice and guidance in relation to the risk.
- The third line of defence is our Global Internal Audit function, which provides independent assurance that our risk management approach and processes are designed and operating effectively.

Credit risk

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

Credit risk management

We actively managed the risks related to macroeconomic uncertainties, including interest rates, inflation, fiscal and monetary policy, broader geopolitical uncertainties and conflicts.

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

The Credit Risk sub-function in Global Risk and Compliance is responsible for the key policies and processes for managing credit risk, which include formulating group credit policies and risk rating frameworks, guiding the group's appetite for credit risk exposures, undertaking independent reviews and objective assessment of credit risk, and monitoring performance and management of portfolios.

The principal objectives of our credit risk management are:

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

Key risk management processes

Expected credit loss provisioning process
The expected credit loss ("ECL") provisioning process comprises three main areas: modelling and data, implementation; and governance.

Modelling and data
The Group has established modelling and data processes which are subject to internal model risk governance including independent review of significant model developments.

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

Governance
The Banking Group has established a forum with representatives from the businesses, Credit Risk, and Finance in order to review and approve the impairment results.

Concentration of exposure
Concentrations of credit risk arise when there are single material counterparty exposures or when there are a number of counterparties or exposures that have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is uniformly affected by changes in economic, political or other conditions. The Group's credit risk limits to counterparties in the financial and sovereign sectors are managed centrally to optimise the use of credit availability and to avoid excessive risk concentration. The Banking Group remains responsible for its own credit exposures. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries and products. These include where required portfolio and counterparty limits, enhanced approval and review controls.

Credit quality of financial instruments
Our risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the Group. Our credit quality classifications encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses, and the external ratings attributed by external agencies to debt securities. During 2023, we ceased retail lending as a result of the Retail Wind-Down. As at 31 December 2023, the balance for retail lending was nil due to the sale of the mortgage portfolio.

Wholesale Lending
Wholesale lending use a customer risk rating ("CRR") 10-grade scale summarising a more granular 23-grade scale of obligor probability of default ("PD"). All corporate customers are rated using the 10 or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

Each CRR band is associated with an external rating grade by reference to long-run default rates for that grade, represented by the average of issuer-weighted historical default rates. This mapping between internal and external ratings is indicative and may vary over time.

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

Right to offset
The Banking Group does have legal right of off-set in some instances under certain conditions. All balances have been disclosed gross with the conditions giving rise to the legal right of off-set not being present.

Climate-related risk

Overview

The Group's climate risk approach is aligned to the framework outlined by the Financial Stability Board's Task Force on Climate-related Financial Disclosures ('TCFD'), which identifies two primary drivers of climate risk:

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

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

- net zero alignment risk, which arises from the risk of HSBC failing to meet its net zero commitments or failing to meet external expectations related to net zero, because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in external environment.
- the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to the group's stakeholders.

Approach

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

The Group's climate risk approach aims to effectively manage the material climate risks that could impact the Group operations, financial performance, stability and reputation. The approach is informed by the evolving expectations of the Group's regulators. Climate considerations and the thematic issues of net zero alignment risk and the risk of greenwashing are incorporated within the HBAP Group's traditional risk types in line with the Group-wide risk management framework.

The Group's climate risk approach is aligned to the Group-wide risk management framework and three lines of defence model, which sets out how the group identifies, assesses and manages its risk.

The Group aims to regularly review its approach to increase coverage and incorporate maturing data, climate analytics capabilities, frameworks and tools, as well as respond to emerging industry best practice and climate risk regulations.

This includes updating the approach to reflect how the risks associated with climate change continue to evolve in the real world, and maturing how the Group embeds climate risk factors into strategic planning, transactions and decision-making across its businesses.

The HBAP Group is following a materiality based approach in developing its climate risk capabilities across its businesses by prioritising sectors, portfolios and counterparties with the highest impacts.

The HBAP Group continues to make progress in enhancing its climate risk capabilities and recognise it is a long-term iterative process.

The table below provides an overview of the climate risk drivers considered with the Group's climate risk approach. Primary risk drivers refer to risk drivers aligned to the TCFD, which sets a framework to help public companies and other organisations disclose climate-related risks and opportunities.

Climate risk - primary risk drivers		Details	Potential Impacts	Time horizons
Physical	Acute	Increased frequency and severity of weather events causing disruption to business operations	• Decreased real estate values or stranded assets • Decreased household income and wealth • Increased costs of legal and compliance • Increased public scrutiny • Decreased profitability • Lower asset performance	Short term Medium term Long term
	Chronic	Longer-term shifts in climate patterns (e.g. sustained higher temperatures, sea level rise, shifting monsoons or chronic heat waves)		
Transition	Policy and legal	Mandates on, and regulation of products and services and/or policy support for low carbon alternatives. Litigation from parties who have suffered loss and damage from climate impacts		
	Technology	Replacement of existing products with lower emission and/or lower options		
	End-demand (market)	Changing consumer demand from individuals and corporates		
	Reputational	Increased scrutiny following a change in stakeholder perceptions of climate-related action or inaction		

Policies, Processes and Controls

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

Wholesale Credit Risk

The Group has identified six key sectors where globally our wholesale credit customers have the highest climate risk based on their carbon emissions. These are automotive, chemicals, construction and building materials, metals and mining, oil and gas, and power and utilities.

We continue to engage with our largest customers in these high-risk sectors. New Transition Engagement Questionnaires are in the process of being implemented in 2024. These new customer questionnaires are designed to help us assess and improve our understanding of the impact of climate change on our customers' business models and any related transition strategies in an improved fashion to previously. It also helps us to identify potential business opportunities to support the transition.

Market risk

Market risk is the risk of adverse financial impact from movements in market parameters such as foreign exchange rates, commodity prices, interest rates, credit spreads and equity prices. Market risk may arise from instruments which are measured at fair value and those which are measured at amortised cost. The objective of market risk management is to control market risk exposures to achieve an optimal return while maintaining risk at acceptable levels.

The Banking Group monitors market risk separately for trading portfolios and non-trading portfolios and use similar management policies and measurement techniques. Our objective is to manage and control market risk exposures while maintaining a market profile consistent with our risk appetite. The Banking Group does not have significant market risk exposure in the trading portfolios.

Market risk is managed and controlled through limits approved by the Banking Group's RMM. These limits are allocated across business lines. The Banking Group risk limits are determined for each portfolio and are set by product and risk type with market liquidity being a principal factor in determining the level of limits set. Limits are set using a combination of risk measurement techniques, including position limits, sensitivity limits, as well as value at risk limits at a portfolio level.

The Banking Group is required to assess the market risks which arise on each product in its business and to transfer these risks to either its local business units for management, or to separate books managed under the supervision of the Asset Liability Committee ("ALCO"). The aim is to ensure that all market risks are consolidated within operations which have the necessary skills, tools, management and governance to manage such risks professionally.

Market risk in non-trading portfolios arises principally from mismatches between the future yield on assets and their funding cost, as a result of interest rate changes. Analysis of this risk is complicated by having to make assumptions on optionality in certain product areas, for example, behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example, current accounts.

Value at Risk ("VaR")

VaR is a technique for estimating potential losses on risk positions as a result of movements in market rates and prices over a specified time horizon and to a given level of confidence. The use of VaR is integrated into market risk management and calculated for all risk positions regardless of how we capitalise them. Where we do not calculate VaR explicitly, we use alternative tools as summarised in the 'Stress testing' section below.

Our models are predominantly based on historical simulation that incorporates the following features:

- historical market rates and prices, which are calculated with reference to foreign exchange rates, commodity prices, interest rates, equity prices and the associated volatilities;
- potential market movements utilised for VaR, which are calculated with reference to data from the past two years; and
- VaR measures, which are calculated to a 99% confidence level and use a one-day holding period for trading portfolios, 10-day holding period for non-trading portfolios.

The models also incorporate the effect of option features on the underlying exposures. The nature of the VaR models means that an increase in observed market volatility will lead to an increase in VaR without any changes in the underlying positions.

VaR model limitations

Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those that are extreme in nature.
- the use of a 99% confidence level does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not necessarily reflect intra-day exposures.

Stress testing

Stress testing is an important procedure that is integrated into our market risk management framework to evaluate the potential impact on portfolio values of more extreme, although plausible, events or movements in a set of financial variables. In such abnormal scenarios, losses can be much greater than those predicted by VaR modelling.

The Group carries out stress testing at a regional level in HBAP and at a global level in Group using data from internal systems, with relevant results provided to the management of the Banking Group. A standard set of scenarios is utilised consistently across all sites within the Group.

The Banking Group does not hold any significant open trading positions. Under current scenarios the potential adverse profit impact from market risk is immaterial. This is consistent with the comparable period.

Currency risk

The Banking Group's foreign currency exposures comprise those which arise from foreign exchange dealing within Global Markets and currency exposures originated by other banking business. The latter are transferred to Global Markets where they are managed together with exposures which result from dealing within limits approved by HBAP Executive Committee. These exposures are managed on a daily basis.

Foreign currency risk exposure is considered immaterial. A sensitivity analysis is not presented as the sensitivity range is immaterial due to the Banking Group FX exposure being materially hedged.

Interest rate risk

Interest rate risk in the banking book is the risk of an adverse impact to earnings or capital due to changes in market interest rates. It is generated by our non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or that are held in order to hedge positions held with non-trading intent.

This risk is managed by Markets Treasury ("MKTY") business unit and monitored by the Asset Liability Capital Management ("ALCM") function. ALCM reviews and challenges the businesses for interest risk impact assessment prior to new products approval and proposes behavioural assumptions used for interest rate risk buy in. The ALCM function is also responsible for maintaining and updating the transfer pricing framework, and managing liquidity and funding risks in conjunction with MKTY.

MKTY manages the banking book interest rate positions transferred to it within the market risk limits approved by RMM. Traded and Treasury Risk Management ("TTRM") acts as a second line of defence risk steward. Only interest rate risk that can be economically hedged by MKTY is transferred to MKTY. Any interest rate risk that MKTY cannot economically hedge is not transferred and will remain within the global business where the risks originate.

Within the Group a number of measures are used to monitor and control interest rate risk in the banking book, including banking book VaR, Net Interest Income ("NII") sensitivity and Economic Value of Equity ("EVE") sensitivity. NII sensitivity analysis is not presented as the sensitivity range is immaterial to the Banking Group.

Liquidity and funding risk

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

The objective of the Group's liquidity and funding management framework is to ensure that all foreseeable funding commitments can be met when due, and that access to the wholesale markets is co-ordinated and cost-effective. To this end, the Banking Group maintains a diversified funding base comprising core corporate customer deposits and institutional balances. This is augmented with wholesale funding and portfolios of highly liquid assets diversified by currency and maturity which are held to enable the Banking Group to respond quickly and smoothly to unforeseen liquidity requirements.

The Group requires its operating entities to maintain a strong liquidity base to support the risks inherent in our business, meeting regulatory requirements at all times.

Policies and procedures

Management of liquidity and funding is primarily undertaken locally in HBAP's operating entities in compliance with the Group's risk management framework. Limits and metrics are managed locally but are subject to robust global review and challenge to ensure consistency of approach and application of the Group's policies and procedures. These limits vary according to the depth and liquidity of the market in which the entities operate. It is the Group's policy that liquidity and funding risk is managed at an operating entity level to make sure that obligations can be met in the jurisdictions where they fall due, generally without reliance on other parts of the Group. Operating entities are required to meet internal minimum requirements and any applicable regulatory requirements at all times

The primary responsibility for managing liquidity and funding within the Group's framework and risk appetite resides with the Banking Group ALCO.

The Banking Group's principal liquidity and funding risk management procedures and policies, which follow policies established by the Group, include the following:

- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- monitoring balance sheet liquidity and funding ratios against internal and regulatory requirements;
- maintaining a diverse range of funding sources with adequate back-up facilities;
- managing the concentration and profile of term funding;
- maintaining debt financing plans;
- monitoring of depositor concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix; and
- maintaining liquidity and funding contingency plans. These plans identify early indicators of stress conditions and describe actions to be taken in the event of difficulties arising from systemic or other crises, while minimising adverse long-term implications for the business.

Liquidity and funding risk management framework

The Banking Group uses the LCR and NSFR regulatory framework as a foundation, but adds extra metrics, limits and overlays to address the risks that we consider are not adequately reflected by the regulatory framework. An ILM supplements the LCR and NSFR metrics.

