

The Hongkong and Shanghai Banking Corporation Limited

New Zealand Banking Group

Disclosure Statement

31 December 2024



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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 of the Companies (Winding Up and Miscellaneous Provisions) Ordinance of the Hong Kong SAR, 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 preferential payments, namely and firstly certain employee wages and compensation related payments, then statutory debts to the Hong Kong SAR Government, and afterwards the aggregate amount held on deposit (up to the statutory limit prescribed in the Hong Kong Deposit Protection Scheme Ordinance regardless of the number or amount of deposits) for certain deposits in Hong Kong. There are no other material legislative or regulatory restrictions in Hong Kong SAR which would materially 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.

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”). The exit of the WPB business was completed effective 27 June 2024. As at 31 December 2024 WPB is presented as a discontinued operation. 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 Chief Executive Officer, Antony Shaw, 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, Antony Shaw 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 2003 and resides in Australia. He is Chief Executive Officer and Executive Director of HSBC Bank Australia Limited and is a member of the Australian Institute of Company Directors.

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.

General disclosures

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. 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

Independent* 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.

* He was re-designated from a non-executive Director to an independent non-executive Director with effect from 29 November 2024.

David Yi Chien LIAO, JP

Co-Chief Executive Officer (since June 2021)

He is also a member of the Group Operating Committee of HSBC Holdings plc, Chairman and a non-executive Director of HSBC Bank (China) Company Limited, and a non-executive Director of Hang Seng Bank Limited and Bank of Communications Co., Ltd. With effect from 1 January 2025, his management responsibilities within the HSBC Group were expanded to include oversight of the Middle East. 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 Operating Committee of HSBC Holdings plc and an executive Director of HSBC Bank Malaysia Berhad. With effect from 1 January 2025, his management responsibilities within the HSBC Group were expanded to include oversight of the Middle East. 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.

Judy Lai Kun CHAU

Independent non-executive Director (since April 2024)

He is also a member of the Group Operating Committee of HSBC Holdings plc and an executive Director of HSBC Bank Malaysia Berhad. With effect from 1 January 2025, his management responsibilities within the HSBC Group were expanded to include oversight of the Middle East. 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.

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.

*** Manveen KAUR (known as Pam KAUR)**

Non-executive Director (since November 2023)

She was appointed Group Chief Financial Officer and an executive Director of HSBC Holdings plc effective January 2025. She is also a member of the Group Operating Committee of HSBC Holdings plc. During 2024, she was the Group Chief Risk and Compliance Officer. She also serves as an independent non-executive Director of abrdn plc. She holds an MBA in Finance, and a BCom (Hons) from Panjab

General disclosures

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. Apart from the roles noted above, she has previously 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. 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.

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, Judy Lai Kun Chau was appointed an independent non-executive Director with effect from 5 April 2024. Kevin Anthony Westley retired as a Director with effect from 20 May 2024, being the date of passing the written resolutions of the Bank's shareholder

in lieu of holding the 2024 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 has non-executive responsibility for oversight of and advice to the Board on matters relating to financial reporting and internal controls. The current members of the Committee, all being independent non executive directors, are Paul Brough (Chairman of the Committee), Judy Chau, Yiu Kwan Choi, David Eldon and Rajnish Kumar. The Committee met seven times in 2024.

The Audit Committee monitors the integrity of the 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 control systems. During 2025, the Committee's responsibilities will expand to include reviewing the effectiveness of internal control systems, subject to input from the Risk Committee. 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.

General disclosures

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 July 2024.

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:

"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 31 December 2024, 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 70%, 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 31 December 2024, 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 20% 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, for a debt-to-income measurement period, 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 debt-to-income ratio of more than 7, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of property-investment residential mortgage loans arising in the debt-to-income measurement period.

11. That, for a debt-to-income measurement period, 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 debt-to-income ratio of more than 6, must not exceed 20% of the total of the qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans arising in the debt-to-income measurement period.

12. 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 and 9, —

Conditions of registration

“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”, and “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans” 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 July 2024 |
| BRP001: Glossary | 1 October 2023 |

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

In conditions of registration 10 and 11, —

“debt-to-income ratio”, “debt-to-income measurement period”, “non property-investment residential mortgage loan”, “property-investment residential mortgage loan”, “qualifying new mortgage lending amount in respect of property-investment residential mortgage loans”, and “qualifying new mortgage lending amount in respect of non property-investment residential mortgage loans” have the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High Debt-To-Income Residential Mortgage lending” (BS20) dated 3 April 2023, and where the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents referred to in BS20 for the purpose of defining these terms are—

| BPR document | Version date |
|---------------------------------------|----------------|
| BPR131: Standardised credit risk RWAs | 1 July 2024 |
| BRP001: Glossary | 1 October 2023 |

“debt-to-income measurement period” means—

(a) the initial period of six calendar months from the date of this conditions of registration (1 July 2024) ending on 31 December 2024; and

(b) thereafter, a rolling period of six calendar months ending on the last day of the sixth calendar month, the first of which ends on 31 January 2025 and covers the months of August, September, October, November and December 2024 and January 2025.

In condition of registration 12, —

“residential mortgage loan” has the same meaning as in the Reserve Bank of New Zealand document entitled “Framework for Restrictions on High Debt-To-Income Residential Mortgage lending” (BS20) dated 3 April 2023, and where the version dates of the Reserve Bank of New Zealand Banking Prudential Requirement (BPR) documents referred to in BS20 for the purpose of defining these terms are—

| BPR document | Version date |
|---------------------------------------|----------------|
| BPR131: Standardised credit risk RWAs | 1 July 2024 |
| BRP001: Glossary | 1 October 2023 |

Changes to Conditions of Registration since the 31 December 2023 Disclosure Statement

The conditions of registration were amended effective 1 July 2024 to incorporate changes regarding Debt-to-Income restrictions and Loan-to-Value Ratio restrictions and to update legislative references in the Banking Prudential Requirements.

From 27 June 2024, the registered bank no longer participated in mortgage lending, to which Debt-to-Income and Loan-to-Value Ratio restrictions relate.

Financial statements

Historical summary of financial statements

Five year comparison

The five year comparatives include discontinued operation. For details on discontinued operation, refer Note 17 Segment Reporting.

Summary of Financial Results

| | 2024 | 2023 | 2022 | 2021 | 2020 |
|---|-----------------|----------------|-----------------|-----------------|-----------------|
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Interest income | 352,773 | 408,253 | 213,208 | 102,458 | 127,842 |
| Interest expense | (242,527) | (274,304) | (115,912) | (33,730) | (59,175) |
| Net interest income | 110,246 | 133,949 | 97,296 | 68,728 | 68,667 |
| Net trading income | 11,451 | 11,819 | 11,587 | 9,306 | 9,153 |
| Loss on sale of the retail mortgage portfolio | — | (74,303) | — | — | — |
| Other net operating income | 40,960 | 41,826 | 38,113 | 41,762 | 37,092 |
| Net operating income before credit impairment charges | 162,657 | 113,291 | 146,996 | 119,796 | 114,912 |
| Change in expected credit losses and other credit impairment charges | (6,038) | 306 | (4,557) | 3,074 | (1,569) |
| Net operating income | 156,619 | 113,597 | 142,439 | 122,870 | 113,343 |
| Operating expenses excluding goodwill impairment | (70,443) | (85,790) | (77,237) | (71,990) | (73,477) |
| Goodwill impairment | — | (12,841) | — | — | — |
| Operating profit before tax | 86,176 | 14,966 | 65,202 | 50,880 | 39,866 |
| Income tax expense | (24,151) | (4,239) | (18,282) | (14,446) | (11,188) |
| Profit after tax attributable to the owners of the Banking Group | 62,025 | 10,727 | 46,920 | 36,434 | 28,678 |
| Retained profit repatriated | (76,544) | — | (33,039) | (41,867) | (27,473) |

Balance Sheet

| | 31 Dec | 31 Dec | 31 Dec | 31 Dec | 31 Dec |
|--|------------------|------------------|------------------|------------------|------------------|
| | 2024 | 2023 | 2022 | 2021 | 2020 |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Total assets | 6,508,021 | 7,223,268 | 7,772,468 | 7,540,127 | 7,085,529 |
| of which: Individually impaired assets | 55,241 | — | — | — | 894 |
| Total Liabilities | 6,473,353 | 7,184,606 | 7,753,055 | 7,526,770 | 7,054,393 |
| Head Office Account | 26,991 | 41,510 | 30,783 | 16,902 | 22,335 |
| Total Equity | 34,668 | 38,662 | 19,413 | 13,357 | 31,136 |

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 2024

| | Notes* | 2024 \$000 | 2023 \$000 |
|--|--------|-----------------|---------------|
| Continuing operations | | | |
| Interest income | 3 | 348,451 | 247,486 |
| Interest expense | 3 | (238,848) | (148,371) |
| Net interest income | 3 | 109,603 | 99,115 |
| Net trading income | 3 | 11,225 | 10,007 |
| Other net operating income | 3 | 41,544 | 41,937 |
| Net operating income before credit impairment charges | | 162,372 | 151,059 |
| Change in expected credit losses and other credit impairment charges | 7 | (6,038) | (448) |
| Net operating income | | 156,334 | 150,611 |
| Operating expenses | 4 | (55,695) | (49,322) |
| Operating profit before tax | | 100,639 | 101,289 |
| Income tax expense | 18 | (28,179) | (28,361) |
| Profit after tax from continuing operations | | 72,460 | 72,928 |
| Profit/(loss) after income tax from discontinued operations | 17 | (10,435) | (62,201) |
| Profit after tax attributable to the owners of the Banking Group | | 62,025 | 10,727 |
| Other comprehensive income | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Financial assets at fair value through other comprehensive income: | | | |
| Fair value gains in other comprehensive income | | 14,498 | 11,886 |
| Income taxes | | (4,063) | (3,318) |
| Other comprehensive income for the period | | 10,435 | 8,568 |
| Total comprehensive income for the period attributable to the owners of the Banking Group¹ | | 72,460 | 19,295 |

1 Total comprehensive income for the period attributable to the owners of the Banking Group for 2024 from continuing operations was \$83m (2023: \$81m) and total comprehensive loss from discontinued operations for 2024 was \$10m (2023: \$62m).

