The Hongkong and Shanghai Banking Corporation Limited
Macau Branch

Disclosure of Financial Information
31 December 2023

Report of the Branch management

Principal place of business and activities

The Hongkong and Shanghai Banking Corporation Limited, Macau Branch ("the Branch") is a branch of The Hongkong and Shanghai Banking Corporation Limited ("the Bank"). It is domiciled in Macau and has its registered office and principal place of business at Avenida da Praia Grande, No.639, 1st Floor, HSBC Main Branch, Macau. The Bank produces financial statements available for public use. The Branch is registered as a licensed bank under the Macau Financial System Act under the supervision of the Autoridade Monetaria de Macau ("AMCM").

Branch's activities in Macau

In 2023, HSBC Macau continued to navigate through the complexities of a dynamic economic landscape, persistently adhering to our Group strategies to remain the core leader in international trade banking. Capitalizing on the Group's expansive network, we have consistently supported our customers in Macau and aligned our efforts with the government's vision for economic diversification. This includes bolstering Macau's pivotal business sectors, enhancing our local bond market capabilities, and fostering growth in the Guangdong-Macau In-depth Cooperation Zone in Hengqin. Moreover, we have seized numerous cross-border opportunities with Hong Kong and Mainland China, particularly within the Greater Bay Area, despite the challenging business conditions faced in 2023.

Our revenue increased by 31% year-on-year. Our balance sheet remains robust, displaying a sustained uptrend in Customer Deposits by 21%, representing our competitive advantage in both Deposits and Assets growth. Our engagement in the Greater Bay Area has opened doors to new ventures and collaborations that promise growth and innovation.

In terms of brand publicity, our longstanding involvement as the Vice-Charing bank in the Macau Association of Banks and various committees underscores our commitment to the financial community. Additionally, our leadership in the newly formed Guangdong-Hong Kong-Macau Greater Bay Area Green Finance Alliance and our role as the organizing chair for the 2023 GBA Green Forum exemplify our dedication to promoting sustainable finance.

Our recognition in the industry continues to be clearly visible, as we have received multiple awards, including "Best Renminbi Bank in Macau" and "Best Market Leader and Best Service Provider in Macau," which reflected customer's satisfaction on the service quality and strong market presence.

We also extended our full support to accelerate the local bond market infrastructure set-up and our membership with Micro Connect (Macao) Financial Assets Exchange showcased our strength in financial services. We have also played a pivotal role in the Macau Urban Renewal Project and have secured lead positions in bond issuances by China's Ministry of Finance.

Report of the Branch management (continued)

Branch’s activities in Macau (continued)

Our commitment to green financing is evident in our involvement in seven sustainable finance deals exceeding USD 201 million.

HSBC remains a proactive contributor to Macau's modern financial development, as well as our commitment to nurture local talent development. We have been invited to be a key member in the Macau Talent Development Committee, and continued to also enhance our talent development efforts, expanding apprenticeship and management trainee programs to cultivate the future leaders of the banking industry.

On Risk and Compliance, we have streamlined our Financial Crime Compliance and Risk Management processes, improved customer experience and ensuring a safer lending journey.

As we look to the year ahead, HSBC Macau reaffirms our commitment to placing our customers' needs at the forefront, amplifying our social and environmental contributions, and upholding rigorous risk management and control practices. We aspire to be a bank that is responsible, accountable, and globally connected.

Statement of financial position as at 31 December 2023

(Expressed in thousands of Macau Patacas)

	31 Dec 2023 MOP'000	*31 Dec 2022* MOP'000
Assets		
Cash and current balances with banks	993,561	1,546,833
Balances with Autoridade Monetária de Macau ("AMCM")	460,603	435,346
Monetary bills issued by AMCM	3,696,736	2,283,226
Items in the course of collection from other banks	93,045	50,088
Loans and advances to banks	8,164,297	5,969,488
Loans and advances to customers	13,064,967	14,977,434
Equity securities	250	250
Property, plant and equipment	38,189	36,160
Other assets	516,084	891,997
Assets held for sale	-	74,900
	27,027,732	26,265,722
Liabilities		
Deposits by banks	5,237,601	7,676,258
Customer accounts	20,255,934	16,735,657
Items in the course of transmission to other banks	129,534	147,650
Current taxation	42,785	48,304
Deferred tax liabilities	1,590	6,335
Other liabilities	730,974	1,072,259
	26,398,418	25,686,463
Net assets	629,314	579,259
Head office account and reserves		
Financial assets at FVOCI reserves	93	(5,027)
Share-based payment reserve	12,305	12,480
Property revaluation reserve	16,392	81,706
Head office account	441,966	306,307
General regulatory reserve	158,558	183,793
Specific regulatory reserve	-	-
	629,314	579,259