An appropriate funding and liquidity profile is managed through a wide set of measures:

- a minimum LCR requirement;
- a minimum NSFR requirement;
- an ILM requirement;
- a legal entity depositor concentration limit;
- cumulative term funding maturity concentration limit;
- annual internal liquidity adequacy assessment process ("ILAAP") by principal operating entity;
- minimum LCR requirement by material currency;
- intra-day liquidity;
- the application of liquidity funds transfer pricing; and
- forward-looking funding assessments.

Liquidity coverage ratio (Unaudited)

The LCR aims to ensure that a bank has sufficient unencumbered high-quality liquid assets ("HQLA") to meet its liquidity needs in a 30-calendar-day liquidity stress scenario. HQLA consist of cash or assets that can be converted into cash at little or no loss of value in markets.

As at 31 December 2023, the Banking Group was above minimum internal risk limits with regards to the LCR.

Net stable funding ratio (Unaudited)

We are required to maintain sufficient stable funding. The Net Stable Funding Ratio ('NSFR') measures stable funding relative to required stable funding, and reflects a bank's long-term funding profile (funding with a term of more than a year). It is designed to complement the LCR.

As at 31 December 2023, the Banking Group was above minimum internal risk limits with regards to the NSFR.

Internal Liquidity Metric (Unaudited)

The ILM provides an internal view of daily liquidity risk considering site-specific idiosyncrasies and the ability to recover through the crisis continuum based on site-specific management actions. Key features of this metric includes a 90-day stress period, HSBC specific behavioural assumptions, localised liquid asset monetisation assumptions and management actions.

As at 31 December 2023, the Banking Group was above minimum internal risk limits with regards to the ILM.

Depositor concentration and term funding maturity concentration (Unaudited)

The LCR and NSFR metrics assume a stressed outflow based on a portfolio of depositors within each deposit segment.

The validity of these assumptions is challenged if the underlying depositors do not represent a large enough portfolio so that a depositor concentration exists. Deposit concentration is measured and monitored at a legal entity basis. Operating entities are also exposed to term re-financing concentration risk if the current maturity profile results in future maturities being overly concentrated in any defined period.

As at 31 December 2023, the Banking Group was above minimum internal risk limits with regards to this metric.

Resilience risk

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

The Enterprise Risk Management target operating model provides a globally consistent view across resilience risks, strengthening our risk management oversight while operating effectively as part of a simplified non-financial risk structure. We view resilience risk across seven sub-risk types related to: third party risk; technology and cyber security risk; transaction processing risk; business interruption and incident risk; data risk; change execution risk; and facilities availability, safety, and security risk.

Key risk management processes

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

Regulatory compliance risk

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

Regulatory compliance risk management

Governance and structure

The Compliance function has now been restructured and integrated into a combined Risk and Compliance function with the appointment of a Group Head of Regulatory Compliance reporting directly to the Group Chief Risk and Compliance Officer. Regulatory Compliance and Financial Crime teams work together and with relevant stakeholders to achieve good conduct outcomes, and provide enterprise-wide support on the compliance risk agenda in close collaboration with colleagues from the Risk and Compliance function.

Key risk management processes

The Global Regulatory Compliance capability is responsible for setting global policies, standards and risk appetite to guide the management of regulatory compliance risk. It also devises the required frameworks, support processes and tooling to protect against regulatory compliance risks. The capability provides oversight, review and challenge of the business to help them identify, assess and mitigate regulatory compliance risks, where required. The Banking Group's regulatory compliance risk policies are regularly reviewed. Global policies and procedures require the prompt identification and escalation of any actual or potential regulatory breach. Relevant reportable events are escalated to risk management committees as appropriate.

Financial crime risk

Financial crime risk is the risk that HSBC's products and services will be exploited for criminal activity. This includes fraud, bribery and corruption, tax evasion, sanctions and export control violations, money laundering, terrorist financing and proliferation financing. Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.

Financial crime risk management

Governance and structure

The structure of the Financial Crime sub-function remained substantively unchanged in 2023, although we continued to review the effectiveness of our governance framework to manage financial crime risk.

Key risk management processes

We will not tolerate knowingly conducting business with individuals or entities believed to be engaged in criminal activity. We require everybody in HSBC to play their role in maintaining effective systems and controls to prevent and detect financial crime. Where we believe we have identified suspected criminal activity or vulnerabilities in our control framework, we will take appropriate mitigating action.

We manage financial crime risk because it is the right thing to do to protect our customers, shareholders, staff, the communities in which we operate, as well as the integrity of the financial system on which we all rely. We operate in a highly regulated industry in which these same policy goals are codified in laws and regulations. We are committed to complying with the law and regulation of all the markets in which we operate and applying a consistently high financial crime standard globally.

We continue to assess the effectiveness of our end-to-end financial crime risk management framework and invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. We have simplified our framework and consolidated previously separate, financial crime policies into a single policy to drive consistency and provide a move holistic assessment of financial crime risk. We further strengthened our financial crime risk taxonomy and control libraries and our monitoring capabilities through technology deployments. We developed more targeted metrics and continued to seek to enhance our governance and reporting.

The group is committed to working in partnership with the wider industry and the public sector in managing financial crime risk and participates in numerous public-private partnerships and information-sharing initiatives around the world. In 2023, our focus remained on measures to improve the overall effectiveness of the global financial crime framework, notably by providing input into legislative and regulatory reform activities. We did this by contributing to the development of responses to consultation papers focused on how financial crime risk management frameworks can deliver more effective outcomes in detecting and deterring criminal activity. Through the group's work with the Wolfsberg Group and the Institute of International Finance, we supported the efforts of the global standard setter, the Financial Action Task Force.

Internal audit

Internal audit is an integral part of the control environment of the Group. It provides management and, through the Audit Committee, the Board with an independent and objective review of the business activities and support functions of the Group. The Banking Group does not have a separate Audit Committee or internal audit function. The Group's internal audit department has authority of access to all operations, records, property and staff at each location. All employees are required to co-operate fully with and provide full and complete information to the Group's internal auditors in the performance of their assigned duties. Though some audit cycles are predetermined by regulatory or similar stipulations, in general, audits throughout the Group are carried out on a frequency determined primarily by the risk grading allocated to the business unit at the time of the previous audit, with units considered to represent greater risks being audited at more frequent intervals. There are no regulatory stipulations governing the internal audit cycles of the Banking Group.

Access to parental disclosures on risk management processes and capital adequacy requirements

The most recent publicly available disclosures on risk management processes and capital adequacy requirements of HBAP Group and HSBC Holdings plc ("Group") can be found at HSBC Holdings plc's website, www.hsbc.com.

3 Operating income

	2023 $000	2022 $000
Net interest income		
Interest income	**408,253**	213,208
Advances to banks	**99,579**	45,891
Financial instruments[1]	**19,824**	4,330
Advances to customers	**251,596**	150,901
Related parties – HBAP	**36,649**	11,664
Related parties – other	**581**	393
Other	**24**	29
Interest expense	**(274,304)**	(115,912)
Deposits by banks	**(10,962)**	(3,696)
Customer deposits	**(137,449)**	(61,759)
Debt securities	**(19,108)**	(12,947)
Related parties – HBAP	**(98,207)**	(36,903)
Related parties – other	**(8,281)**	(281)
Lease liability	**(297)**	(326)
Other	**—**	—
Year ended 31 Dec	**133,949**	97,296
Net trading income[2]		
Foreign exchange gains / (losses)	**11,828**	11,179
Gains / (losses) on revaluation of derivatives	**(9)**	409
Credit valuation adjustments on derivatives	**1**	1
Debit valuation adjustments on derivatives	**(1)**	(2)
Year ended 31 Dec	**11,819**	11,587
Other net operating income		
Fee and commission income	**47,320**	41,767
Lending and credit facility fees	**21,276**	16,961
Custody and clearing fees	**5,603**	5,690
Other fees and commissions from:		
– Third parties	**14,018**	13,046
– Related parties - HBAP	**4,546**	4,505
– Related parties - other	**1,877**	1,565
Fee and commission expense	**(5,988)**	(3,785)
Brokerage expense	**(2,984)**	(2,580)
Other fees and commissions to:		
– Third parties	**(1,060)**	(827)
– Related parties - HBAP	**(1,944)**	(315)
– Related parties - other	**—**	(63)
Other income	**494**	131
Third parties	**129**	129
Related parties - other	**359**	2
(Loss) / gain on disposal plant property and equipment	**6**	—
Year ended 31 Dec	**41,826**	38,113

1 *Interest income from Financial Instruments consists solely of financial assets measured at fair value through other comprehensive income.*
2 *Trading income consists solely of income and expenses derived from assets and liabilities held at fair value through profit or loss.*

All other items of income and expense are derived solely from financial assets and liabilities measured at amortised cost.

4 Operating expenses

	2023 $000	2022 $000
Rental expense	**89**	51
Premises	**31**	—
Equipment	**58**	51
Depreciation and amortisation	**5,536**	5,094
Lease Right of use assets	**1,853**	1,838
Leasehold improvements	**1,440**	1,439
Equipment, fixtures and fittings	**1,415**	587
Intangibles	**828**	1,230
Staff costs	**40,693**	36,897
Salaries & other staff expenses	**32,745**	32,173
Defined contribution pension costs	**2,427**	2,394
Share based payments	**113**	96
Other	**5,408**	2,234
Other	**39,472**	35,195
Related party management and technical fees – HBAP	**19,887**	18,316
Related party management and technical fees – other	**8,798**	7,750
Donations	**92**	97
Other operating expenses	**10,695**	9,032
Year ended 31 Dec	**85,790**	77,237

5 Auditor's remuneration

Fees paid/payable to the auditor of the Banking Group in relation to the review of the financial statements and for the limited assurance engagement on compliance with the information required on credit and market risk exposures and capital adequacy related to the 31 December 2023 financial statements amounted to $599 thousand (31 December 2022: $580 thousand).

In 2023, variation fees of $20 thousand were paid to the auditor in relation to the audit of the 31 December 2022 financial statements.

Fees paid in relation to the review of the 30 June 2023 financial statements amounted to $150 thousand (30 June 2022: $145 thousand).

There were no other services provided by the auditor, including any network firms, for the Banking Group in the 2023 financial year (2022 financial year: nil). The amounts above exclude goods and services tax.

6 Advances to customers

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Overdrafts	**41,273**	48,412
Residential mortgages[1]	**—**	1,616,257
Term lending	**2,794,350**	2,565,706
Corporate credit card advances	**3,747**	2,059
Trade finance receivables	**110,657**	493,721
Total gross advances to customers	**2,950,027**	4,726,155
Expected credit loss allowance	**(5,119)**	(5,325)
Total net advances to customers	**2,944,908**	4,720,830

1 *In 2023, the Banking Group entered into an agreement with Pepper Money Limited (Pepper Money) to sell its mortgage portfolio. The transfer of home loans to Pepper Money completed in December 2023.*

7 Asset quality – gross exposure and expected credit loss

Gross exposure of past due but not individually impaired advances to customers

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Less than 30 days	**68,143**	29,811
At least 30 days but less than 60 days	**—**	—
At least 60 days but less than 90 days	**1**	—
At least 90 days	**—**	—
Total past due but not individually impaired	**68,144**	29,811

Percentage of total gross advances to customers

	At			
	31 Dec 2023		31 Dec 2022	
	Stage 1 & 2	**Stage 3**	Stage 1 & 2	Stage 3
	%	**%**	%	%
Fully collateralised	**11**	**—**	49	97
Partially collateralised	**24**	**—**	8	3
Not collateralised	**65**	**—**	43	—

The changes in percentages presented in the above table were predominantly due to the sale of the retail mortgage portfolio.

Total gross advances to customers by level of collateral

	At			
	31 Dec 2023		31 Dec 2022	
	Stage 1 & 2	**Stage 3**	Stage 1 & 2	Stage 3
	$000s	**$000s**	$000s	$000s
Fully collateralised	**308,002**	**—**	2,291,218	10,192
Partially collateralised	**719,235**	**—**	374,534	316
Not collateralised	**1,922,790**	**—**	2,049,895	—

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

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

Collateral is generally not held over advances to banks, or over amounts due from related parties.