* For Notes on the financial statements, see page 13.

Statement of changes in equity

For the year ended 31 December 2024

| | 2024 \$000 | 2023 \$000 |
|--|---------------|---------------|
| Head Office Account¹ | | |
| At 1 Jan | 41,510 | 30,783 |
| Repatriation to Head Office ² | (76,544) | — |
| Profit after tax | 62,025 | 10,727 |
| At 31 Dec | 26,991 | 41,510 |
| Financial assets at Fair Value through Other Comprehensive Income Reserve | | |
| At 1 Jan | (4,823) | (13,391) |
| Fair value changes taken to equity | 14,498 | 11,886 |
| Tax on movements and transfers | (4,063) | (3,318) |
| At 31 Dec | 5,612 | (4,823) |
| Share-based Payment Reserve | | |
| At 1 Jan | 1,975 | 2,021 |
| Transferred to the profit or loss | 90 | (46) |
| At 31 Dec | 2,065 | 1,975 |
| Total equity at 31 Dec | 34,668 | 38,662 |

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


2 Profit was not repatriated in financial year 2023.

Balance sheet

As at 31 December 2024

| | Notes* | At | |
|---|--------|-------------------------|-------------------------|
| | | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Assets | | | |
| Cash and demand balances with central banks | | 1,592,928 | 2,798,495 |
| Advances to banks | | 1,071 | 177 |
| Financial investments | 11 | 1,245,836 | 1,017,621 |
| Derivative financial instruments | 21 | 191 | 428 |
| Advances to customers | 6 | 2,951,785 | 2,944,908 |
| Amounts due from related parties | 20 | 659,282 | 387,589 |
| Other assets | 15 | 26,496 | 32,887 |
| Current tax asset | | — | 9,086 |
| Property, plant and equipment | | 20,726 | 22,468 |
| Deferred tax asset | 18 | 8,436 | 7,794 |
| Goodwill and intangible assets | 19 | 1,270 | 1,815 |
| Total assets | | 6,508,021 | 7,223,268 |
| Liabilities | | | |
| Deposits by banks | | 326,775 | 257,671 |
| Derivative financial instruments | 21 | 173 | 427 |
| Customer deposits | 12 | 3,400,361 | 4,070,528 |
| Debt securities | 13 | — | 400,000 |
| Amounts due to related parties | 20 | 2,672,920 | 2,390,777 |
| Current tax liability | | 14,770 | — |
| Other liabilities | 16 | 58,354 | 65,203 |
| Total liabilities | | 6,473,353 | 7,184,606 |
| Net assets | | 34,668 | 38,662 |
| Equity | | | |
| Head Office account | | 26,991 | 41,510 |
| Financial assets at fair value through other comprehensive income reserve | | 5,612 | (4,823) |
| Share-based payment reserve | 27 | 2,065 | 1,975 |
| Total equity | | 34,668 | 38,662 |

* For Notes on the financial statements, see page 13.



Antony Shaw
25 March 2025

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 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 2024

The tables below include discontinued operations. For details on discontinued operations, refer Note 17 Segment Reporting.

| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
|--|-------------------------|-------------------------|
| Cash flows from/(to) operating activities | | |
| Interest received | 335,679 | 391,759 |
| Fees and commissions | 40,059 | 40,468 |
| Trading income | 11,800 | 12,563 |
| Interest paid | (260,374) | (265,089) |
| Operating expenses | (69,796) | (79,153) |
| Income tax paid | (5,000) | (30,816) |
| Net cash flows from operating activities before changes in operating assets and liabilities | 52,368 | 69,732 |
| Changes in operating assets and liabilities arising from cash flow movements | | |
| Cash was provided net from/applied net (to): | | |
| Advances to customers | (12,879) | 716,371 |
| Amounts due from related parties | (271,616) | 448,760 |
| Other assets | 30 | 1,222 |
| Other liabilities | 16,892 | (1,536) |
| Deposits by banks | 69,110 | (168,181) |
| Customer deposits | (670,167) | (756,430) |
| Amounts due to related parties | 283,063 | 358,449 |
| Net change in operating assets and liabilities | (585,567) | 598,655 |
| Net cash flows (to)/from operating activities | (533,199) | 668,387 |
| Cash flows from/(to) investing activities | | |
| Financial investments purchased | (532,229) | (831,328) |
| Financial investments matured | 341,802 | 120,601 |
| Proceeds from sale of fixed assets | (9) | 9 |
| Proceeds from sale of the retail mortgage portfolio | — | 982,044 |
| Acquisition of property, plant and equipment | (2,562) | (113) |
| Net cash flows from/(to) investing activities | (192,998) | 271,213 |
| Cash flows to financing activities | | |
| Repatriation to head office | (76,544) | — |
| Principal payments on lease liabilities | (1,919) | (2,037) |
| Debt securities repaid | (400,000) | — |
| Net cash flows to financing activities | (478,463) | (2,037) |
| Net (decrease)/increase in cash and cash equivalents | (1,204,660) | 937,563 |
| Effect of exchange rate fluctuations on cash held | (7) | (251) |
| Cash and cash equivalents at the beginning of the year | 2,798,666 | 1,861,354 |
| Cash and cash equivalents at the end of the year | 1,593,999 | 2,798,666 |

Analysis of cash and cash equivalents

| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
|---|-------------------------|-------------------------|
| Cash and demand balances with central banks | 1,592,928 | 2,798,495 |
| Items in the course of collection from other banks ¹ | 7 | 64 |
| Gross advances to banks - demand | 1,064 | 113 |
| Treasury bills | — | — |
| Less: items in the course of transmission to other banks ¹ | — | (6) |
| Cash and cash equivalents at the end of the year | 1,593,999 | 2,798,666 |

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.

Financial statements

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

| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
|---|----------------------------------|-------------------------|
| Profit after tax | 62,025 | 10,727 |
| Adjustments to reconcile profit after tax to net cash flow from operating activities: | | |
| Change in interest accruals | (11,010) | (82) |
| Change in fair value of derivatives | (10) | 249 |
| Depreciation of property, plant and equipment | 4,313 | 3,903 |
| Amortisation and impairment of intangible asset | 545 | 1,626 |
| Goodwill impairment | — | 12,841 |
| Amortisation of premium and discounts | (23,930) | (7,197) |
| Change in deferred income and accrued expense | (4,754) | 245 |
| Change in expected credit loss | 6,038 | (306) |
| Loss on sale of the retail mortgage portfolio | — | 74,303 |
| Change in current and deferred taxation | 19,151 | (26,577) |
| Adjust operating cash flows not included in profit after tax: | | |
| Net change in operating assets and liabilities | (585,567) | 598,655 |
| Net cash flows (to) / from operating activities | (533,199) | 668,387 |

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 New Zealand equivalent to International Accounting Standard (“NZ IAS”) 1 and the Order.

(e) Regulatory changes

There have been no regulatory changes impacting these financial statements.

(f) Changes in accounting policies

There were no new standards, amendments to standards or interpretations that had an effect on these financial statements.

(g) Authorisation of financial statements

These financial statements were authorised for issue on 25 March 2025 by Antony Shaw on behalf of the Directors of The Hongkong and Shanghai Banking Corporation Limited.

(h) Future accounting developments

Amendments to NZ IFRS 9 ‘Financial Instruments’ and NZ IFRS 7 ‘Financial Instruments: Disclosures’

In June 2024, the XRB issued amendments to NZ IFRS 9 ‘Financial Instruments’ and NZ IFRS 7 ‘Financial Instruments: Disclosures’, effective for annual reporting periods beginning on, or after, 1 January 2026. In addition to guidance as to when certain financial liabilities can be deemed settled when using an electronic payment system, the amendments also provide further clarification regarding the classification of financial assets that contain contractual terms that change the timing or amount of contractual cash flows, including those arising from ESG-related contingencies, and financial assets with certain non-recourse features. The Banking Group is undertaking an assessment of the potential impact.

NZ IFRS 18 ‘Presentation and Disclosure in Financial Statements’

In May 2024, the XRB issued NZ IFRS 18 ‘Presentation and Disclosure in Financial Statements’, effective for annual reporting periods beginning on or after 1 January 2027. The new accounting standard aims to give users of financial statements more transparent and comparable information about an entity’s financial performance. It will replace NZ IAS 1 ‘Presentation of Financial Statements’ but carries over many requirements from that IFRS Accounting Standard unchanged. In addition, there are three sets of new requirements relating to the structure of the income statement, management-defined performance measures and the aggregation and disaggregation of financial information.