Statement of profit or loss
for the year ended 31 December 2023
(Expressed in thousands of Macau Patacas)

	2023 MOP'000	*2022* MOP'000
Interest income	1,148,115	515,191
Interest expense	(675,383)	(173,310)
Net interest income	472,732	341,881
Fee and commission income	90,902	84,858
Fee and commission expense	(9,490)	(6,944)
Net fee and commission income	81,412	77,914
Net trading income	128,435	111,962
Other operating income	23,067	8,508
Operating expenses	(272,342)	(269,708)
Change in expected credit losses	(110,206)	(62,654)
Profit before taxation	323,098	207,903
Tax expense	(45,578)	(25,066)
Profit for the year	277,520	182,837

Statement of comprehensive income for the year ended 31 December 2023

(Expressed in thousands of Macau Patacas)

	2023 MOP'000	*2022* MOP'000
Profit for the year	277,520	182,837
Items that will not be reclassified subsequently to profit or loss:		
Fair value losses on property revaluation	(65,314)	(3,097)
Remeasurement of defined benefit plans	(277)	198
Changes in fair value of share-based payment liability to HSBC Holdings plc	(175)	(65)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ("FVOCI")		
- fair value gains/(losses) on financial assets	5,120	(3,967)
Other comprehensive loss for the year	(60,646)	(6,931)
Total comprehensive income for the year	216,874	175,906

Statement of changes in equity
for the year ended 31 December 2023

(Expressed in thousands of Macau Patacas)

	Head office account MOP'000	Financial assets at FVOCI reserve MOP'000	Share-based payment reserve MOP'000	Property revaluation reserve MOP'000	General regulatory reserve MOP'000	Specific regulatory reserve MOP'000	Total MOP'000
At 1 January 2023	306,307	(5,027)	12,480	81,706	183,793	-	579,259
Profit for the year	277,520	-	-	-	-	-	277,520
Profit remitted to head office	(242,043)	-	-	-	-	-	(242,043)
Financial assets at fair value through other comprehensive income	-	5,120	-	-	-	-	5,120
Actuarial gains on defined benefits plans	(277)	-	-	-	-	-	(277)
Changes in fair value of share-based payment liability to HSBC Holdings plc	-	-	(175)	-	-	-	(175)
Transfer of revaluation surplus upon disposal of assets held for sale	65,574	-	-	(65,574)	-	-	-
Deferred tax impact transferred from profit and loss related to the disposal of assets held for sale	8,942	-	-	-	-	-	8,942
Property revaluation	-	-	-	260	-	-	260
Change in regulatory reserve	25,235	-	-		(25,235)	-	-
Other	708	-	-	-	-	-	708
At 31 December 2023	441,966	93	12,305	16,392	158,558	-	629,314

Statement of changes in equity (continued)
for the year ended 31 December 2023
(Expressed in thousands of Macau Patacas)

	Head office account MOP'000	Financial assets at FVOCI reserve MOP'000	Share-based payment reserve MOP'000	Property revaluation reserve MOP'000	General regulatory reserve MOP'000	Specific regulatory reserve MOP'000	Total MOP'000
At 31 December 2021	122,712	(1,060)	12,545	84,803	-	-	219,000
Impacts of New MFRS adoption and regulatory reserve	(24,952)	-	-	-	209,369	233	184,650
At 1 January 2022	97,760	(1,060)	12,545	84,803	209,369	233	403,650
Profit for the year	182,837	-	-	-	-	-	182,837
Financial assets at fair value through other comprehensive income	-	(3,967)	-	-	-	-	(3,967)
Actuarial gains on defined benefits plans	198	-	-	-	-	-	198
Changes in fair value of share-based payment liability to HSBC Holdings plc	-	-	(65)	-	-	-	(65)
Property revaluation	-	-	-	(3,097)	-	-	(3,097)
Change in regulatory reserve	25,809	-	-	-	(25,576)	(233)	-
Other	(297)	-	-	-	-	-	(297)
At 31 December 2022	306,307	(5,027)	12,480	81,706	183,793	-	579,259

Statement of cash flows
for the year ended 31 December 2023

(Expressed in thousands of Macau Patacas)