Reconciliation of changes in gross exposure/nominal amount and allowances for loans and advances to banks and customers

The disclosures below provide a reconciliation by stage of the Banking Group's gross exposure/nominal amount, allowances, and expected credit loss for loans and advances to banks and customers, including loan commitments and financial guarantees. Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument.

The transfers of financial instruments represent the impact of stage transfers upon the gross exposure / nominal amount and associated allowance for ECL.

Changes in 'New financial assets originated or purchased', 'assets derecognised (including final repayments)' and 'net further lending / repayment' represent the impact from volume movements within the Banking Group's lending portfolio.

Where possible any overlay and underlay adjustments to the stage allocation of gross exposures, where necessary to reflect the judgements described in Note 1, will be reflected in the below movement tables through increases or decreases in 'transfers from Stage 1 to 2'. The amount of 'Net further lending / repayment' in each stage will also be adjusted to reflect the exposure changes.

The net remeasurement of ECL arising from stage transfers represents the increase or decrease due to these transfers, for example, moving from a 12-month (stage 1) to a lifetime (stage 2) ECL measurement basis. Net remeasurement excludes the underlying customer risk rating / probability of default movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'net new lending and changes to risk parameters (model inputs)' line item.

The movement in expected credit losses for other financial assets are excluded from the tables below as they are not material.

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

	For the year ended 31 Dec 2023							
	Stage 1		Stage 2		Stage 3		Total	
	Gross Exposure	Allowance for ECL	Gross Exposure	Allowance for ECL	Gross Exposure	Allowance for ECL	Gross Exposure	Allowance for ECL
	$000	$000	$000	$000	$000	$000	$000	$000
At 1 Jan 2023	**4,664,074**	**(3,578)**	**831,350**	**(2,789)**	**—**	**—**	**5,495,424**	**(6,367)**
Transfer of financial instruments:								
– transfers from Stage 1 to 2	**(340,156)**	**364**	**340,156**	**(364)**	**—**	**—**	**—**	**—**
– transfers from Stage 2 to 1	**862,447**	**(2,211)**	**(862,447)**	**2,211**	**—**	**—**	**—**	**—**
– transfers to Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– transfers from Stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Net further lending / repayment	**(2,020,043)**	**—**	**317,830**	**—**	**—**	**—**	**(1,702,213)**	**—**
Net re-measurement of ECL arising from transfer of stage	**—**	**1,652**	**—**	**(955)**	**—**	**—**	**—**	**697**
Net new lending and changes to risk parameters (model inputs)	**—**	**1,748**	**—**	**(1,150)**	**—**	**—**	**—**	**598**
Asset derecognised (including final repayments)	**(647,135)**	**31**	**(123,047)**	**85**	**—**	**—**	**(770,182)**	**116**
New financial assets originated or purchased	**1,795,471**	**(1,649)**	**—**	**—**	**—**	**—**	**1,795,471**	**(1,649)**
At 31 Dec 2023	**4,314,658**	**(3,643)**	**503,842**	**(2,962)**	**—**	**—**	**4,818,500**	**(6,605)**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period		**65**		**173**		**—**		**238**
Total ECL profit or loss charge / (release) for the period		**65**		**173**		**—**		**238**
At 1 Jan 2022	4,201,844	(1,041)	218,844	(750)	—	—	4,420,688	(1,791)
Transfer of financial instruments:								
– transfers from Stage 1 to 2	(832,694)	674	832,694	(674)	—	—	—	—
– transfers from Stage 2 to 1	347,487	(1,295)	(347,487)	1,295	—	—	—	—
– transfers to Stage 3	—	—	—	—	—	—	—	—
– transfers from Stage 3	—	—	—	—	—	—	—	—
Net further lending / repayment	4,501	—	184,452	—	—	—	188,953	—
Net re-measurement of ECL arising from transfer of stage	—	1,094	—	(2,920)	—	—	—	(1,826)
Net new lending and changes to risk parameters (model inputs)	—	(1,971)	—	214	—	—	—	(1,757)
Asset derecognised (including final repayments)	(758,737)	42	(57,153)	46	—	—	(815,890)	88
New financial assets originated or purchased	1,701,673	(1,081)	—	—	—	—	1,701,673	(1,081)
Asset written off	—	—	—	—	—	—	—	—
At 31 Dec 2022	4,664,074	(3,578)	831,350	(2,789)	—	—	5,495,424	(6,367)
ECL on loans and advances to banks and customers		2,541		2,039		—		4,580
Write-Off / (Recoveries)		—		—		—		—
ECL on other financial assets profit or loss charge / (release)		—		—		—		—
Other movements		(4)		—		—		(4)
Total ECL profit or loss charge / (release) for the period		2,537		2,039		—		4,576

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

	For the year ended 31 Dec 2023							
	Stage 1		Stage 2		Stage 3		Total	
	Gross Exposure	Allowance for ECL	Gross Exposure	Allowance for ECL	Gross Exposure	Allowance for ECL	Gross Exposure	Allowance for ECL
	$000	$000	$000	$000	$000	$000	$000	$000
At 1 Jan 2023	**1,786,459**	**(195)**	**12,051**	**(90)**	**10,596**	**(466)**	**1,809,106**	**(751)**
Transfer of financial instruments:								—
– transfers from Stage 1 to 2	**(35,290)**	**4**	**35,290**	**(4)**	**—**	**—**	**—**	**—**
– transfers from Stage 2 to 1	**24,205**	**(34)**	**(24,205)**	**34**	**—**	**—**	**—**	**—**
– transfers to Stage 3	**(8,928)**	**1**	**(3)**	**—**	**8,931**	**(1)**	**—**	**—**
– transfers from Stage 3	**1,942**	**(71)**	**—**	**—**	**(1,942)**	**71**	**—**	**—**
Net further lending / repayment	**59,847**	**—**	**(2,541)**	**—**	**15,109**	**—**	**72,415**	**—**
Net re-measurement of ECL arising from transfer of stage	**—**	**119**	**—**	**(18)**	**—**	**(2)**	**—**	**99**
Net new lending and changes to risk parameters (model inputs)	**—**	**71**	**—**	**29**	**—**	**(1)**	**—**	**99**
Asset derecognised (including final repayments)	**(947,498)**	**12**	**(5,682)**	**29**	**(22,752)**	**40**	**(975,932)**	**81**
New financial assets originated or purchased	**149,801**	**(7)**	**—**	**—**	**—**	**—**	**149,801**	**(7)**
Asset derecognised due to sale of mortgage portfolio	**(1,030,538)**	**100**	**(14,910)**	**20**	**(9,942)**	**359**	**(1,055,390)**	**479**
At 31 Dec 2023	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period		**(95)**		**(70)**		**(107)**		**(272)**
Write-Off / (Recoveries)		**—**		**—**		**—**		**—**
ECL on other financial assets profit or loss charge / (release)		**—**		**—**		**—**		**—**
Asset derecognised due to sale of mortgage portfolio		**(100)**		**(20)**		**(359)**		**(479)**
Other movements		**—**		**—**		**—**		**—**
Total ECL profit or loss charge / (release) for the period		**(195)**		**(90)**		**(466)**		**(751)**
At 1 Jan 2022	2,072,678	(138)	11,879	(59)	16,009	(573)	2,100,566	(770)
Transfer of financial instruments:							—	—
– transfers from Stage 1 to 2	(46,672)	5	46,672	(5)	—	—	—	—
– transfers from Stage 2 to 1	39,960	(85)	(39,960)	85	—	—	—	—
– transfers to Stage 3	(3,328)	1	—	—	3,328	(1)	—	—
– transfers from Stage 3	—	—	—	—	—	—	—	—
Net further lending / repayment	(151,892)	—	(1,593)	—	(4,166)	—	(157,651)	—
Net re-measurement of ECL arising from transfer of stage	—	205	—	(140)	—	—	—	65
Net new lending and changes to risk parameters	—	(188)	—	21	—	(67)	—	(234)
Asset derecognised (including final repayments)	(344,239)	43	(4,947)	8	(4,575)	175	(353,761)	226
New financial assets originated or purchased	219,952	(38)	—	—	—	—	219,952	(38)
Asset written off	—	—	—	—	—	—	—	—
At 31 Dec 2022	1,786,459	(195)	12,051	(90)	10,596	(466)	1,809,106	(751)
ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period		57		31		(107)	—	(19)
Write-Off / (Recoveries)		—		—		—	—	—
ECL on other financial assets profit or loss charge / (release)		—		—		—	—	—
Other movements		—		—		—	—	—
Total ECL profit or loss charge / (release) for the period		57		31		(107)	—	(19)

At 31 December 2023, there were no assets under administration (31 December 2022: nil). The aggregate amount as at 31 December 2023 of any undrawn balances on lending commitments to counterparties for whom drawn balances are classified as individually impaired, before deducting allowances for credit impairment loss where applicable, was nil (31 December 2022: nil).

Change in expected credit loss

	For the year ended 31 Dec 2023 $000	31 Dec 2022 $000
Advances to customers		
– new allowances net of allowance releases	**271**	3,273
– recoveries of amounts previously written off	**—**	—
– amounts written off	**—**	—
– transfer related to sale of retail mortgage portfolio	**(479)**	—
Loan commitments and guarantees	**(306)**	1,288
Other financial assets	**208**	(4)
Total change in expected credit loss	**(306)**	4,557

8 Asset quality – financial instruments by stage allocation

Credit quality classification

	Financial Investments	Wholesale Lending		Retail Lending[1]	
	External credit rating	**Internal credit rating**	**12 month probability of default %**	**Internal credit rating**	**12 month probability weighted PD %**
Quality classification					
Strong	**A- and above**	**CRR1 to CRR2**	**0 - 0.169**	**Band 1 and 2**	**0.000 - 0.500**
Good	**BBB+ to BBB-**	**CRR3**	**0.170 - 0.740**	**Band 3**	**0.501 - 1.500**
Satisfactory	**BB+ to B and unrated**	**CRR4 to CRR5**	**0.741 - 4.914**	**Band 4 and 5**	**1.501 - 20.000**
Sub-standard	**B- to C**	**CRR6 to CRR8**	**4.915 – 99.999**	**Band 6**	**20.001 - 99.999**
Impaired	**Default**	**CRR9 to CRR10**	**100.00**	**Band 7**	**100.00**

1 *During 2023, we ceased retail lending as a result of the Retail Wind-Down. As at 31 December 2023, the balance for retail lending was nil due to the sale of the mortgage portfolio.*

Distribution of financial instruments to which the impairment requirements in NZ IFRS 9 are applied, by credit quality and stage allocation

	Strong $000	Good $000	Satisfactory $000	Sub-standard $000	Credit impaired $000	Gross $000	Allowance for ECL $000	Net $000
Advances to customers at amortised cost	**1,301,268**	**1,080,065**	**568,693**	**1**	**—**	**2,950,027**	**(5,119)**	**2,944,908**
– stage 1	**1,301,268**	**920,292**	**373,863**	**—**	**—**	**2,595,423**	**(2,941)**	**2,592,482**
– stage 2	**—**	**159,773**	**194,830**	**1**	**—**	**354,604**	**(2,178)**	**352,426**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Advances to banks at amortised cost[1]	**113**	**—**	**—**	**—**	**—**	**113**	**—**	**113**
– stage 1	**113**	**—**	**—**	**—**	**—**	**113**	**—**	**113**
– stage 2	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Loan and other credit-related commitments	**939,071**	**780,347**	**125,250**	**—**	**—**	**1,844,668**	**(1,119)**	**1,843,549**
– stage 1	**938,071**	**661,600**	**99,283**	**—**	**—**	**1,698,954**	**(621)**	**1,698,333**
– stage 2	**1,000**	**118,747**	**25,967**	**—**	**—**	**145,714**	**(498)**	**145,216**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial guarantees and similar contracts	**2,120**	**19,477**	**1,880**	**215**	**—**	**23,692**	**(367)**	**23,325**
– stage 1	**2,120**	**16,302**	**1,746**	**—**	**—**	**20,168**	**(81)**	**20,087**
– stage 2	**—**	**3,175**	**134**	**215**	**—**	**3,524**	**(286)**	**3,238**
– stage 3	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total at 31 Dec 2023	**2,242,572**	**1,879,889**	**695,823**	**216**	**—**	**4,818,500**	**(6,605)**	**4,811,895**

	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Gross	Allowance for ECL	Net
	$000	$000	$000	$000	$000	$000	$000	$000
Advances to customers at amortised cost	3,378,813	640,562	696,272	—	10,508	4,726,155	(5,325)	4,720,830
– stage 1	3,378,813	357,980	285,034	—	—	4,021,827	(2,333)	4,019,494
– stage 2	—	282,582	411,238	—	—	693,820	(2,526)	691,294
– stage 3	—	—	—	—	10,508	10,508	(466)	10,042
Advances to banks at amortised cost[1]	160,009	—	—	—	—	160,009	(3)	160,006
– stage 1	159,720	—	—	—	—	159,720	—	159,720
– stage 2	289	—	—	—	—	289	(3)	286
– stage 3	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	1,722,561	550,403	107,083	50	88	2,380,185	(1,688)	2,378,497
– stage 1	1,678,526	467,266	99,446	—	—	2,245,238	(1,346)	2,243,892
– stage 2	44,035	83,137	7,637	50	—	134,859	(342)	134,517
– stage 3	—	—	—	—	88	88	—	88
Financial guarantees and similar contracts	12,693	4,851	20,442	195	—	38,181	(102)	38,079
– stage 1	12,693	4,280	6,775	—	—	23,748	(94)	23,654
– stage 2	—	571	13,667	195	—	14,433	(8)	14,425
– stage 3	—	—	—	—	—	—	—	—
Total at 31 Dec 2022	5,274,076	1,195,816	823,797	245	10,596	7,304,530	(7,118)	7,297,412

1 *Advances to banks at Amortised Cost excludes 'Items in the course of collection from other banks'.*

Balances related to cash with central banks, amounts due from related parties, financial investments and other assets do not have a material ECL balance.