While IFRS 18 will not change recognition criteria or measurement bases, it may have an impact on presenting information in the financial statements, in particular the income statement and to a lesser extent the cash flow statement. The Banking Group is currently assessing impacts and data readiness before developing a more detailed implementation plan.

(i) Climate-Related Disclosure

The Banking Group is relying on Financial Markets Conduct (Climate-related Disclosures – The Hongkong and Shanghai Banking Corporation Limited) Exemption Notice 2024. The effect of relying on this exemption is that the Banking Group is exempted from Part 7A of the Financial Markets Conduct Act 2012 and will not be required to publish climate statements in compliance with Aotearoa New Zealand Climate Standards

Notes on the financial statements

for the 2024 financial year. The climate statements for HSBC Group are contained in the HSBC Holdings Annual Report and Accounts and can be accessed via the website www.hsbc.com following the Investors link.

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.

Notes on the financial statements

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 unlikelihood 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.

Notes on the financial statements

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.

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.

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 | <ul style="list-style-type: none">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 | <ul style="list-style-type: none">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 | <ul style="list-style-type: none">Cannot be lower than current balance | <ul style="list-style-type: none">Amortisation captured for term products |
| LGD | <ul style="list-style-type: none">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 dataDiscounted using cost of capitalAll collection costs included | <ul style="list-style-type: none">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 floorsDiscounted using the original effective interest rate of the loanOnly costs associated with obtaining/selling collateral included |
| Other | | <ul style="list-style-type: none">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.

Notes on the financial statements

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. 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.

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 2024, 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.

Notes on the financial statements

At 31 December 2024, 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.

At the end of 2024, risks to the economic outlook included a number of geopolitical issues. Within 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 scenarios used to calculate ECL in 2024 are described below.

The consensus Central scenario

The Banking Group's Central scenario reflects expectations for a low growth and high interest rate environment.

Our Central scenario assumes that interest rates have peaked and Central bank is expected to reduce rates through 2025 with a return to more elevated levels in the outer years.

GDP is expected to grow by 2.1% in 2025 in the Central scenario, and the average rate of GDP growth is forecast to be 2.2% 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.

The consensus Downside scenario

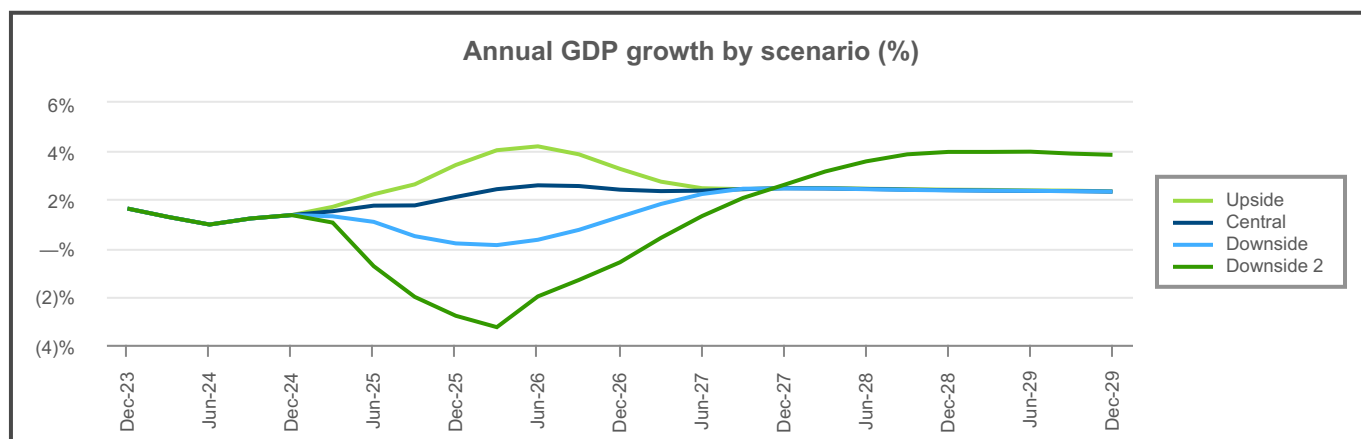
In the consensus Downside scenario, economic activity is weaker compared to the Central Scenario. In this scenario, GDP declines, unemployment rates rise, and asset prices fall. The scenario features an escalation of geopolitical tensions, which causes a rise in inflation, as supply chain constraints 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 4Q24.

| Central Scenario | GDP growth % (annual) | Unemployment % |
|-----------------------------|--------------------------|-------------------|
| As at 4Q24 | | |
| December 2025 | 2.1 | 4.5 |
| 1Q26 - 4Q29: average | 2.2 | 4.4 |
| As at 4Q23 | | |
| December 2024 | 2.0 | 4.6 |
| 1Q25 - 4Q28: average | 2.4 | 4.4 |



Notes on the financial statements

| Outer Scenarios | Best period | | Worst period | |
|---------------------|--------------------|---------------|--------------------|---------------|
| | Annual change % | Year ending | Annual change % | Year ending |
| As at 4Q24 | | | | |
| GDP growth % | 4.2 | Jun-26 | (3.3) | Mar-26 |
| As at 4Q23 | | | | |
| GDP growth % | 4.2 | Jun-25 | (2.2) | Mar-25 |

| Outer Scenarios | Best period | | Worst period | |
|---------------------------|--------------------|---------------|--------------------|---------------|
| | Annual change % | As at | Annual change % | As at |
| As at 4Q24 | | | | |
| Unemployment rate% | 3.5 | Sep-26 | 8.8 | Dec-26 |
| As at 4Q23 | | | | |
| Unemployment rate% | 3.7 | Jun-24 | 8.9 | Dec-25 |

The calculation of ECL under NZ IFRS 9 involves significant judgements, assumptions and estimates at 31 December 2024. 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. Global methodology is used for the estimation of the term structure of PD and 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.

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 2024, the expected credit loss on corporate exposures in our wholesale portfolio was not impacted by model adjustments (31 December 2023: the expected credit loss on corporate exposures in our wholesale portfolio was not impacted by model adjustments).

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 2024 | 12,477 | 12,082 | 13,340 | 18,611 | 12,831 |
| of which: | | | | | |
| 31 December 2023 | 6,166 | 5,298 | 7,772 | 17,985 | 6,831 |

The sensitivity weightings for are reported in the table below:

| Sensitivity weightings | Central % | Upside % | Downside % | Downside 2 % |
|-------------------------|--------------|-------------|---------------|-----------------|
| 31 December 2024 | 75 | 10 | 10 | 5 |
| 31 December 2023 | 75 | 10 | 10 | 5 |

Sensitivity to SICR Assessment:

If an additional 1% of Stage 1 financial assets were assessed as having a SICR at 31 December 2024, with the scenario weightings applied at 31 December 2024 held constant, the Bank's allowance for ECL would increase by \$0.7 million (31 December 2023 \$0.3 million) as a result of recognising a loss allowance equal to Stage 2 lifetime ECL (rather than at an amount equal to one year of ECL). Conversely, if 1% of Stage 2 financial assets were assessed as no longer having a SICR, the Bank's allowance for ECL would decrease by \$0.7 million (31 December 2023 \$0.3 million).

(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 ("FVL COD") 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.

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.

Notes on the financial statements

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.

(o) Discontinued operation

A discontinued operation is a component of the entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately in the statement of profit or loss. The comparative statement of profit or loss is re-presented as if the operation had been discontinued from the start of the comparative year.

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 base, to invest in accordance with our strategy and to meet regulatory capital requirements at all times.
- We carry out liquidity and funding management at an operating entity level to make sure that obligations can be met in the jurisdictions where they fall due.

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.

Notes on the financial statements

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 have established Group-wide credit risk management and related 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 a number of counterparties or exposures have comparable economic characteristics, or such counterparties are engaged in similar activities or operate in the same geographical areas or industry sectors so that their collective ability to meet contractual obligations is similarly affected by changes in economic, political or other conditions. We use a number of controls and measures to minimise undue concentration of exposure in our portfolios across industries, countries and global businesses. These include portfolio and counterparty limits, approval and review controls, and stress testing.

Notes on the financial statements

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 lending businesses, and the external ratings attributed by external agencies to debt securities.

Wholesale Lending

The CRR 10-grade scale summarises a more granular underlying 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.

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 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, or chronic gradual 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, the Group has also identified the following thematic issues related to climate risk, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks:

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

Approach

The Banking 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 Banking Group may be affected by climate risks either directly or indirectly through its relationships with customers, which could result in both financial and non-financial impacts.

The Group's climate risk approach aims to effectively manage the material climate risks that could impact the Group's operations, financial performance and 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 traditional risk types in line with the Group-wide risk management framework.

The Banking Group continues to develop its climate risk capabilities across its businesses, by prioritising sectors, portfolios and counterparties with the highest impacts, and recognises that this is a long-term iterative process.

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 risks.

The Group's annual climate risk materiality assessment helps it to understand how climate risk may impact across HSBC's risk taxonomy. The assessment considers short-term (up to 2026), medium-term (2027-2035) and long-term (2036-2050) periods.

The table below provides an overview of the climate risk drivers considered within HSBC's climate risk approach.

| Climate risk - primary risk drivers | | Details | Potential Impacts | Time horizons |
|-------------------------------------|---------------------|--|--|--|
| Physical | Acute | Increased frequency and severity of weather events causing disruption to business operations | <ul style="list-style-type: none"> • 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 | | |

Notes on the financial statements

The table below provides a summary of how climate risk may impact a subset of HSBC's principal risks.

| Climate risk drivers | Credit risk | Traded risk | Reputational risk ¹ | Regulatory compliance risk ¹ | Resilience risk | Other financial and non-financial risk types |
|----------------------|-------------|-------------|--------------------------------|---|-----------------|--|
| Physical risk | ◆ | ◆ | | | ◆ | ◆ |
| Transition risk | ◆ | ◆ | ◆ | ◆ | ◆ | ◆ |

¹ The Group's climate risk approach identifies thematic issues such as HSBC net zero alignment risk and the risk of greenwashing, which are most likely to materialise in the form of reputational, regulatory compliance and litigation risks.

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. Transition Engagement Questionnaires were implemented in 2024. These 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.

Climate risk factors are considered in credit applications for new money requests and annual credit reviews. Credit policies also require manual credit risk rating overrides if climate is deemed to have a material impact on credit risk under 12 months if not already captured under the original credit risk rating.

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 unless part of a defined liquidity 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 2024, 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 2024, 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 2024, 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 2024, 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

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.

Notes on the financial statements

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 2024, The Group Head of Financial Crime and Group Money Laundering Reporting Officer continues to report to the Group Chief Risk and Compliance Officer, while the Group Risk Committee retains oversight of matters relating to financial crime

Key risk management processes

We will not tolerate knowingly conducting business with individuals or entities believed to be engaged in criminal activity. HSBC recognises that financial institutions are inherently exposed to financial crime risk, which cannot be mitigated in its entirety. We employ a risk-based approach to managing our exposure by focusing our resources in a manner that is proportionate to the level of financial crime risk inherent in our business strategy and operating model.

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 apply a consistently high financial crime standard globally.

We continued to invest in enhancing our operational control capabilities and technology solutions to deter and detect criminal activity. 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. In 2024, our focus remained on measures to improve the overall effectiveness of the global financial crime framework and promote the risk based approach. 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 industry bodies, such as the Wolfsberg Group, we provided input into legislative and regulatory reform activities and 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

The table below includes discontinued operations. For details on discontinued operations, refer Note 17 Segment Reporting.

| | At | |
|--|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Net interest income | | |
| Interest income | 352,773 | 408,253 |
| Advances to banks | 98,148 | 99,579 |
| Financial instruments ¹ | 53,057 | 19,824 |
| Advances to customers | 174,800 | 251,596 |
| Related parties – HBAP | 25,601 | 36,649 |
| Related parties – other | 1,166 | 581 |
| Other | 1 | 24 |
| Interest expense | (242,527) | (274,304) |
| Deposits by banks | (10,498) | (10,962) |
| Customer deposits | (109,784) | (137,449) |
| Debt securities | (16,763) | (19,108) |
| Related parties – HBAP | (104,295) | (98,207) |
| Related parties – other | (932) | (8,281) |
| Lease liability | (254) | (297) |
| Other | (1) | — |
| Year ended 31 Dec | 110,246 | 133,949 |
| Net trading income² | | |
| Foreign exchange gains / (losses) | 11,293 | 11,828 |
| Gains / (losses) on revaluation of derivatives | 158 | (9) |
| Credit valuation adjustments on derivatives | — | 1 |
| Debit valuation adjustments on derivatives | — | (1) |
| Year ended 31 Dec | 11,451 | 11,819 |
| Other net operating income | | |
| Fee and commission income | 45,376 | 47,320 |
| Lending and credit facility fees | 19,731 | 21,276 |
| Custody and clearing fees | 5,599 | 5,603 |
| Other fees and commissions from: | | |
| – Third parties | 12,288 | 14,018 |
| – Related parties - HBAP | 4,798 | 4,546 |
| – Related parties - other | 2,960 | 1,877 |
| Fee and commission expense | (4,775) | (5,988) |
| Brokerage expense | (2,951) | (2,984) |
| Other fees and commissions to: | | |
| – Third parties | (865) | (1,060) |
| – Related parties - HBAP | (601) | (1,944) |
| – Related parties - other | (358) | — |
| Other income | 359 | 494 |
| Third parties | 129 | 129 |
| Related parties - other | 424 | 359 |
| (Loss) / gain on disposal plant property and equipment | 7 | 6 |
| (Loss) / gain arising from derecognition of financial instrument | (201) | — |
| Year ended 31 Dec | 40,960 | 41,826 |

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

The table below includes discontinued operations. For details on discontinued operations, refer Note 17 Segment Reporting.

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Rental expense | 248 | 89 |
| Premises | 180 | 31 |
| Equipment | 68 | 58 |
| Depreciation and amortisation | 4,835 | 5,536 |
| Lease right of use assets | 2,228 | 1,853 |
| Leasehold improvements | 1,937 | 1,440 |
| Equipment, fixtures and fittings | 125 | 1,415 |
| Intangibles | 545 | 828 |
| Staff costs | 28,653 | 40,693 |
| Salaries & other staff expenses | 24,629 | 32,745 |
| Defined contribution pension costs | 1,874 | 2,427 |
| Share based payments | 390 | 113 |
| Other | 1,760 | 5,408 |
| Other | 36,707 | 39,472 |
| Related party management and technical fees – HBAP | 20,512 | 19,887 |
| Related party management and technical fees – other | 8,495 | 8,798 |
| Donations | 48 | 92 |
| Other operating expenses | 7,652 | 10,695 |
| Year ended 31 Dec | 70,443 | 85,790 |

5 Auditor's remuneration

Fees paid/payable to the auditor of the Banking Group in relation to the audit of the financial statements and for the audit-related limited assurance engagement on compliance with the information required on credit and market risk exposures and capital adequacy related to the 31 December 2024 financial statements amounted to \$607 thousand (31 December 2023: \$599 thousand).

Fees paid in relation to the review of the 30 June 2024 financial statements amounted to \$156 thousand (30 June 2023: \$150 thousand).

There were no other services provided by the auditor, including any network firms, for the Banking Group in the 2024 financial year (2023 financial year: nil). The amounts above exclude goods and services tax.

6 Advances to customers

| | At | |
|--|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Overdrafts | 43,533 | 41,273 |
| Term lending | 2,771,108 | 2,794,350 |
| Corporate credit card advances | 4,148 | 3,747 |
| Trade finance receivables | 144,267 | 110,657 |
| Total gross advances to customers | 2,963,056 | 2,950,027 |
| Expected credit loss allowance | (11,271) | (5,119) |
| Total net advances to customers | 2,951,785 | 2,944,908 |

7 Asset quality – gross exposure and expected credit loss

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

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Less than 30 days | 97,513 | 68,143 |
| At least 30 days but less than 60 days | 9,219 | — |
| At least 60 days but less than 90 days | 4,018 | 1 |
| At least 90 days | — | — |
| Total past due but not individually impaired | 110,750 | 68,144 |

Notes on the financial statements

Percentage of total gross advances to customers

| | At | | | | |
|--------------------------|-------------|---------|-------------|---------|--|
| | 31 Dec 2024 | | 31 Dec 2023 | | |
| | Stage 1 & 2 | Stage 3 | Stage 1 & 2 | Stage 3 | |
| | % | % | % | % | |
| Fully collateralised | 21 | 39 | 11 | — | |
| Partially collateralised | 1 | — | 24 | — | |
| Not collateralised | 78 | 61 | 65 | — | |

Total gross advances to customers by level of collateral

| | At | | | | |
|--------------------------|-------------|---------|-------------|---------|--|
| | 31 Dec 2024 | | 31 Dec 2023 | | |
| | Stage 1 & 2 | Stage 3 | Stage 1 & 2 | Stage 3 | |
| | \$000s | \$000s | \$000s | \$000s | |
| Fully collateralised | 573,511 | 17,729 | 308,002 | — | |
| Partially collateralised | 25,594 | — | 719,235 | — | |
| Not collateralised | 2,319,022 | 27,200 | 1,922,790 | — | |

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.

Notes on the financial statements

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 2024 | | | | | | | |
|---|--------------------------------|-------------------|----------------|-------------------|----------------|-------------------|------------------|-------------------|
| | 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 2024 | 4,314,658 | (3,643) | 503,842 | (2,962) | — | — | 4,818,500 | (6,605) |
| Transfer of financial instruments: | | | | | | | | |
| – transfers from Stage 1 to 2 | (158,268) | 164 | 158,268 | (164) | — | — | — | — |
| – transfers from Stage 2 to 1 | 152,429 | (920) | (152,429) | 920 | — | — | — | — |
| – transfers to Stage 3 | — | — | (68,731) | 214 | 68,731 | (214) | — | — |
| – transfers from Stage 3 | — | — | — | — | — | — | — | — |
| Net further lending / repayment | (977,378) | — | (141,053) | — | (13,490) | — | (1,131,921) | — |
| Net re-measurement of ECL arising from transfer of stage | — | 584 | — | (93) | — | (6,581) | — | (6,090) |
| Net new lending and changes to risk parameters (model inputs) | — | 2,515 | — | (511) | — | (1,207) | — | 797 |
| Asset derecognised (including final repayments) | (559,090) | 10 | (58,500) | 6 | — | — | (617,590) | 16 |
| New financial assets originated or purchased | 1,822,571 | (916) | — | — | — | — | 1,822,571 | (916) |
| At 31 Dec 2024 | 4,594,922 | (2,206) | 241,397 | (2,590) | 55,241 | (8,002) | 4,891,560 | (12,798) |
| ECL on loans and advances to banks and customers including loan commitments and financial guarantees - profit or loss charge/(release) for the period | | (1,437) | | (372) | | 8,002 | | 6,193 |
| Total ECL profit or loss charge / (release) for the period | | (1,437) | | (372) | | 8,002 | | 6,193 |
| 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 31 December 2024, there were no assets under administration (31 December 2023: nil). The aggregate amount as at 31 December 2024 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 2023: nil).