9 Concentrations of credit risk

Maximum exposure to credit risk

The maximum credit risk of on-balance sheet financial assets is best represented by the carrying amount of the assets, net of any provision for expected credit loss. The credit risk exposure does not take into account the fair value of any collateral, in the event of other parties failing to perform their obligations under financial instruments.

Credit exposures

	At	
	31 Dec 2023	31 Dec 2022
	$000	$000
On-balance sheet credit exposures		
Cash and demand balances with central banks	**2,798,495**	1,701,305
Advances to banks	**177**	160,051
Financial investments	**1,017,621**	282,556
Derivative financial instruments	**428**	2,005
Advances to customers	**2,944,908**	4,720,830
Amounts due from related parties	**387,589**	835,393
Other assets	**32,280**	24,209
Total on-balance sheet credit exposures	**7,181,498**	7,726,349
Total off-balance sheet credit exposures	**3,012,408**	3,474,333
Total credit exposures	**10,193,906**	11,200,682

Concentrations of credit risk exist if a number of counterparties are engaged in similar economic characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

Concentrations of credit risk by industry and geographical area

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Concentrations of credit risk by industry		
Individual	**—**	1,859,866
Banks and financial institutions	**4,642,789**	3,634,997
Commercial and industrial	**2,036,877**	2,240,804
Commercial real estate and construction	**1,053,043**	1,044,924
Electricity, telecommunication and other utilities	**888,538**	768,978
Wholesale and retail trade	**604,579**	803,805
Agriculture, forestry and mining	**149,692**	241,734
Transport	**350,277**	209,893
Government	**179,617**	106,007
Other	**288,494**	289,674
Total	**10,193,906**	11,200,682
Concentrations of credit risk by geographical area		
New Zealand	**9,125,044**	9,641,321
Hong Kong	**356,531**	699,273
China	**79,297**	240,733
Australia	**124,561**	139,162
United States	**189,648**	116,249
United Kingdom	**54,387**	49,968
Other Overseas	**264,438**	313,976
Total	**10,193,906**	11,200,682

10 Concentrations of funding risk

Concentrations of funding risk by product, industry and geographical area

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Concentrations of funding by product		
Deposits by banks	**257,671**	425,848
Customer deposits	**4,070,528**	4,826,958
Debt securities	**400,000**	400,000
Amounts due to related parties	**2,390,777**	2,024,320
Total	**7,118,976**	7,677,126
Concentrations of funding by industry		
Individual	**346,413**	2,082,042
Banks and financial institutions	**5,039,149**	3,459,186
Commercial and industrial	**652,627**	658,713
Commercial real estate and construction	**164,964**	226,371
Wholesale and retail trade	**313,642**	254,213
Agriculture, forestry and mining	**46,637**	81,370
Transport	**260,846**	367,712
Electricity, telecommunication and other utilities	**78,695**	19,125
Government	**29,921**	60,796
Other	**186,082**	467,598
Total	**7,118,976**	7,677,126
Concentrations of funding by geographical area		
New Zealand	**4,066,872**	3,888,145
Hong Kong	**2,308,311**	2,255,027
China	**53,761**	198,495
United Kingdom	**122,959**	288,985
United States	**57,453**	193,758
Australia	**137,418**	136,819
Other Overseas	**372,202**	715,897
Total	**7,118,976**	7,677,126

11 Financial investments

Carrying amounts of financial investments

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Financial investments measured at fair value through other comprehensive income	**694,043**	282,556
– debt securities	**694,021**	282,534
– equity securities	**22**	22
Debt instruments measured at amortised cost[1]	**323,578**	—
– treasury and other eligible bills	**34,179**	—
– debt securities	**289,399**	—
Total	**1,017,621**	282,556

1 *During 2023, the Banking Group commenced investing in debt instruments measured at amortised cost, i.e. Hold to Collect, as part of treasury risk management.*

12 Customer deposits

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Current accounts	**2,842,347**	2,510,844
Savings and deposit accounts	**1,228,181**	2,316,114
Total customer deposits at amortised cost	**4,070,528**	4,826,958

13 Debt securities

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Medium term notes issued	**400,000**	400,000
Total	**400,000**	400,000

At 31 December 2023, there were no debt securities on demand (31 December 2022: nil).

14 Additional financial disclosures on the balance sheet

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Total interest earning and discount bearing assets	**7,148,790**	7,700,136
Total interest and discount bearing liabilities	**6,890,550**	7,464,508
Total liabilities net of amounts due to related parties	**4,793,773**	5,728,103

15 Other assets

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Accrued interest receivable – third party	**25,905**	16,270
Acceptances and endorsements	**4,713**	5,707
Other	**2,269**	2,652
Total	**32,887**	24,629

16 Other liabilities

	At 31 Dec 2023 $000	31 Dec 2022 $000
Accrued interest payable	**18,655**	19,013
Accruals and deferred income[1]	**12,087**	15,286
Acceptances and endorsements	**4,715**	5,707
Lease liabilities	**13,957**	16,355
Other	**15,789**	13,887
Total	**65,203**	70,248

1 At 31 December 2023, accruals include $7.1m for employee entitlements (31 December 2022: $7.3m).

17 Segment reporting

The Banking Group's operating segments are organised into three business segments representing the products and services offered to customers and a Corporate Centre. The Executive Committee, which includes senior management of each business unit, acts as the Banking Group's chief operating decision-maker and assesses the Banking Group's performance on this basis.

The Banking Group's operations are closely integrated and, accordingly, the presentation of data includes internal allocations of certain items of income and expenses. Allocations include the cost of certain support services and functions to the extent they can be meaningfully attributed. Costs which cannot be allocated to business segments are included in Corporate Centre.

The Banking Group operates primarily in New Zealand and predominately all revenues from and assets held with external customers are generated or held in New Zealand. The Banking Group does not rely on any single major customer for its revenue base.

Business Segments

The Banking Group comprises the following main business segments:

Wealth and Personal Banking
Includes loans, deposits and other transactions with retail customers. On 13 June 2023, the Branch announced that it will be exiting its WPB business in New Zealand via a wind-down. During 2023, we ceased retail lending as a result of the Retail Wind-Down. As at 31 December 2023, the balance for retail lending was nil due to the sale of the mortgage portfolio. Refer to Note 19 for further detail.

Commercial Banking
Manages the relationships with corporate customers providing loans, deposits and other transactions including trade finance and payment solutions.

Global Banking and Markets
Manages the relationships with institutional customers and undertakes the Banking Group's investment banking operations.

Corporate Centre
Includes central and Group support costs with associated recoveries that cannot be meaningfully attributed.

Profit before tax and balance sheet data

	For the year ended 31 Dec 2023				
	Wealth and Personal Banking $000	**Commercial Banking $000**	**Global Banking and Markets $000**	**Corporate Centre $000**	**Aggregated $000**
Net interest income / (loss)	**34,834**	**77,531**	**19,391**	**2,193**	**133,949**
Net trading income / (loss)	**1,812**	**5,734**	**7,641**	**(3,368)**	**11,819**
Net fee and commission income / (loss)	**(111)**	**33,071**	**6,210**	**2,162**	**41,332**
Loss on sale of the retail mortgage portfolio[1]	**(74,303)**	**—**	**—**	**—**	**(74,303)**
Other income	**—**	**129**	**—**	**365**	**494**
Net operating income / (loss) before loan impairment charges	**(37,768)**	**116,465**	**33,242**	**1,352**	**113,291**
Change in expected credit loss	**754**	**(248)**	**(200)**	**—**	**306**
Net operating income	**(37,014)**	**116,217**	**33,042**	**1,352**	**113,597**
Operating (expense) / recovery	**(36,468)**	**(40,748)**	**(10,027)**	**1,453**	**(85,790)**
Goodwill impairment	**(12,841)**	**—**	**—**	**—**	**(12,841)**
Operating profit before tax	**(86,323)**	**75,469**	**23,015**	**2,805**	**14,966**
Balance sheet data					
Advances to customers	**—**	**2,944,388**	**520**	**—**	**2,944,908**
Customer deposits	**376,416**	**1,785,683**	**1,908,429**	**—**	**4,070,528**

	Year ended 31 Dec 2022				
	Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Aggregated
	$000	$000	$000	$000	$000
Net interest income / (loss)	37,457	47,990	10,727	1,122	97,296
Net trading income / (loss)	1,498	5,726	6,981	(2,618)	11,587
Net fee and commission income / (loss)	(48)	28,756	5,958	3,316	37,982
Other income	—	129	—	2	131
Net operating income / (loss) before loan impairment charges	38,907	82,601	23,666	1,822	146,996
Change in expected credit loss	16	(4,617)	44	—	(4,557)
Net operating income	38,923	77,984	23,710	1,822	142,439
Operating (expense) / recovery	(30,268)	(37,574)	(9,626)	231	(77,237)
Operating profit before tax	8,655	40,410	14,084	2,053	65,202
Balance sheet data					
Advances to customers	1,621,399	3,099,431	—	—	4,720,830
Customer deposits	1,992,236	2,292,430	542,292	—	4,826,958

1 *Includes transaction related costs of $2.2m.*

18 Taxation

Tax expense and tax reconciliation

	2023	2022
	$000	$000
Current tax expense		
– On current year profit	**9,244**	20,330
Deferred tax expense		
– Origination and reversal of temporary differences	**(5,005)**	(2,048)
Year ended 31 Dec	**4,239**	18,282
Reconciliation of effective tax rate		
Operating profit before tax	**14,966**	65,202
Income tax using the domestic corporation tax rate (28%)	**4,190**	18,257
Non-deductible expenses	**32**	25
Under/(Over) provision from prior years	**17**	—
Year ended 31 Dec	**4,239**	18,282

Recognised deferred tax assets and liabilities

	Balance at 1 Jan	Credit/ (charge) to profit or loss	Balance at 31 Dec
	$000	$000	$000
2023			
Accelerated capital allowances	**2,406**	**1,301**	**3,707**
Provision for loan impairment	**1,998**	**(85)**	**1,913**
Other provisions	**929**	**421**	**1,350**
Income deferred for accounting purposes	**175**	**(175)**	**—**
Right of use assets[1]	**(3,703)**	**619**	**(3,084)**
Lease liabilities[1]	**4,579**	**(671)**	**3,908**
Tax deductible premium[2]	**(3,595)**	**3,595**	**—**
Net deferred tax asset / (liability)	**2,789**	**5,005**	**7,794**
2022			
Accelerated capital allowances	1,527	879	2,406
Provision for loan impairment	722	1,276	1,998
Other provisions	944	(15)	929
Income deferred for accounting purposes	236	(61)	175
Right of use assets[1]	(4,086)	383	(3,703)
Lease liabilities[1]	4,993	(414)	4,579
Tax deductible premium	(3,595)	—	(3,595)
Net deferred tax asset / (liability)	741	2,048	2,789