Notes on the financial statements

Change in expected credit loss

| | For the year ended | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Advances to customers | | |
| – new allowances net of allowance releases | 6,183 | 271 |
| – recoveries of amounts previously written off | – | – |
| – amounts written off | – | – |
| – transfer related to sale of retail mortgage portfolio | – | (479) |
| Loan commitments and guarantees | 36 | (306) |
| Other financial assets ¹ | (181) | 208 |
| Total change in expected credit loss | 6,038 | (306) |

¹ Other financial assets include cash with central bank, amount due from related parties, financial investment and other assets.

8 Asset quality – financial instruments by stage allocation

Credit quality classification

| Quality classification | Financial Investments | Wholesale Lending | |
|------------------------|------------------------|------------------------|-----------------------------------|
| | External credit rating | Internal credit rating | 12 month probability of default % |
| Strong | A- and above | CRR1 to CRR2 | 0 - 0.169 |
| Good | BBB+ to BBB- | CRR3 | 0.170 - 0.740 |
| Satisfactory | BB+ to B and unrated | CRR4 to CRR5 | 0.741 - 4.914 |
| Sub-standard | B- to C | CRR6 to CRR8 | 4.915 – 99.999 |
| Impaired | Default | CRR9 to CRR10 | 100.00 |

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 | 1,568,841 | 783,702 | 480,002 | 85,583 | 44,928 | 2,963,056 | (11,271) | 2,951,785 |
| – stage 1 | 1,560,299 | 700,466 | 454,933 | – | – | 2,715,698 | (1,565) | 2,714,133 |
| – stage 2 | 8,542 | 83,236 | 25,069 | 85,583 | – | 202,430 | (2,197) | 200,233 |
| – stage 3 | – | – | – | – | 44,928 | 44,928 | (7,509) | 37,419 |
| Advances to banks at amortised cost¹ | 1,064 | – | – | – | – | 1,064 | – | 1,064 |
| – stage 1 | 1,064 | – | – | – | – | 1,064 | – | 1,064 |
| – stage 2 | – | – | – | – | – | – | – | – |
| – stage 3 | – | – | – | – | – | – | – | – |
| Loan and other credit-related commitments | 944,676 | 630,022 | 268,124 | 22,323 | 10,313 | 1,875,458 | (1,389) | 1,874,069 |
| – stage 1 | 934,865 | 624,174 | 262,543 | 4,797 | – | 1,826,379 | (564) | 1,825,815 |
| – stage 2 | 9,811 | 5,848 | 5,581 | 17,526 | – | 38,766 | (332) | 38,434 |
| – stage 3 | – | – | – | – | 10,313 | 10,313 | (493) | 9,820 |
| Financial guarantees and similar contracts | 36,985 | 12,504 | 2,342 | 151 | – | 51,982 | (138) | 51,844 |
| – stage 1 | 36,985 | 12,504 | 2,292 | – | – | 51,781 | (77) | 51,704 |
| – stage 2 | – | – | 50 | 151 | – | 201 | (61) | 140 |
| – stage 3 | – | – | – | – | – | – | – | – |
| Total at 31 Dec 2024 | 2,551,566 | 1,426,228 | 750,468 | 108,057 | 55,241 | 4,891,560 | (12,798) | 4,878,762 |

Notes on the financial statements

| | 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 |

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 are not included in the table above due to not having 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 2024 \$000 | 31 Dec 2023 \$000 |
| On-balance sheet credit exposures | | |
| Cash and demand balances with central banks | 1,592,928 | 2,798,495 |
| Advances to banks | 1,071 | 177 |
| Financial investments | 1,245,836 | 1,017,621 |
| Derivative financial instruments | 191 | 428 |
| Advances to customers | 2,951,785 | 2,944,908 |
| Amounts due from related parties | 659,282 | 387,589 |
| Other assets | 26,071 | 32,280 |
| Total on-balance sheet credit exposures | 6,477,164 | 7,181,498 |
| Total off-balance sheet credit exposures | 3,207,709 | 3,012,408 |
| Total credit exposures | 9,684,873 | 10,193,906 |

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.

Notes on the financial statements

Concentrations of credit risk by industry and geographical area

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Concentrations of credit risk by industry | | |
| Banks and financial institutions | 4,110,108 | 4,642,789 |
| Commercial and industrial | 2,424,165 | 2,036,877 |
| Commercial real estate and construction | 553,007 | 1,053,043 |
| Electricity, telecommunication and other utilities | 908,957 | 888,538 |
| Wholesale and retail trade | 496,752 | 604,579 |
| Agriculture, forestry and mining | 185,478 | 149,692 |
| Transport | 293,380 | 350,277 |
| Government | 246,506 | 179,617 |
| Other | 466,520 | 288,494 |
| Total | 9,684,873 | 10,193,906 |
| Concentrations of credit risk by geographical area | | |
| New Zealand | 7,997,384 | 9,125,044 |
| Hong Kong | 360,532 | 356,531 |
| China | 238,785 | 79,297 |
| Australia | 441,169 | 124,561 |
| United States | 347,112 | 189,648 |
| United Kingdom | 39,424 | 54,387 |
| Other Overseas | 260,467 | 264,438 |
| Total | 9,684,873 | 10,193,906 |

10 Concentrations of funding risk

Concentrations of funding risk by product, industry and geographical area

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Concentrations of funding by product | | |
| Deposits by banks | 326,775 | 257,671 |
| Customer deposits | 3,400,361 | 4,070,528 |
| Debt securities | — | 400,000 |
| Amounts due to related parties | 2,672,920 | 2,390,777 |
| Total | 6,400,056 | 7,118,976 |
| Concentrations of funding by industry | | |
| Banks and financial institutions | 4,448,675 | 5,039,149 |
| Commercial and industrial | 692,297 | 652,627 |
| Commercial real estate and construction | 125,480 | 164,964 |
| Wholesale trade | 503,554 | 313,642 |
| Agriculture, forestry and mining | 95,128 | 46,637 |
| Transport | 174,401 | 260,846 |
| Electricity, telecommunication and other utilities | 41,572 | 78,695 |
| Government | 39,707 | 29,921 |
| Individual | — | 346,413 |
| Other | 279,242 | 186,082 |
| Total | 6,400,056 | 7,118,976 |
| Concentrations of funding by geographical area | | |
| New Zealand | 3,247,519 | 4,066,872 |
| Hong Kong | 2,483,212 | 2,308,311 |
| China | 2,685 | 53,761 |
| United Kingdom | 102,799 | 122,959 |
| United States | 62,585 | 57,453 |
| Australia | 132,106 | 137,418 |
| Other Overseas | 369,150 | 372,202 |
| Total | 6,400,056 | 7,118,976 |

11 Financial investments

Carrying amounts of financial investments

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Financial investments measured at fair value through other comprehensive income | 985,165 | 694,043 |
| – treasury and other eligible bills | – | – |
| – debt securities | 985,143 | 694,021 |
| – equity securities | 22 | 22 |
| Debt instruments measured at amortised cost | 260,671 | 323,578 |
| – treasury and other eligible bills | – | 34,179 |
| – debt securities | 260,671 | 289,399 |
| Total | 1,245,836 | 1,017,621 |

12 Customer deposits

| | At | |
|--|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Current accounts | 3,001,962 | 2,842,347 |
| Savings and deposit accounts | 398,399 | 1,228,181 |
| Total customer deposits at amortised cost | 3,400,361 | 4,070,528 |

On 13 June 2023, the Branch announced that it would be exiting its Wealth and Personal Banking (“WPB”) business in New Zealand via a wind-down (the “Retail Wind-Down”). The wind down of retail customer deposits was completed effective 27 June 2024.

13 Debt securities

| | At | |
|--------------------------|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Medium term notes issued | – | 400,000 |
| Total | – | 400,000 |

At 31 December 2024, there were no debt securities on demand (31 December 2023: nil).

14 Additional financial disclosures on the balance sheet

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Total interest earning and discount bearing assets | 6,450,902 | 7,148,790 |
| Total interest and discount bearing liabilities | 6,183,106 | 6,890,550 |
| Total liabilities net of amounts due to related parties | 3,800,285 | 4,793,773 |

15 Other assets

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Accrued interest receivable – third party | 19,395 | 25,905 |
| Acceptances and endorsements | 4,866 | 4,713 |
| Other | 2,235 | 2,269 |
| Total | 26,496 | 32,887 |

16 Other liabilities

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Accrued interest payable | 2,385 | 18,655 |
| Accruals and deferred income ¹ | 8,419 | 12,087 |
| Acceptances and endorsements | 4,868 | 4,715 |
| Lease liabilities | 13,032 | 13,957 |
| Other | 29,650 | 15,789 |
| Total | 58,354 | 65,203 |

¹ At 31 December 2024, accruals include \$5.6m for employee entitlements (31 December 2023: \$7.1m).