1 *These amounts were previously reported on a net basis. Comparatives have been re-presented.*
2 *Includes the impact arising from the $12.8m goodwill impairment relating to the Wealth and Personal Banking business.*

19 Goodwill and intangible assets

Movement analysis of goodwill and intangible assets

	Goodwill $000	Customer relationships purchased $000	Software $000	Total $000
Cost				
At 1 Jan 2023	**15,744**	**8,798**	**11,218**	**35,760**
Additions	—	—	—	—
Disposals	—	—	**(3,370)**	**(3,370)**
At 31 Dec 2023	**15,744**	**8,798**	**7,848**	**32,390**
Accumulated impairment losses				
At 1 Jan 2023	**(2,043)**	**(8,798)**	**(8,637)**	**(19,478)**
Amortisation charge for the period	—	—	**(829)**	**(829)**
Impairment losses	**(12,841)**	—	**(797)**	**(13,638)**
Disposals	—	—	**3,370**	**3,370**
At 31 Dec 2023	**(14,884)**	**(8,798)**	**(6,893)**	**(30,575)**
Total net carrying value at 31 Dec 2023	**860**	—	**955**	**1,815**
Cost				
At 1 Jan 2022	15,744	8,798	11,218	35,760
At 31 Dec 2022	15,744	8,798	11,218	35,760
Accumulated impairment losses				
At 1 Jan 2022	(2,043)	(8,798)	(7,407)	(18,248)
Amortisation charge for the year	—	—	(1,230)	(1,230)
At 31 Dec 2022	(2,043)	(8,798)	(8,637)	(19,478)
Total net carrying value at 31 Dec 2022	13,701	—	2,581	16,282

Goodwill

The Banking Group's goodwill arises from the acquisition of a portfolio of loans and deposits within our Wealth and Personal Banking ("WPB") business and from the acquisition of custody and clearing business within our Global Banking and Markets ("GBM") business.

Goodwill is assessed at each reporting date for indicators of impairment as it is not amortised. Impairment is assessed on the basis of the cash-generating unit as defined in NZ IAS 36. The recoverable amount of the CGU is determined based upon the higher of the value in use ("VIU") calculation, or the fair value less costs of disposal.

Goodwill arising from the acquisition of loan and deposit portfolio

On 13 June 2023, the Branch announced that it will be exiting its WPB business in New Zealand via a wind-down. As a result of this indication of asset impairment, an estimate of the recoverable amount was performed and an impairment of $12.8m has been recognised which has reduced the value of goodwill related to WPB to nil. For further detail on the key assumptions used in the VIU calculation, refer to the goodwill impairment in Note 1 Statement of accounting policies on page 20.

Key assumptions underlying the VIU calculation include management's assessment of the impact of the announcement of the wind-down of the NZ WPB business. This includes the impact on net interest margins and fee generation based on expected customer behaviour as a result of the wind-down. Bad debts and operating expenses are scaled based on a phased and organic wind-down of the balance sheet. Management utilises local market data as well as Group expertise and experience to validate key assumptions.

The VIU assessment is not sensitive to the estimates made in these key assumptions as the CGU continues to show a deficit in the recoverable amount over the carrying amount even where other reasonably possible alternative estimates were used.

Goodwill arising from the acquisition of custody and clearing business in New Zealand

The applicable CGU is considered to be the custody and clearing business unit within the GBM business. At 31 December 2023, the carrying value related to this CGU was $0.9 million (31 December 2022: $0.9 million).

The recoverable amount has been assessed using a VIU assessment. The discounted cash flow model has used a five year profit projection, a discount rate (pre-tax) of 14.5% (31 December 2022: 13.1%), growth rate for revenues of 4.7% and expenses of 6.1% in the next five years supported by 31 December 2023 actual results and approved budgets (31 December 2022: five year growth rates for revenue of 2.9% and expenses of 3.8%).

Other Intangible Assets

Other intangible assets primarily represent purchased software, internally generated computer software and customer relationships arising from the Banking Group's acquisition of the custody and clearing business. Software is amortised on a straight line basis over 5 years, within operating expenses. These intangible assets are assessed at each reporting date for indications of impairment.

Following the decision in June 2023 to wind-down the WPB business in New Zealand, software worth $0.8m was impaired. No other impairments, other than goodwill as outlined above, were identified as a result of the wind-down.

20 Related party transactions

Related party transactions are unsecured and entered into in the normal course of business. During the year there have been dealings between the Banking Group, HBAP and its subsidiaries and associated companies and other members of the ultimate holding company. Dealings include activities such as funding, accepting deposits, derivative transactions together with management and technical fees.

The balances for derivative financial instruments with related parties have been disclosed in Note 21. Transactions with related parties during the year have been disclosed in Notes 3 and 4.

Key management personnel are those who, directly or indirectly, have the authority for planning, directing or controlling the activities of the Banking Group. Key management personnel for the Banking Group represent the members of the New Zealand Executive Committee who are employees of the Banking Group.

Deposits and Advances to key management personnel are offered in the ordinary course of business on normal commercial terms and conditions, no more favourable than those given to other employees or customers. Advances are on terms of repayment that range between fixed and variable, all of which have been made in accordance with the Banking Group's lending policies.

	2023 $000	2022 $000
Key management compensation		
Salaries and other short-term benefits	**2,953**	3,339
Post-employment benefits	**183**	184
Share-based payments expenses recognised	**107**	61
Year ended 31 Dec	**3,243**	3,584
Advances to key management personnel	**—**	4,143

	2023 Number of awards awarded	2022 Number of awards awarded
Shares, options and other incentive plans		
HSBC Restricted Share Award Scheme	**3,813**	3,764

The total fair value of the shares awarded under the restricted share award scheme as at 31 December 2023 is $44 thousand when converted into NZ dollars (31 December 2022: $32 thousand). The vesting period of the restricted share awards is staggered over three years.

The fair value of the shares granted under the HSBC Restricted Share Award Scheme is £5.69 (31 December 2022: £4.38).

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Amounts due from related parties		
On demand	**33,019**	43,416
Other short term	**354,570**	791,977
Total	**387,589**	835,393
The Hongkong and Shanghai Banking Corporation Limited (HBAP):		
HBAP Hong Kong	**354,791**	779,832
HBAP Japan	**2,140**	13,843
HBAP Australia	**6,687**	6,889
HBAP Other	**203**	51
Other:		
HUSI North America	**22,973**	30,871
HSBC Canada	**23**	705
HSBC Bank plc UK Ops	**265**	488
Other	**507**	2,714
Total	**387,589**	835,393

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Amounts due to related parties		
On demand	**471,253**	512,805
Other short term	**457,879**	—
Long term	**1,461,645**	1,511,515
Total	**2,390,777**	2,024,320
The Hongkong and Shanghai Banking Corporation Limited (HBAP):		
HBAP Hong Kong	**2,188,742**	1,766,004
HBAP Singapore	**69,974**	73,057
HBAP Australia	**3,552**	5,916
HBAP India	**3,010**	1,314
HBAP Japan	**18**	56
HBAP Other	**2,023**	1,176
Other:		
HSBC Bank Plc UK Ops	**87,802**	83,208
HUSI North America	**43**	2,525
HSBC Bank (China) Company Limited	**1,874**	13,763
HSBC Bank (Taiwan) Limited	**848**	23,336
HSBC Bank Plc	**448**	88
HSBC Trinkaus & Burkhardt AG	**—**	6,600
HSBC Bank Canada	**89**	8,105
HSBC France	**5,593**	23,178
Other	**26,761**	15,994
Total	**2,390,777**	2,024,320

Interest Free Funding

As at 31 December 2023, the Banking Group held an interest free loan from HBAP of $194 million to support the thin capitalisation ratio imposed under New Zealand tax law (31 December 2022: $194 million). This loan has no repayment terms and is recorded within amounts due to related parties.

Repatriation of capital to HBAP

During 2023, the Banking Group did not repatriate any retained profits to Head Office. This was due to management consideration of the potential impact to the operating profit and balance sheet arising from the undertaking to exit the WPB business in New Zealand (2022: $33.0 million).

21 Derivative financial instruments

	At					
	31 Dec 2023			31 Dec 2022		
	Contract amount $000	**Assets $000**	**Liabilities $000**	Contract amount $000	Assets $000	Liabilities $000
Related Party						
Trading derivatives						
Exchange rate contracts[1]	**50,760**	**388**	**56**	239,196	1,462	631
Interest rate contracts	**—**	**—**	**—**	—	—	—
Of which:						
HBAP Group		***388***	***53***		*1,462*	*626*
Others		***—***	***3***		*—*	*5*
Other						
Trading derivatives						
Exchange rate contracts[1]	**13,847**	**40**	**371**	51,837	543	1,381
Interest rate contracts	**—**	**—**	**—**	—	—	—
Total		**428**	**427**		2,005	2,012

1 *Cross-currency interest rate swaps are included as exchange rate contracts*

22 Fair value of financial instruments

Determination of fair value of financial instruments carried at fair value

Fair values are determined according to the following hierarchy:

Level 1 – quoted market price
Financial instruments with quoted prices for identical instruments in active markets.

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

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

The table below provides an analysis of the various bases described above which have been deployed for valuing financial assets and financial liabilities measured at fair value.

	Level 1 $000	Level 2 $000	Level 3 $000	Total $000
At 31 Dec 2023				
Assets				
Financial investments	**694,021**	**—**	**22**	**694,043**
Derivative financial instruments	**—**	**428**	**—**	**428**
Liabilities				
Derivative financial instruments	**—**	**427**	**—**	**427**
At 31 Dec 2022				
Assets				
Financial investments	282,534	—	22	282,556
Derivative financial instruments	—	2,005	—	2,005
Liabilities				
Derivative financial instruments	—	2,012	—	2,012

There have been no transfers between levels 1 and 2 for the year ended 31 December 2023 (31 December 2022: Nil). Any transfers between levels of the fair value hierarchy are deemed to occur at the end of the reporting period.

Methodologies

The methodologies and assumptions used when determining fair value depend on the terms and risk characteristics of the various instruments and include the following:

Cash and demand balances with central banks
For cash and short – term funds the carrying amount is equivalent to the fair value.

Debt securities issued
Fair value for certificates of deposit and medium term notes issued with maturities less than six months is approximated to be the carrying value. For certificates of deposit and medium term notes issued with a maturity greater than six months but less than a year, fair value is determined by using discounted cash flow methods using the interest rates applicable to financial instruments of similar maturity. Inputs applied in getting the fair value of debt securities between 6 and 12 months are observable market-corroborated inputs which include interest rates and forward curves observable at commonly reported intervals, and credit spreads. Debt securities greater than 12 months are fair valued using market-corroborated swap rates.

Financial investments
For hold to collect and sell securities that are quoted in active markets, fair values are determined by reference to the current quoted bid/offer price. Where quoted prices are not available, fair value is determined with reference to quoted prices for similar instruments in active markets, or through the use of a valuation model where inputs are observable.

Advances to customers, advances to banks, and amounts due from related parties
Fair values of advances to customers, advances to banks, and amounts due from related parties with maturities of six months or longer have been estimated by discounting cash flows up to the next repricing date with reference to current rates at which similar loans and advances would be made to other borrowers with a similar credit rating and the same maturities. The fair values of advances to customers, advances to banks, and amounts due from related parties with maturities less than six months are approximated to be the carrying value.

Deposits by banks, customer deposits, other accounts and amounts due to related parties
The fair values of deposits and other liabilities with maturities of less than six months are approximated to be the carrying amount. For liabilities with maturities of six months or longer, fair values have been based on quoted market prices, where such prices exist. Otherwise, fair values have been estimated by reference to rates currently offered by the Banking Group for similar liabilities of similar maturities.

Derivative financial instruments
The fair values of exchange rate and interest rate contracts were obtained from quoted market prices or discounted cash flow models. Inputs applied in getting the fair value of derivative financial instruments are market observable inputs which include interest rates and forward curves observable at commonly reported intervals where required.

Other assets and other liabilities
For other assets and other liabilities, the carrying amount is considered to be the fair value.