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. Discontinuation of WPB business was completed effective 27 June 2024.

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 2024 | | | | |
|---|---|-----------------------|----------------------------------|---------------------|----------------|
| | Wealth and Personal Banking (Discontinued Operations) | Commercial Banking | Global Banking and Markets | Corporate Centre | Aggregated |
| | \$000 | \$000 | \$000 | \$000 | \$000 |
| Net interest income / (loss) | 643 | 87,785 | 22,584 | (766) | 110,246 |
| Net trading income / (loss) | 226 | 3,532 | 7,573 | 120 | 11,451 |
| Net fee and commission income / (loss) | (84) | 34,951 | 6,975 | (1,241) | 40,601 |
| Other income | (500) | 174 | 255 | 430 | 359 |
| Net operating income / (loss) before loan impairment charges | 285 | 126,442 | 37,387 | (1,457) | 162,657 |
| Change in expected credit loss | — | (6,172) | 134 | — | (6,038) |
| Net operating income | 285 | 120,270 | 37,521 | (1,457) | 156,619 |
| Operating (expense) / recovery | (14,748) | (44,315) | (11,602) | 222 | (70,443) |
| Goodwill impairment | — | — | — | — | — |
| Operating profit before tax¹ | (14,463) | 75,955 | 25,919 | (1,235) | 86,176 |
| Balance sheet data | | | | | |
| Advances to customers | — | 2,951,785 | — | — | 2,951,785 |
| Customer deposits | — | 2,015,162 | 1,385,199 | — | 3,400,361 |

¹ Tax credit from discontinued operations for 2024 was \$4.1m (2023: \$24.1m). The loss after tax for the discontinued operations for 2024 was \$10.4m (2023: \$62.2m).

Notes on the financial statements

| | Year ended 31 Dec 2023 | | | | |
|--|--|--------------------|----------------------------|------------------|------------|
| | Wealth and Personal Banking (Discontinued Operations) | Commercial Banking | Global Banking and Markets | Corporate Centre | Aggregated |
| | \$000 | \$000 | \$000 | \$000 | \$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 the sale of the mortgage retail 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 |

¹ Includes transaction related costs of \$2.2m.

Cash flow from discontinued operation

| | 2024 | 2023 |
|--|------------------|-----------------|
| | \$000 | \$000 |
| Net cash flows to operating activities | (399,149) | (1,051,726) |
| Net cash flows from investing activities | — | 982,046 |
| Net cash flows from/(to) financing activities | — | — |
| Net decrease in cash and cash equivalents | (399,149) | (69,680) |

18 Taxation

The table below includes discontinued operations. For details on discontinued Operations, refer Note 17 Segment Reporting.

Tax expense and tax reconciliation

| | 2024 | 2023 |
|--|---------------|--------------|
| | \$000 | \$000 |
| Current tax expense | | |
| – On current year profit | 24,793 | 9,244 |
| Deferred tax expense | | |
| – Origination and reversal of temporary differences | (642) | (5,005) |
| Year ended 31 Dec | 24,151 | 4,239 |
| Reconciliation of effective tax rate | | |
| Operating profit before tax | 86,176 | 14,966 |
| Income tax using the domestic corporation tax rate (28%) | 24,129 | 4,190 |
| Non-deductible expenses | 22 | 32 |
| Under/(Over) provision from prior years | – | 17 |
| Year ended 31 Dec | 24,151 | 4,239 |

Recognised deferred tax assets and liabilities

| | Balance at 1 Jan | Credit/ (charge) to profit or loss | Balance at 31 Dec |
|---|---------------------|---|----------------------|
| | \$000 | \$000 | \$000 |
| 2024 | | | |
| Accelerated capital allowances | 3,707 | 321 | 4,028 |
| Provision for loan impairment | 1,913 | 1,682 | 3,595 |
| Other provisions | 1,350 | (1,042) | 308 |
| Income deferred for accounting purposes | – | – | – |
| Right of use assets | (3,084) | (60) | (3,144) |
| Lease liabilities | 3,908 | (259) | 3,649 |
| Tax deductible premium | – | – | – |
| Net deferred tax asset / (liability) | 7,794 | 642 | 8,436 |
| 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 | (3,703) | 619 | (3,084) |
| Lease liabilities | 4,579 | (671) | 3,908 |
| Tax deductible premium | (3,595) | 3,595 | – |
| Net deferred tax asset / (liability) | 2,789 | 5,005 | 7,794 |

The Banking Group applies the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two income taxes, as provided in the amendments to NZ IAS 12 issued in May 2023.

Based on the Banking Group's forecast related to the proposed Pillar Two legislation passed by New Zealand government on 28 March 2024, no material 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 the UK and New Zealand.

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 2024 | 15,744 | 8,798 | 7,848 | 32,390 |
| Additions | — | — | — | — |
| Disposals | — | — | (401) | (401) |
| Amount written-off | (12,841) | — | — | (12,841) |
| At 31 Dec 2024 | 2,903 | 8,798 | 7,447 | 19,148 |
| Accumulated impairment losses | | | | |
| At 1 Jan 2024 | (14,884) | (8,798) | (6,893) | (30,575) |
| Amortisation charge for the period | — | — | (545) | (545) |
| Impairment losses | — | — | — | — |
| Disposals | — | — | 401 | 401 |
| Amount written-off | 12,841 | — | — | 12,841 |
| At 31 Dec 2024 | (2,043) | (8,798) | (7,037) | (17,878) |
| Total net carrying value at 31 Dec 2024 | 860 | — | 410 | 1,270 |
| 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 year | — | — | (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 |

Goodwill

The Banking Group's goodwill arises 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 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 2024, the carrying value related to this CGU was \$0.9 million (31 December 2023: \$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 12.2% (31 December 2023: 14.5%), growth rate for revenues of 0.4% and expenses of -1.1% in the next five years supported by 31 December 2024 actual results and approved budget (31 December 2023: five year growth rates for revenue of 4.7% and expenses of 6.1%).

Goodwill arising from the acquisition of loan and deposit portfolio

As at 31 December 2024 goodwill of \$12.8 million previously arising due to the acquisition of a portfolio of loans and deposits within our WPB business has been derecognised due to the exit of the WPB business.

Other Intangible Assets

Other intangible asset 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.

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. Until 31 May 2024, key management personnel for the Banking Group represent the members of the New Zealand Executive Committee who are employees of the Banking Group.

On 17 May 2024, a new CEO was appointed of the New Zealand Branch who resides in Australia. As a result, the key management personnel have been re-assessed and the compensation reported for 2024 consists of 5 months (1 January to 31 May) of the previous NZ Executive Committee up to the time of the change. From 1 June 2024, the key management personnel are resident outside of New Zealand.

| | 2024 \$000 | 2023 \$000 |
|--|---------------|---------------|
| Key management compensation | | |
| Salaries and other short-term benefits | 1,110 | 2,953 |
| Post employment benefits ¹ | 691 | 183 |
| Share-based payments expenses recognised | 57 | 107 |
| Year ended 31 Dec | 1,858 | 3,243 |

¹ Includes termination benefits.

| | 31 Dec 2024 Number of awards awarded | 31 Dec 2023 Number of awards awarded |
|--|--|--|
| Shares, options and other incentive plans | | |
| HSBC Restricted Share Award Scheme | 5,571 | 3,813 |

The total fair value of the shares awarded under the restricted share award scheme as at 31 December 2024 is \$60 thousand when converted into NZ dollars (31 December 2023: \$44 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 £5.26 (31 December 2023: £5.69).

| | At | |
|---|-------------------------|-------------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Amounts due from related parties | | |
| On demand | 39,827 | 33,019 |
| Other short term | 619,455 | 354,570 |
| Total | 659,282 | 387,589 |
| The Hongkong and Shanghai Banking Corporation Limited (HBAP): | | |
| HBAP Hong Kong | 441,856 | 354,791 |
| HBAP Japan | 678 | 2,140 |
| HBAP Australia | 183,298 | 6,687 |
| HBAP Other | 338 | 203 |
| Other: | | |
| HUSI North America | 32,110 | 22,973 |
| HSBC Canada | — | 23 |
| HSBC Bank plc UK Ops | 405 | 265 |
| Other | 597 | 507 |
| Total | 659,282 | 387,589 |

Notes on the financial statements

| | At | |
|---|----------------------|----------------------|
| | 31 Dec 2024 \$000 | 31 Dec 2023 \$000 |
| Amounts due to related parties | | |
| On demand | 485,467 | 471,253 |
| Other short term | 248,289 | 457,879 |
| Long term | 1,939,164 | 1,461,645 |
| Total | 2,672,920 | 2,390,777 |
| The Hongkong and Shanghai Banking Corporation Limited (HBAP): | | |
| HBAP Hong Kong | 2,432,774 | 2,188,742 |
| HBAP Singapore | 46,394 | 69,974 |
| HBAP Australia | 3,008 | 3,552 |
| HBAP India | 2,100 | 3,010 |
| HBAP Japan | 2 | 18 |
| HBAP Other | 1,235 | 2,023 |
| Other: | | |
| HSBC Bank Plc UK Ops | 61,767 | 87,802 |
| HSBC Germany | 11,445 | — |
| HUSI North America | 1,723 | 43 |
| HSBC Bank (China) Company Limited | 2,685 | 1,874 |
| HSBC Bank (Taiwan) Limited | 904 | 848 |
| HSBC Bank Plc | 5,329 | 448 |
| HSBC Bank Canada | — | 89 |
| HSBC France | 67,507 | 5,593 |
| Other | 36,047 | 26,761 |
| Total | 2,672,920 | 2,390,777 |

Interest Free Funding

As at 31 December 2024, 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 2023: \$194 million). This loan has no repayment terms and is recorded within amounts due to related parties.