Fair Value of financial instruments not carried at fair value

The table below provides an analysis of the various bases described in the 'Methodologies' section above, which have been deployed for summarising financial assets and financial liabilities fair value which are not carried at fair value where the fair value is different to its carrying value.

	Fair value				
	Level 1	Level 2	Level 3	Total	Carrying value
	$000	$000	$000	$000	$000
At 31 Dec 2023					
Assets					
Advances to customers	**—**	**—**	**2,944,908**	**2,944,908**	**2,950,027**
Financial investments – debt securities at amortised cost	**290,951**	**34,179**	**—**	**325,130**	**323,578**
Liabilities					
Customer deposits	**—**	**4,070,284**	**—**	**4,070,284**	**4,070,528**
Debt securities	**—**	**397,219**	**—**	**397,219**	**400,000**
Amounts due to related parties	**—**	**2,384,295**	**—**	**2,384,295**	**2,390,777**
At 31 Dec 2022					
Assets					
Advances to customers	—	—	4,702,805	4,702,805	4,726,155
Liabilities					
Customer deposits	—	4,824,692	—	4,824,692	4,826,958
Debt securities	—	394,292	—	394,292	400,000
Amounts due to related parties	—	2,020,723	—	2,020,723	2,024,320

Other financial instruments not carried at fair value are typically short-term in nature and reprice to the current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value. This includes cash and demand balances with central banks, advances to banks and deposits by banks, other assets and other liabilities, and amounts due from related parties.

23 Interest rate risk – repricing schedule

The table below analyses the Banking Group's financial assets and financial liabilities into relevant maturity groupings based on the earlier of residual contractual maturity or next interest repricing date. There have been no changes made to this presentation basis as a result of the Retail Wind-Down.

	Up to 3 months	Over 3 months and up to 6 months	Over 6 months and up to 1 year	Over 1 year and up to 2 years	Over 2 years	Total interest bearing	Non interest bearing	Total
	$m	$m	$m	$m	$m	$m	$m	$m
At 31 Dec 2023								
Financial assets								
Cash and demand balances with central banks	**2,798**	**—**	**—**	**—**	**—**	**2,798**	**—**	**2,798**
Advances to banks	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Financial investments	**33**	**144**	**21**	**590**	**230**	**1,018**	**—**	**1,018**
Derivative financial instruments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Advances to customers	**2,864**	**45**	**—**	**30**	**6**	**2,945**	**—**	**2,945**
Amounts due from related parties	**388**	**—**	**—**	**—**	**—**	**388**	**—**	**388**
Other assets	**—**	**—**	**—**	**—**	**—**	**—**	**33**	**33**
Total financial assets	**6,083**	**189**	**21**	**620**	**236**	**7,149**	**33**	**7,182**
Financial liabilities								
Deposits by banks	**258**	**—**	**—**	**—**	**—**	**258**	**—**	**258**
Derivative financial instruments	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Customer deposits	**3,890**	**87**	**51**	**7**	**6**	**4,041**	**30**	**4,071**
Debt securities	**300**	**—**	**100**	**—**	**—**	**400**	**—**	**400**
Amounts due to related parties	**2,178**	**—**	**—**	**—**	**—**	**2,178**	**213**	**2,391**
Other liabilities	**—**	**—**	**2**	**2**	**10**	**14**	**51**	**65**
Total financial liabilities	**6,626**	**87**	**153**	**9**	**16**	**6,891**	**294**	**7,185**
Off-balance sheet financial instruments								
Net notional interest rate contracts	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
At 31 Dec 2022								
Financial assets								
Cash and demand balances with central banks	1,701	—	—	—	—	1,701	—	1,701
Advances to banks	160	—	—	—	—	160	—	160
Financial investments	18	93	—	13	159	283	—	283
Derivative financial instruments	—	—	—	—	—	—	2	2
Advances to customers	3,254	212	460	528	267	4,721	—	4,721
Amounts due from related parties	835	—	—	—	—	835	—	835
Other assets	—	—	—	—	—	—	25	25
Total financial assets	5,968	305	460	541	426	7,700	27	7,727
Financial liabilities								
Deposits by banks	426	—	—	—	—	426	—	426
Derivative financial instruments	—	—	—	—	—	—	2	2
Customer deposits	4,104	316	299	68	16	4,803	24	4,827
Debt securities	300	—	—	100	—	400	—	400
Amounts due to related parties	1,794	—	25	—	—	1,819	205	2,024
Other liabilities	—	—	3	2	12	17	53	70
Total financial liabilities	6,624	316	327	170	28	7,465	284	7,749
Off-balance sheet financial instruments								
Net notional interest rate contracts	—	—	—	—	—	—	—	—

24 Liquidity risk management

Liquidity risk is the risk that the Banking Group does not have sufficient financial resources to meet its obligations as they fall due, or will have to do so at an excessive cost. This risk arises from mismatches in the timing of cash flows.

Liquid assets are assets which are readily convertible to cash to meet the Banking Group's liquidity requirement. Liquid assets consist of demand balances with the central bank, government and local government bonds, and registered certificates of deposits issued by other banks. The Banking Group holds the following liquid assets in order to manage its liquidity risk:

	At	
	31 Dec 2023	31 Dec 2022
	$m	$m
Cash and demand balances with central banks	**2,798**	1,701
Financial Investments	**1,018**	283
Total	**3,816**	1,984

Maturity Analysis – Balance sheet expected settlement

The table below analyses the Banking Group's assets and liabilities by the amount expected to be recovered or settled before, and after twelve months from the reporting period. Customer deposits are presented on a contractual basis, however as part of our normal banking operations, the Banking Group expects a large proportion of these balances to be retained.

The Banking Group does not manage its liquidity risk on the basis of information below.

	2023			2022		
	Under 12 months	**Over 12 months**	**Total**	Under 12 months	Over 12 months	Total
	$m	**$m**	**$m**	$m	$m	$m
Assets						
Cash and demand balances with central banks	**2,798**	**—**	**2,798**	1,701	—	1,701
Advances to banks	**—**	**—**	**—**	160	—	160
Financial investments	**198**	**820**	**1,018**	112	171	283
Derivative financial instruments	**—**	**—**	**—**	2	—	2
Advances to customers	**903**	**2,042**	**2,945**	1,626	3,095	4,721
Amounts due from related parties	**388**	**—**	**388**	835	—	835
Other assets	**12**	**21**	**33**	14	10	24
Current tax asset	**9**	**—**	**9**	—	—	—
Property, plant and equipment	**—**	**22**	**22**	—	27	27
Deferred tax asset	**—**	**8**	**8**	—	3	3
Goodwill and Intangible assets	**—**	**2**	**2**	—	16	16
Total assets at 31 Dec	**4,308**	**2,915**	**7,223**	4,450	3,322	7,772
Liabilities						
Deposits by banks	**258**	**—**	**258**	426	—	426
Derivative financial instruments	**—**	**—**	**—**	2	—	2
Customer deposits	**4,058**	**13**	**4,071**	4,741	86	4,827
Debt securities	**400**	**—**	**400**	—	400	400
Amounts due to related parties	**929**	**1,462**	**2,391**	1,269	755	2,024
Current tax liability	**—**	**—**	**—**	4	—	4
Other liabilities	**63**	**2**	**65**	51	19	70
Total liabilities at 31 Dec	**5,708**	**1,477**	**7,185**	6,493	1,260	7,753
Net assets at 31 Dec	**(1,400)**	**1,438**	**38**	(2,043)	2,062	19

Maturity Analysis – undiscounted cash flows basis

The table below analyses the Banking Group's financial liabilities into relevant maturity groupings based on their remaining contractual maturities. The amounts in the table below represent all cash flows relating to principal and future interest payments on an undiscounted basis. Therefore, they may differ to the carrying amounts on the Balance Sheet. There have been no changes made to this presentation basis as a result of the Retail Wind-Down.

The Banking Group does not manage its liquidity risk on the basis of information below.

	On Demand	0-1 month	1-3 months	3-12 months	1-5 years	Over 5 years	No specific maturity	Total
	$m	$m	$m	$m	$m	$m	$m	$m
At 31 Dec 2023								
Financial liabilities								
Deposits by banks	**258**	**—**	**—**	**—**	**—**	**—**	**—**	**258**
Customer deposits	**2,846**	**444**	**638**	**140**	**14**	**—**	**—**	**4,082**
Debt securities	**—**	**—**	**5**	**408**	**—**	**—**	**—**	**413**
Amounts due to related parties	**464**	**95**	**17**	**443**	**1,500**	**—**	**—**	**2,519**
Other liabilities	**27**	**6**	**9**	**9**	**10**	**4**	**—**	**65**
Total non-derivative financial liabilities	**3,595**	**545**	**669**	**1,000**	**1,524**	**4**	**—**	**7,337**
Derivative financial instruments – held for trading purposes	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Total undiscounted derivatives	**—**	**—**	**—**	**—**	**—**	**—**	**—**	**—**
Undrawn loan commitments	**642**	**—**	**1,359**	**—**	**—**	**—**	**—**	**2,001**
At 31 Dec 2022								
Financial liabilities								
Deposits by banks	426	—	—	—	—	—	—	426
Customer deposits	2,519	625	991	628	90	2	—	4,855
Debt securities	—	—	4	12	413	—	—	429
Amounts due to related parties	516	7	11	811	763	—	—	2,108
Other liabilities	11	15	7	19	13	6	—	71
Total non-derivative financial liabilities	3,472	647	1,013	1,470	1,279	8	—	7,889
Derivative financial instruments – held for trading purposes	—	1	1	—	—	—	—	2
Total undiscounted derivatives	—	1	1	—	—	—	—	2
Undrawn loan commitments	992	—	1,285	—	—	—	—	2,277

25 Offsetting financial assets and financial liabilities

		Amounts subject to enforceable netting arrangements but not offset in the balance sheet		
	Gross amounts presented in the balance sheet	Related financial instruments	Cash collateral received	Net amount
	$m	$m	$m	$m
At 31 Dec 2023				
Derivative financial assets	**—**	**—**	**—**	**—**
Financial assets	**—**	**—**	**—**	**—**
Derivative financial liabilities	**—**	**—**	**—**	**—**
Financial liabilities	**—**	**—**	**—**	**—**
At 31 Dec 2022				
Derivative financial assets	2	—	—	2
Financial assets	2	—	—	2
Derivative financial liabilities	2	—	—	2
Financial liabilities	2	—	—	2

The Banking Group had no financial instruments that meet the offset criteria at 31 December 2023 (31 December 2022: nil).

26 Market risk exposures

Aggregate market risk exposures are derived in accordance with the Reserve Bank of New Zealand document, BPR140: Market Risk and is calculated on a six monthly basis.

The period end exposure is the exposure as at the end of the period reported. The peak exposure is the peak end-of-day market risk exposure over the half year accounting period at the close of each business day. The peak is calculated separately for each category of exposure and may not have occurred at the same time.

	Implied risk weighted exposure $m	Notional capital charge $m
Exposure period at 31 Dec 2023 (unaudited)		
Interest rate risk	**46.38**	**3.71**
Foreign currency risk	**0.38**	**0.03**
Equity risk	**—**	**—**
Peak exposure period 1 Jul 2023 to 31 Dec 2023 (unaudited)		
Interest rate risk	**107.88**	**8.63**
Foreign currency risk	**0.50**	**0.04**
Equity risk	**—**	**—**

27 Share awards

The Branch participated in the following share compensation plans operated by the Group for the acquisition of HSBC Holdings plc shares. The awards were granted at nil consideration. No awards have been granted to substantial shareholders, suppliers of goods and services, or in excess of the individual limit of each share plan.

a) HSBC Holdings Group International Employee Share Purchase Plan

The HSBC Holdings Group International Employee Share Purchase Plan ('Share Match') invites eligible employees to enter into savings contracts with funds used to acquire shares. The Scheme commenced on 1 September 2015. Eligible employees use saved funds to acquire shares each quarter. Employees are awarded matching shares proportional to their purchased shares. Matching awards vest subject to continued employment and the retention of the purchased shares for a maximum of two years and nine months.