Repatriation of capital to HBAP

The Banking Group repatriated profits of \$76.5 million (2023: nil) to HBAP during the year.

21 Derivative financial instruments

| | At | | | | | |
|--------------------------------------|--------------------------|-----------------|----------------------|--------------------------|-----------------|----------------------|
| | 31 Dec 2024 | | | 31 Dec 2023 | | |
| | Contract amount \$000 | Assets \$000 | Liabilities \$000 | Contract amount \$000 | Assets \$000 | Liabilities \$000 |
| Related Party | | | | | | |
| Trading derivatives | | | | | | |
| Exchange rate contracts ¹ | 561,005 | 146 | 148 | 50,760 | 388 | 56 |
| <i>Of which:</i> | | | | | | |
| HBAP Group | | 130 | 109 | | 388 | 53 |
| Others | | 16 | 39 | | — | 3 |
| Other | | | | | | |
| Trading derivatives | | | | | | |
| Exchange rate contracts ¹ | 8,926 | 45 | 25 | 13,847 | 40 | 371 |
| Total | | 191 | 173 | | 428 | 427 |

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 2024 | | | | |
| Assets | | | | |
| Financial investments | 985,143 | — | 22 | 985,165 |
| Derivative financial instruments | — | 191 | — | 191 |
| Liabilities | | | | |
| Derivative financial instruments | — | 173 | — | 173 |
| At 31 Dec 2023 | | | | |
| Assets | | | | |
| Financial investments | 694,021 | — | 22 | 694,043 |
| Derivative financial instruments | — | 428 | — | 428 |
| Liabilities | | | | |
| Derivative financial instruments | — | 427 | — | 427 |

There have been no transfers between levels 1 and 2 for the year ended 31 December 2024 (31 December 2023: 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 six 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, and other 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 | | | | Carrying value \$000 |
|---|------------------|------------------|------------------|----------------|-------------------------|
| | Level 1 \$000 | Level 2 \$000 | Level 3 \$000 | Total \$000 | |
| At 31 Dec 2024 | | | | | |
| Assets | | | | | |
| Advances to customers | — | — | 2,951,785 | 2,951,785 | 2,963,056 |
| Financial investments – debt securities at amortised cost | 262,180 | — | — | 262,180 | 260,671 |
| Liabilities | | | | | |
| Customer deposits | — | 3,400,354 | — | 3,400,354 | 3,400,361 |
| Debt securities | — | — | — | — | — |
| Amounts due to related parties | — | 2,671,743 | — | 2,671,743 | 2,672,920 |
| 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 |

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 \$m | Over 3 months and up to 6 months \$m | Over 6 months and up to 1 year \$m | Over 1 year and up to 2 years \$m | Over 2 years \$m | Total interest bearing \$m | Non interest bearing \$m | Total \$m |
|--|-----------------------|---|---------------------------------------|--------------------------------------|---------------------|-------------------------------|-----------------------------|--------------|
| At 31 Dec 2024 | | | | | | | | |
| Financial assets | | | | | | | | |
| Cash and demand balances with central banks | 1,593 | — | — | — | — | 1,593 | — | 1,593 |
| Advances to banks | 1 | — | — | — | — | 1 | — | 1 |
| Financial investments | 71 | 514 | 31 | 233 | 397 | 1,246 | — | 1,246 |
| Derivative financial instruments | — | — | — | — | — | — | — | — |
| Advances to customers | 2,845 | 86 | 1 | 18 | 2 | 2,952 | — | 2,952 |
| Amounts due from related parties | 659 | — | — | — | — | 659 | — | 659 |
| Other assets | — | — | — | — | — | — | 26 | 26 |
| Total financial assets | 5,169 | 600 | 32 | 251 | 399 | 6,451 | 26 | 6,477 |
| Financial liabilities | | | | | | | | |
| Deposits by banks | 327 | — | — | — | — | 327 | — | 327 |
| Derivative financial instruments | — | — | — | — | — | — | — | — |
| Customer deposits | 3,380 | 1 | 2 | — | — | 3,383 | 17 | 3,400 |
| Debt securities | — | — | — | — | — | — | — | — |
| Amounts due to related parties | 2,457 | — | — | — | — | 2,457 | 216 | 2,673 |
| Other liabilities | 1 | 1 | 1 | 2 | 9 | 14 | 44 | 58 |
| Total financial liabilities | 6,165 | 2 | 3 | 2 | 9 | 6,181 | 278 | 6,459 |
| Off-balance sheet financial instruments | | | | | | | | |
| Net notional interest rate contracts | — | — | — | — | — | — | — | — |
| 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 | — | — | — | — | — | — | — | — |

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 2024 \$m | 31 Dec 2023 \$m |
| Cash and demand balances with central banks | 1,593 | 2,798 |
| Financial Investments | 1,246 | 1,018 |
| Total | 2,839 | 3,816 |

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.

| | 2024 | | | 2023 | | |
|---|------------------------|-----------------------|--------------|------------------------|-----------------------|--------------|
| | Under 12 months \$m | Over 12 months \$m | Total \$m | Under 12 months \$m | Over 12 months \$m | Total \$m |
| Assets | | | | | | |
| Cash and demand balances with central banks | 1,593 | — | 1,593 | 2,798 | — | 2,798 |
| Advances to banks | 1 | — | 1 | — | — | — |
| Financial investments | 616 | 630 | 1,246 | 198 | 820 | 1,018 |
| Derivative financial instruments | — | — | — | — | — | — |
| Advances to customers | 1,334 | 1,618 | 2,952 | 903 | 2,042 | 2,945 |
| Amounts due from related parties | 659 | — | 659 | 388 | — | 388 |
| Other assets | 17 | 10 | 27 | 12 | 21 | 33 |
| Current tax asset | — | — | — | 9 | — | 9 |
| Property, plant and equipment | — | 21 | 21 | — | 22 | 22 |
| Deferred tax asset | — | 8 | 8 | — | 8 | 8 |
| Goodwill and Intangible assets | — | 1 | 1 | — | 2 | 2 |
| Total assets at 31 Dec | 4,220 | 2,288 | 6,508 | 4,308 | 2,915 | 7,223 |
| Liabilities | | | | | | |
| Deposits by banks | 327 | — | 327 | 258 | — | 258 |
| Derivative financial instruments | — | — | — | — | — | — |
| Customer deposits | 3,400 | — | 3,400 | 4,058 | 13 | 4,071 |
| Debt securities | — | — | — | 400 | — | 400 |
| Amounts due to related parties | 734 | 1,939 | 2,673 | 929 | 1,462 | 2,391 |
| Current tax liability | 15 | — | 15 | — | — | — |
| Other liabilities | 57 | 1 | 58 | 63 | 2 | 65 |
| Total liabilities at 31 Dec | 4,533 | 1,940 | 6,473 | 5,708 | 1,477 | 7,185 |
| Net assets at 31 Dec | (313) | 348 | 35 | (1,400) | 1,438 | 38 |

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 2024 | | | | | | | | |
| Financial liabilities | | | | | | | | |
| Deposits by banks | 327 | — | — | — | — | — | — | 327 |
| Customer deposits | 3,029 | 342 | 28 | 3 | — | — | — | 3,402 |
| Debt securities | — | — | — | — | — | — | — | — |
| Amounts due to related parties | 492 | 25 | 245 | 78 | 1,958 | — | — | 2,798 |
| Other liabilities | 22 | 15 | 1 | 9 | 9 | 2 | — | 58 |
| Total non-derivative financial liabilities | 3,870 | 382 | 274 | 90 | 1,967 | 2 | — | 6,585 |
| Derivative financial instruments – held for trading purposes | — | — | — | — | — | — | — | — |
| Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow | — | — | — | — | — | — | — | — |
| Total undiscounted derivatives | — | — | — | — | — | — | — | — |
| Undrawn loan commitments | 407 | — | 1,419 | — | — | — | — | 1,826 |
| 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 | — | — | — | — | — | — | — | — |
| Derivative financial instruments – held for hedging purposes (net settled) (Inflow) / outflow | — | — | — | — | — | — | — | — |
| Total undiscounted derivatives | — | — | — | — | — | — | — | — |
| Undrawn loan commitments | 642 | — | 1,359 | — | — | — | — | 2,001 |

25 Offsetting financial assets and financial liabilities

The Banking Group had no financial instruments that meet the offsetting criteria at 31 December 2024 (31 December 2023: 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 | Notional capital charge |
|---|--------------------------------|-------------------------|
| | \$m | \$m |
| Exposure period at 31 Dec 2024 (unaudited) | | |
| Interest rate risk | 130.25 | 10.42 |
| Foreign currency risk | 0.50 | 0.04 |
| Equity risk | — | — |
| Peak exposure period 1 Jul 2024 to 31 Dec 2024 (unaudited) | | |
| Interest rate risk | 137.75 | 11.02 |
| Foreign currency risk | 0.75 | 0.06 |
| 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

| | 2024 | 2023 |
|--|------------------|------------------|
| | Number of shares | Number of shares |
| Shares at beginning of the year | 8,693 | 9,454 |
| New shares granted during the year | 3,502 | 4,535 |
| Shares released during the year | (5,228) | (4,873) |
| Shares forfeited during the year | (607) | (358) |
| Shares cancelled during the year | (5) | (393) |
| Shares transferred in during the year | 81 | 397 |
| Shares transferred out during the year | (531) | (69) |
| Shares outstanding at the end of the year | 5,905 | 8,693 |

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

| | 2024 | 2023 |
|--|------------------|------------------|
| | Number of shares | Number of shares |
| Shares at beginning of the year | 6,337 | 4,137 |
| New shares granted during the year | 5,571 | 3,813 |
| Additional shares arising from scrip dividends | — | 11 |
| Shares released during the year | (2,498) | (1,624) |
| Shares forfeited during the year | — | — |
| Shares transferred in during the year | 14,389 | — |
| Shares transferred out during the year | — | — |
| Shares outstanding at the end of the year | 23,799 | 6,337 |

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 liabilities

| | At | |
|----------------------------------|---------------|---------------|
| | 31 Dec 2024 | 31 Dec 2023 |
| | \$000 | \$000 |
| Within one year | 1,816 | 2,509 |
| Between one year and two years | 6,839 | 2,441 |
| Between two years and five years | 4,180 | 7,165 |
| Over five years | 1,345 | 4,634 |
| Total | 14,180 | 16,749 |

The leases comprise premises where the Banking Group is a lessee. The total cash outflow in respect of leases was \$2.2m for the year ended 31 December 2024 (31 December 2023: \$2.3m).

In October 2024, the Banking Group executed a modification to the lease for its New Zealand Head Office to surrender one floor. The lease liability has been remeasured to reflect the lease modification.

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 2024 \$000 | 31 Dec 2023 \$000 |
| Direct credit substitutes | 82,274 | 51,884 |
| Transaction related contingent items | 940,994 | 813,792 |
| Trade related contingent items | 359,166 | 145,512 |
| Commitments, maturity one year or more | 1,212,737 | 1,358,851 |
| Commitments, maturity up to one year | 612,538 | 642,369 |
| Total | 3,207,709 | 3,012,408 |
| Capital commitments | | |
| Contracted expenditure | 230 | — |

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 2024, 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 2024 was \$114,530m (31 December 2023: \$100,674m).

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 ("RWA") 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 to calculate the risk-weighted amount. For securitisation exposures, the HBAP Group uses the securitisation internal ratings-based approach, securitisation external ratings-based approach or securitisation standardised 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 ('IMM') approach to calculate its general market risk for the risk categories of interest rate and foreign exchange (including gold) exposures, and equity exposures. The group also uses an IMM approach to calculate its market risk in respect of specific risk for interest rate exposures and equity exposures. The 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.

Notes on the financial statements

The capital adequacy disclosure made by the HBAP Group can be found in the HBAP Group Banking Disclosure Statement available at www.hsbc.com.hk/legal/regulatory-disclosures/.

HBAP Group exceeded the minimum capital adequacy requirements as specified by the HKMA as at 31 December 2024, and reported the following capital adequacy ratios under Basel III, which were the most recent publicly available information:

HBAP Group Basel III Capital Ratios (Unaudited)

| | At | |
|-------------------------------------|---------------------|---------------------|
| | 31 Dec 2024 % | 31 Dec 2023 % |
| Common Equity Tier 1 (CET1) capital | 16.3 | 15.8 |
| Tier 1 capital | 18.4 | 17.5 |
| Total capital | 20.3 | 19.7 |

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 2024 | Year ended 31 Dec 2023 |
|---|------------------------------|------------------------------|
| Profitability | | |
| Net profit after tax (HKD\$m) | 129,251 | 97,527 |
| Net profit after tax over the previous 12 month period as a percentage of average total assets (%) ¹ | 1.2 | 0.9 |
| Size | | |
| Total assets (HKD\$m) | 10,948,940 | 10,500,393 |
| Percentage increase/(decrease) in total assets over the previous 12 months period (%) | 4.3 | 3.0 |
| Asset quality | | |
| HKFRS 9 Stage 3 and POCI gross carrying value (HKD\$m) ² | 99,995 | 65,731 |
| HKFRS 9 Stage 3 and POCI ECL (HKD\$m) ^{3,4} | (24,976) | (27,827) |
| HKFRS 9 Stage 1 and 2 ECL (HKD\$m) ³ | (11,877) | (12,365) |
| HKFRS 9 Stage 3 gross carrying value / Total assets (%) ² | 0.9 | 0.6 |
| HKFRS 9 Stage 3 and POCI ECL / Stage 3 and POCI gross carrying value (%) ^{2,3,4} | 25.0 | 42.3 |

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'.

Directors' and New Zealand Chief Executive Officer's Statements

Each Director and the New Zealand 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;

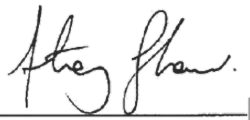
as at the date on which the Disclosure Statement is signed; and

each Director and the New Zealand 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 2024.

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 3 and 4) by their attorney, Antony Shaw, and in his capacity as Chief Executive Officer:



Antony Shaw
Chief Executive Officer
New Zealand Branch

25 March 2025

Letters from each of the Directors appointing the 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 2024, 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 2024;
 - 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, 9, 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, 9, 14, 23, 24, 30, 31 and 34 of the Financial Statements for the year ended 31 December 2024 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.

In our capacity as auditor, our firm provides review and other assurance services. 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 firm has no other relationship with, or interests in, the Banking Group.

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 |
|---|--|
| <p>Expected credit losses (ECL) on loans and advances to customers, including loan commitments and financial guarantees</p> <p>As disclosed in notes 1, 7 and 8 of the Financial Statements, the Banking Group’s ECL on loans and advances to customers, including loan commitments and financial guarantees, is \$12.8 million as at 31 December 2024.</p> <p>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.</p> | <p>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:</p> <ul style="list-style-type: none"> • Model validation and monitoring; • Approval of economic scenarios; • Approval of the probability weightings assigned to economic scenarios; • Assigning customer risk-ratings; and • Approval of any changes to management judgemental adjustments. |



| Description of the key audit matter | How our audit addressed the key audit matter |
|---|--|
| <p>It also requires the determination of assumptions which involve estimation uncertainty. The assumptions used for ECL that we focused on for loans and advances to customers included those with greater levels of management judgement and for which variations have the most significant impact on ECL levels. Specifically, these included forward-looking economic scenarios, customer risk-ratings and any management judgemental adjustments to modelled outcomes.</p> <p>The level of estimation uncertainty in determining ECL allowances has remained high during 2024 as a result of the continued uncertainty in the macroeconomic and geopolitical environment and the potentially significant impact this can have on the Banking Group's lending portfolio.</p> <p>The Banking Group concluded that no management judgemental adjustments are required for 31 December 2024 (31 December 2023: no management judgemental adjustments).</p> <p>Individually assessed ECL are also recognised by the Banking Group for loans and advances to customers that are known to be credit-impaired at 31 December 2024.</p> <p>We have determined the ECL on loans and advances to customers, including loan commitments and financial guarantees, to be a key audit matter due to the significant auditor judgement, effort and expertise involved in assessing the Banking Group's models, data and systems used, assumptions applied and associated governance.</p> | <p>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.</p> <p>We further performed the following to assess the significant assumptions and data:</p> <ul style="list-style-type: none"> • 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. <p>As there are no management judgemental adjustments at 31 December 2024, we assessed the appropriateness of this, taking into account data quality, and assessed any specific industry/sector risks and any other factors that may not be factored into the modelled ECL results.</p> <p>For credit-impaired exposures, we challenged the appropriateness of these and assessed the ECL determined.</p> <p>We considered the impacts of events occurring subsequent to balance date on the ECL allowance.</p> <p>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.</p> |

Our audit approach

Overview



The overall Banking Group materiality is \$5 million, which represents approximately 5% of the profit before tax from continuing operations.

We chose profit before tax from continuing operations 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 on loans and advances to customers, including loan commitments and financial guarantees*.

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 PwC network firms 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 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 8 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, but does not include the Financial Statements, the Supplementary Information and our auditor's report thereon.

Our opinion on the Financial Statements and the Supplementary Information does not cover the other information and we do 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 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 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.

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/standards/assurance-standards/auditors-responsibilities/audit-report-1-1/>

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 Philip Taylor.

For and on behalf of:

A handwritten signature in black ink that reads 'PricewaterhouseCoopers' in a cursive script.

PricewaterhouseCoopers
25 March 2025

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's (the Banking Group) 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 2024 (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.



In our capacity as auditor and assurance practitioner, our firm provides review services. 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 firm has no other relationship with, or interests in, the Banking Group.

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 Philip Taylor.

A handwritten signature in cursive script that reads "PricewaterhouseCoopers".

PricewaterhouseCoopers
25 March 2025

Auckland, New Zealand