Movement of HSBC Holdings Group International Employee Share Purchase Plan Shares

	2023 Number of shares	2022 Number of shares
Shares at beginning of the year	**9,454**	12,424
New shares granted during the year	**4,535**	5,274
Shares released during the year	**(4,873)**	(4,727)
Shares forfeited during the year	**(358)**	(2,567)
Shares cancelled during the year	**(393)**	(1,299)
Shares transferred in during the year	**397**	349
Shares transferred out during the year	**(69)**	—
Shares outstanding at the end of the year	**8,693**	9,454

b) HSBC Restricted Share Award Scheme

Awards of Restricted Shares may be made to other senior executives. These awards are typically made to certain employees as part of the Group's bonus deferral policy. Awards of Restricted Shares define the number of shares to which the employee will become entitled, generally between one and three years from the date of the award, and normally subject to the individual remaining in employment.

Movement of Restricted Shares

	2023 Number of shares	2022 Number of shares
Shares at beginning of the year	**4,137**	4,746
New shares granted during the year	**3,813**	3,764
Additional shares arising from scrip dividends	**11**	47
Shares released during the year	**(1,624)**	(1,301)
Shares forfeited during the year	**—**	(3,119)
Shares transferred in during the year	**—**	—
Shares transferred out during the year	**—**	—
Shares outstanding at the end of the year	**6,337**	4,137

Calculation of fair values

The fair value of services received in return for share awards granted are measured by referring to the fair value of share awards granted. Fair values of share awards, measured at the date of grant of the award, is calculated using a Black-Scholes model. The fair value of share award is based on the share price at the date of the grant. The fair value of share award is inherently subjective and uncertain due to the assumptions made and the limitations of the model used. The fair value of the shares awarded under the HSBC Restricted Share Award Scheme is the market value of the shares at the date of award.

28 Lease commitments

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Within one year	**2,509**	2,609
Between one year and two years	**2,441**	2,609
Between two years and five years	**7,165**	7,083
Over five years	**4,634**	6,645
Total	**16,749**	18,946

The lease assets comprise of premises where the Banking Group is a lessee. The total cash outflow in respect of leases was $2.3m for the year ended 31 December 2023 (31 December 2022: $2.3m).

29 Contingent liabilities and other commitments

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The amounts below represent the amount at risk should contracts be fully drawn upon and client's default.

	At	
	31 Dec 2023 $000	31 Dec 2022 $000
Direct credit substitutes	**51,884**	46,899
Transaction related contingent items	**813,792**	773,677
Trade related contingent items	**145,512**	376,452
Commitments, maturity one year or more	**1,358,851**	1,285,160
Commitments, maturity up to one year	**642,369**	992,145
Total	**3,012,408**	3,474,333
Capital commitments		
Contracted expenditure	**—**	—

30 Custodial services

The financial statements of the Banking Group include income in respect of custodial services provided to customers. It is HBAP who contracts with the customers. The securities are held in the name of the HBAP's nominee company, HSBC Nominees (New Zealand) Limited. As at 31 December 2023, securities held by the nominee company on behalf of the Branch's customers are not recognised on from the nominee company and the Banking Group's Balance Sheet. The value of securities held by the nominee company at 31 December 2023 was $100,674m (31 December 2022: $90,645m).

HSBC Nominees (New Zealand) Limited is subject to the standard risks incurred by custodial operations. HSBC Holdings plc holds Banker's Blanket Bond insurance that provides cover for it, and its subsidiary companies in respect of loss of cash and other assets (incurred accidentally or by reason of fraud). Such Banker's Blanket Bond insurance is maintained with limits of cover which vary from time to time but which are considered prudent and in accordance with international levels and insurance market capacity. In addition, securities custody operations are specifically covered by a wrap-around Papers of Value Cover.

The Banking Group has established governance and legal structures to ensure that difficulties arising from custodial activities would not impact adversely on the Banking Group. The legal structures are detailed within the Statement of significant accounting policies and as noted above.

31 Insurance, securitisation, funds management and other fiduciary activities

The Banking Group:

- does not conduct any insurance business or non-financial activities in New Zealand. HBAP does not carry on any insurance business or non-financial activities in New Zealand that is outside its Banking Group;
- does not market or distribute insurance products;
- is not involved in the origination, marketing or servicing of securitisation schemes; and
- is not involved in the establishment, marketing, or sponsorship of trust, funds management, or other fiduciary activities.

32 Events subsequent to the reporting date

There were no other material events after balance date that require disclosure in the financial statements.

33 Capital adequacy ratios of HBAP Group

The approaches used in calculating the HBAP Group's regulatory capital and risk weighted assets are in accordance with the Hong Kong Monetary Authority ("HKMA") Banking (Capital) Rules.

The HBAP Group uses the advanced internal ratings-based approach to calculate its credit risk for the majority of its non-securitisation exposures. For collective investment scheme exposures, the HBAP Group uses the look-through approach and mandate-based approach to calculate the risk-weighted amount. For securitisation exposures, the HBAP Group uses the securitisation internal ratings-based approach, securitisation external ratings-based approach, securitisation standardised approach or securitisation fall-back approach to determine credit risk for its banking book securitisation exposures.

For counterparty credit risk, the HBAP Group uses both the standardised (counterparty credit risk) approach and the internal models (counterparty credit risk) approach to calculate its default risk exposures for derivatives, and the comprehensive approach for securities financing transactions.

For market risk, the HBAP Group uses an internal models method approach ('IMM') to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The HBAP Group also uses an IMM approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The HBAP Group uses the standardised (market risk) approach for calculating other market risk positions, as well as trading book securitisation exposures, and the standardised (operational risk) approach to calculate its operational risk.

The capital adequacy disclosure made by the HBAP Group can be found in the Annual Report and Accounts at http://www.hsbc.com.

HBAP Group exceeded the minimum capital adequacy requirements as specified by the HKMA as at 31 December 2023, and reported the following capital adequacy ratios under Basel III, which were the most recent publicly available information:

HBAP Group Basel III Capital Ratios

	At	
	31 Dec 2023 %	31 Dec 2022 %
Common Equity Tier 1 (CET1) capital	**15.8**	15.3
Tier 1 capital	**17.5**	16.9
Total capital	**19.7**	18.8

The capital ratios for HBAP, as a stand-alone entity, are not publicly available.

34 Profitability, size and asset quality of HBAP Group

HBAP Group selected financial information

	Year ended 31 Dec 2023	Year ended 31 Dec 2022
Profitability		
Net profit after tax (HKD$m)	**97,527**	82,104
Net profit after tax over the previous 12 month period as a percentage of average total assets (%)[1]	**0.9**	0.8
Size		
Total assets (HKD$m)	**10,500,393**	10,324,152
Percentage increase/(decrease) in total assets over the previous 12 months period (%)	**3.0**	4.2
Asset quality		
HKFRS 9 Stage 3 and POCI gross carrying value (HKD$m)[2]	**65,731**	69,676
HKFRS 9 Stage 3 and POCI ECL (HKD$m)[3, 4]	**(27,827)**	(26,136)
HKFRS 9 Stage 1 and 2 ECL (HKD$m)[3]	**(12,365)**	(15,480)
HKFRS 9 Stage 3 gross carrying value / Total assets (%)[2]	**0.6**	0.7
HKFRS 9 Stage 3 and POCI ECL / Stage 3 and POCI gross carrying value (%)[2, 3, 4]	**42.3**	37.5

1 *Average total assets for HBAP Group is not publicly available. This calculation uses a two-point average of total assets as at the end of the reported period and the comparative period ended 12 months earlier.*
2 *Gross carrying value of advances to banks and customers, including nominal value of loan commitments and financial guarantees and other financial assets. The Banking Group considers this balance to be the best representation of 'total individually impaired assets'.*
3 *ECL on advances to banks and customers including loan commitments and financial guarantees, and other financial assets. The Banking Group considers this balance to be the best representation of 'total collective credit impairment allowance'.*
4 *The Banking Group considers this balance to be the best representation of 'total individual credit impairment allowance'.*

From 1 January 2023, HBAP Group adopted HKFRS 17 'Insurance Contracts', which replaced HKFRS 4 'Insurance Contracts'. Comparative data has not been restated.

Directors’ and New Zealand Chief Executive Officer’s Statements

Each Director and the New Zealand Interim Chief Executive Officer believe, after due enquiry by them, that:

- the Disclosure Statement contains all the information that is required by the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended);
- the Disclosure Statement is not false or misleading;

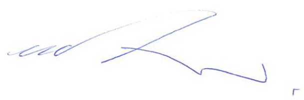
as at the date on which the Disclosure Statement is signed; and

each Director and the New Zealand Interim Chief Executive Officer believe, after due enquiry by them, that:

- the Branch had systems in place to monitor and control adequately the material risks of the Banking Group including credit risk, concentration of credit risk, interest rate risk, currency risk, equity risk, liquidity risk, and other business risks, and that those systems were being properly applied; and
- the Registered Bank has complied in all material respects with each conditions of registration that applied;

over the year ended 31 December 2023.

This Disclosure Statement has been signed for and on behalf of the Directors of The Hongkong and Shanghai Banking Corporation Limited (as listed on pages 2 and 4) by their attorney, Noel McNamara, and in his capacity as Interim Chief Executive Officer:



Noel McNamara

Interim Chief Executive Officer

New Zealand Branch

21 March 2024

Letters from each of the Directors appointing the Country Head/Chief Executive Officer as their agent to sign this Disclosure Statement are still in force and have not been revoked.

Independent auditor's report

To the Directors of The Hongkong and Shanghai Banking Corporation Limited

Our opinion

In our opinion, the accompanying:

- financial statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order"), of The Hongkong and Shanghai Banking Corporation Limited (the "Overseas Bank") in respect of the New Zealand operations (the "Banking Group"), present fairly, in all material respects, the financial position of the Banking Group as at 31 December 2023, its financial performance and its cash flows for the year then ended in accordance with New Zealand Equivalents to International Financial Reporting Standards ("NZ IFRS") and International Financial Reporting Standards Accounting Standards ("IFRS Accounting Standards"); and
- information disclosed in accordance with Schedules 4, 7, 11 and 13 of the Order (the "Supplementary Information"), in all material respects:
  - presents fairly the matters to which it relates; and
  - is disclosed in accordance with those schedules.

What we have audited

- The Banking Group's financial statements (the "Financial Statements") required by clause 25 of the Order, comprising:
  - the balance sheet as at 31 December 2023;
  - the statement of comprehensive income for the year then ended;
  - the statement of changes in equity for the year then ended;
  - the statement of cash flows for the year then ended; and
  - the notes to the Financial Statements, excluding the information disclosed in accordance with Schedules 4, 7, 9, 11 and 13 of the Order within notes 2, 7, 14, 23, 24, 26, 30, 31, 33 and 34, which include material accounting policy information and other explanatory information.
- The Supplementary Information within notes 2, 7, 14, 23, 24, 30, 31 and 34 of the Financial Statements for the year ended 31 December 2023 of the Banking Group.

We have not audited the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order within notes 26 and 33 of the Financial Statements and our opinion does not extend to this information.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (New Zealand) (ISAs (NZ)) and International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Statements and the Supplementary Information* section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Banking Group in accordance with Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* (PES 1) issued by the New Zealand Auditing and Assurance Standards Board and the *International Code of Ethics for Professional Accountants (including International Independence Standards)* issued by the International Ethics Standards Board for Accountants (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We are independent of the Banking Group. In addition to our role as auditor, our firm carries out other services for the Banking Group in the areas of other audit related services, which comprises the review of its half year disclosure statements and a limited assurance engagement over its compliance with the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 within the Financial Statements. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Banking Group. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the Financial Statements and the Supplementary Information of the current year. These matters were addressed in the context of our audit of the Financial Statements and the Supplementary Information as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Description of the key audit matter	How our audit addressed the key audit matter
Expected credit losses - Impairment of advances to customers including loan commitments As disclosed in notes 1, 7 and 8 of the Financial Statements, the Banking Group's expected credit loss (ECL) on advances to customers including loan commitments is $6.6 million as at 31 December 2023. The determination of the ECL allowances requires the use of complex credit risk methodologies that are applied in models using the Banking Group's historic experience of the correlations between defaults and losses, borrower creditworthiness, segmentation of customers or portfolios and economic conditions. It also requires the determination of assumptions which involve estimation uncertainty. The assumptions used for ECL	We performed a walkthrough to obtain an understanding of the end to end process and controls, in relation to the determination of ECL. We tested controls in place relating to the methodologies, their application, significant assumptions and data used to determine the ECL on advances to customers. These included controls over: ● Model validation and monitoring; ● Approval of economic scenarios; ● Approval of the probability weightings assigned to economic scenarios; ● Assigning customer risk ratings; and ● Approval of changes to management judgemental adjustments. We performed substantive audit procedures over the compliance of the ECL methodologies with the requirements of NZ IFRS 9. We engaged professionals with experience in ECL modelling to assess the appropriateness of methodologies and related models.

Description of the key audit matter	How our audit addressed the key audit matter
that we focused on for advances to customers included those with greater levels of management judgement and for which variations have the most significant impact on ECL on advances to customers. Specifically, these included forward-looking economic scenarios, customer risk ratings and management judgemental adjustments to modelled outcomes. The level of estimation uncertainty in determining ECL allowances has remained high during 2023 as a result of the uncertainties in the macroeconomic and geopolitical environment, persistently high levels of inflation and the rising interest rate environment during the year. The Banking Group has released prior year model judgemental adjustments to ECL allowances, and concluded that no management judgemental adjustments are required for 31 December 2023.	We further performed the following to assess the significant assumptions and data: ● We challenged the appropriateness of the significant assumptions and obtained corroborating evidence; ● We involved our economic experts in assessing the reasonableness of certain economic scenarios; ● We tested a sample of customer risk ratings assigned to wholesale exposures; and ● We tested a sample of inputs of critical data into source systems and the flow and transformation of critical data from source systems to impairment models. As there are no management judgemental adjustments at 31 December 2023, we assessed the appropriateness of this taking into account data quality, revisited prior period management judgemental adjustment considerations and assessed any specific industry/sector risks and any other factors that may not be factored into the modelled ECL results. We considered the impacts of events occurring subsequent to balance date on the ECL allowance. We also assessed the adequacy of the disclosures in relation to ECL allowances made in the Financial Statements in the context of the applicable financial reporting framework.

Our audit approach

Overview

The overall Banking Group materiality is $4.4 million, which represents approximately 5% of operating profit before tax, excluding the loss from sale of the retail mortgage book.

We chose operating profit before tax, excluding the loss from sale of retail mortgage book, because, in our view, it is the benchmark against which the performance of the Banking Group is most commonly measured by users, and is a generally accepted benchmark.

We performed a full scope audit over the aggregated financial information of the Banking Group.

As reported above, we have one key audit matter, being:

- Expected credit losses - impairment of advances to customers including loan commitments

As part of designing our audit, we determined materiality and assessed the risks of material misstatement in the Financial Statements and the Supplementary Information. In particular, we considered where management made subjective judgements; for example, in respect of significant accounting estimates that involved making assumptions and considering future events that are inherently uncertain. As in all of our audits, we also addressed the risk of management override of internal controls, including among other matters, consideration of whether there was evidence of bias that represented a risk of material misstatement due to fraud.

Materiality

The scope of our audit was influenced by our application of materiality. An audit is designed to obtain reasonable assurance about whether the Financial Statements and the Supplementary Information are free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the Financial Statements and the Supplementary Information.

Based on our professional judgement, we determined certain quantitative thresholds for materiality, including the overall Banking Group materiality for the Financial Statements and the Supplementary Information, as a whole, as set out above. These, together with qualitative considerations, helped us to determine the scope of our audit, the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements, both individually and in aggregate, on the Financial Statements and the Supplementary Information, as a whole.

How we tailored our group audit scope

We tailored the scope of our audit in order to perform sufficient work to enable us to provide an opinion on the Financial Statements and the Supplementary Information, as a whole, taking into account the structure of the Banking Group, the financial reporting processes and controls, and the industry in which the Banking Group operates.

Certain operational processes which are critical to financial reporting for the Banking Group are undertaken outside of New Zealand. We worked with a PwC network firm engaged in the HSBC Holdings plc group audit to understand and examine certain processes, test controls and perform other substantive audit procedures that supported material balances, classes of transactions and disclosures within the Banking Group's Financial Statements. We evaluated the results of this work to determine whether there were any implications for the remainder of our audit work.

The scope of our audit and the nature, timing and extent of audit procedures performed were determined by our risk assessment, the financial significance of components and other qualitative factors (including the history of misstatement through fraud or error).

Other information

The Directors are responsible for the other information. The other information comprises the information included in the Disclosure Statement presented in accordance with Schedule 2 of the Order on pages 2 to 7 and 51 (but does not include the Financial Statements and the Supplementary Information and our auditor's report thereon), the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order within notes 26 and 33 and the climate statement prepared in accordance with Section 461ZB of the Financial Markets Conduct Act 2013. The other information we obtained prior to the date of this auditor's report comprised the information presented in accordance with Schedule 2 of the Order on pages 2 to 7 and 51 and the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order within notes 26 and 33. The remaining other information comprising the climate statement prepared in accordance with Section 461ZB of the Financial Markets Conduct Act 2013 is expected to be made available to us after that date.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do not and will not express any form of audit opinion or assurance conclusion thereon. We issue a separate limited assurance report on the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order.

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

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

When we read the other information not yet received, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the Directors and use our professional judgement to determine the appropriate action to take.

Responsibilities of the Directors for the Disclosure Statement

The Directors of the Overseas Bank (the "Directors") are responsible, on behalf of the Overseas Bank, for the preparation and fair presentation of the Financial Statements in accordance with clause 25 of the Order, NZ IFRS and IFRS Accounting Standards, and for such internal control as the Directors determine is necessary to enable the preparation of the Financial Statements and the Supplementary Information that is free from material misstatement, whether due to fraud or error.

In addition, the Directors are responsible, on behalf of the Overseas Bank, for the preparation and fair presentation of the Disclosure Statement which includes:

- all of the information prescribed in Schedule 2 of the Order; and
- the information prescribed in Schedules 4, 7, 9, 11, and 13 of the Order.

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

Auditor's responsibilities for the audit of the Financial Statements and the Supplementary Information

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

A further description of our responsibilities for the audit of the Financial Statements and the Supplementary Information is located at the External Reporting Board's website at:

https://www.xrb.govt.nz/assurance-standards/auditors-responsibilities/audit-report-1/

This description forms part of our auditor's report.

Who we report to

This report is made solely to the Directors, as a body. Our work has been undertaken so that we might state those matters which we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Directors, as a body, for our work, for this report, or for the opinions we have formed.

The engagement partner on the engagement resulting in this independent auditor's report is Christopher Ussher.

For and on behalf of:

PricewaterhouseCoopers

Chartered Accountants
21 March 2024

Auckland, New Zealand

Independent Assurance Report

To the Directors of The Hongkong and Shanghai Banking Corporation Limited

Limited assurance report on compliance with the information required on credit and market risk exposures and capital adequacy

Our conclusion

We have undertaken a limited assurance engagement on the New Zealand banking operations of The Hongkong and Shanghai Banking Corporation Limited (the "Banking Group")'s compliance, in all material respects, with clause 22 of the Registered Bank Disclosure Statements (Overseas Incorporated Registered Banks) Order 2014 (as amended) (the "Order") which requires information prescribed in Schedule 9 of the Order relating to credit and market risk exposures and capital adequacy to be disclosed in its full year Disclosure Statement for the year ended 31 December 2023 (the "Disclosure Statement"). The Disclosure Statement containing the information prescribed in Schedule 9 of the Order relating to credit and market risk exposures and capital adequacy will accompany our report, for the purpose of reporting to the Directors.

Based on the procedures we have performed and the evidence we have obtained, nothing has come to our attention that causes us to believe that the Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 of the Order and disclosed in notes 26 and 33, is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

Basis for conclusion

We have conducted our engagement in accordance with Standard on Assurance Engagements 3100 (Revised) *Compliance Engagements* ("SAE 3100 (Revised)") issued by the New Zealand Auditing and Assurance Standards Board.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our conclusion.

Directors' responsibilities

The Directors are responsible on behalf of The Hongkong and Shanghai Banking Corporation Limited for compliance with the Order, including clause 22 of the Order which requires information relating to credit and market risk exposures and capital adequacy prescribed in Schedule 9 of the Order to be included in the Banking Group's Disclosure Statement, for the identification of risks that may threaten compliance with that clause, controls that would mitigate those risks and monitoring ongoing compliance.

Our independence and quality management

We have complied with the independence and other ethical requirements of Professional and Ethical Standard 1 *International Code of Ethics for Assurance Practitioners (including International Independence Standards) (New Zealand)* issued by the New Zealand Auditing and Assurance Standards Board, which is founded on the fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

We apply Professional and Ethical Standard 3 *Quality Management for Firms that Perform Audits or Reviews of Financial Statements, or Other Assurance or Related Services Engagements*, which requires our firm to design, implement and operate a system of quality management including policies or procedures regarding compliance with ethical requirements, professional standards and applicable legal and regulatory requirements.

We are independent of the Banking Group. In addition to our role as auditor, our firm carries out other services for the Banking Group in the area of other audit related services, which comprise the review of its half year disclosure statement. Other than in our capacity as auditors and providers of other related assurance services we have no relationship with, or interests in, the Banking Group. In addition, certain partners and employees of our firm may deal with the Banking Group on normal terms within the ordinary course of trading activities of the Banking Group. The provision of these other services and these relationships have not impaired our independence.

Assurance practitioner's responsibilities

Our responsibility is to express a limited assurance conclusion on whether the Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 of the Order is not, in all material respects, disclosed in accordance with Schedule 9 of the Order. SAE 3100 (Revised) requires that we plan and perform our procedures to obtain limited assurance about whether anything has come to our attention that causes us to believe that the Banking Group's information relating to credit and market risk exposures and capital adequacy, included in the Disclosure Statement in compliance with clause 22 is not, in all material respects, disclosed in accordance with Schedule 9 of the Order.

In a limited assurance engagement, the assurance practitioner performs procedures, primarily consisting of discussion and enquiries of management and others within the entity, as appropriate, and observation and walk-throughs, and evaluates the evidence obtained. The procedures selected depend on our judgement, including identifying areas where the risk of material non-compliance with clause 22 of the Order in respect of the information relating to credit and market risk exposures and capital adequacy is likely to arise.

Given the circumstances of the engagement we:

- obtained an understanding of the process, models, data and internal controls implemented over the preparation of the information relating to credit and market risk exposures and capital adequacy;
- obtained an understanding of the Banking Group's compliance framework and internal control environment to ensure the information relating to credit and market risk exposures and capital adequacy is in compliance with the Reserve Bank of New Zealand's (the "RBNZ") prudential requirements for banks;
- obtained an understanding and assessed the impact of any matters of non-compliance with the RBNZ's prudential requirements for banks that relate to credit and market risk exposures and capital adequacy and inspected relevant correspondence with the RBNZ;
- performed analytical and other procedures on the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order, and considered its consistency with the annual financial statements; and
- agreed the information relating to credit and market risk exposures and capital adequacy disclosed in accordance with Schedule 9 of the Order to information extracted from the Banking Group's models, accounting records or other supporting documentation, which included publicly available information as prescribed by clauses 5 and 6 of Schedule 9 of the Order.

The procedures performed in a limited assurance engagement vary in nature and timing from, and are less in extent than for, a reasonable assurance engagement and consequently the level of assurance obtained in a limited assurance engagement is substantially lower than the assurance that would have been obtained had a reasonable assurance engagement been performed. Accordingly, we do not express a reasonable assurance opinion on compliance with the compliance requirements.

Inherent limitations

Because of the inherent limitations of an assurance engagement, together with the internal control structure, it is possible that fraud, error or non-compliance with the compliance requirements may occur and not be detected.

A limited assurance engagement on the Banking Group's information relating to credit and market risk exposures and capital adequacy prescribed in Schedule 9 of the Order to be included in the Disclosure Statement in compliance with clause 22 of the Order does not provide assurance on whether compliance will continue in the future.

Use of report

This report has been prepared for use by the Directors, as a body, for the purpose of establishing that these compliance requirements have been met.

Our report should not be used for any other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility for any reliance on this report to anyone other than the Directors, as a body, or for any purpose other than that for which it was prepared.

The engagement partner on the engagement resulting in this independent assurance report is Christopher Ussher.

PricewaterhouseCoopers

Chartered Accountants
21 March 2024

Auckland, New Zealand

HSBC