	2023 MOP'000	*2022* MOP'000
Operating activities		
Profit before taxation	323,098	207,903
Adjustments for:		
Depreciation	7,041	7,634
Gain on disposal of assets held for sale	(10,810)	-
Loss on disposal of property, plant and equipment	124	99
Change in expected credit losses	110,206	62,654
Interest income	(1,148,115)	(515,191)
Interest expense	675,383	173,310
Interest received	1,114,306	485,405
Interest paid	(586,907)	(120,056)
Operating cash flows before changes in working capital	484,326	301,758
Change in balances with AMCM for the purpose of fulfilling minimum liquidity requirement	(56,513)	14,889
Change in monetary bills with original maturity of more than three months	(431,451)	810,199
Change in loans and advances to banks with original maturity of more than three months	(1,809,100)	(2,310,900)
Change in gross loans and advances to customers	1,869,628	2,097,599
Change in items in the course of collection from other banks	(42,957)	32,343
Change in other assets	418,236	67,706
Change in deposits by banks	(2,438,657)	(774,749)
Change in customer accounts	3,520,277	1,602,754
Change in items in the course of transmission to other banks	(18,116)	60,292
Change in other liabilities	(537,048)	(170,384)
Cash generated from operations	958,625	1,731,507
Taxation paid	(47,526)	(15,315)
Net cash generated from operating activities	911,099	1,716,192

Statement of cash flows (continued)
for the year ended 31 December 2023
(Expressed in thousands of Macau Patacas)

	2023 MOP'000	*2022* MOP'000
Investing activities		
Purchases of property, plant and equipment	(8,803)	(4,014)
Proceeds from disposals of property, plant and equipment	2,952	-
Proceeds from disposals of assets held for sale	85,710	-
Net cash used in investing activities	79,859	(4,014)
Financing activity		
Profit remitted to head office	(242,043)	-
Net cash used in financing activity	(242,043)	-
Net increase in cash and cash equivalents	748,915	1,712,178
Cash and cash equivalents as at 1 January	6,636,353	4,924,175
Cash and cash equivalents as at 31 December	7,385,268	6,636,353

Analysis of balances of cash and cash equivalents

	2023 MOP'000	*2022* MOP'000
Cash and current balances with banks	993,561	1,546,833
Balances with AMCM	460,603	435,346
Monetary bills issued by AMCM	3,696,736	2,283,226
Loans and advances to banks	8,164,297	5,969,488
Amount shown in the balance sheet	13,315,197	10,234,893
Less:		
- Balance with AMCM for the purpose of fulfilling minimum liquidity requirement	(353,082)	(296,569)
- Monetary bills issued by AMCM with original maturity over three months	(1,119,326)	(687,875)
- Loans and advances to banks with original maturity over three months	(4,457,521)	(2,614,096)
Cash and cash equivalents in the cash flow statement	7,385,268	6,636,353

Off-balance-sheet exposures as at 31 December 2023

(Expressed in thousands of Macau Patacas)

(a) ***Contingent liabilities and commitments***

	Contractual amounts At 31 Dec 2023 MOP'000	*Contractual amounts At 31 Dec 2022* MOP'000
Financial guarantees	11,994	10,856
Performance guarantees	2,925,014	2,612,899
Documentary credits and trade related contingencies	1,348,440	1,697,850
Other commitments	11,205,058	11,843,930

Contingent liabilities and commitments are credit-related instruments which include letters of credit, guarantees and commitments to extend credit. The contractual amounts represent the amounts at risk should the contract be fully drawn upon and the client default. As the facilities may expire without being drawn upon, the contractual amounts do not represent expected future cash flows.

Off-balance-sheet exposures (continued)
as at 31 December 2023
(Expressed in thousands of Macau Patacas)

(b) Derivatives

Derivatives refer to financial contracts whose value depends on the value of one or more underlying assets or indices.

The following is a summary of the notional amounts of each significant type of derivatives:

	At 31 Dec 2023 MOP'000	*At 31 Dec 2022* MOP'000
Exchange rate contracts	3,488,075	3,676,041

Derivatives arise from forward transactions undertaken in the foreign exchange market. The notional amounts of these instruments indicate the volume of transactions outstanding at the balance sheet date; they do not represent amounts at risk.

The fair values and credit risk weighted amounts of the aforesaid off-balance sheet exposures are as follows:

	At 31 Dec 2023 MOP'000	*At 31 Dec 2022* MOP'000
Fair value		
- Exchange rate contracts		
Assets	21,348	15,801
Liabilities	20,420	58,327

	At 31 Dec 2023 MOP'000	*At 31 Dec 2022* MOP'000
Credit risk weighted amounts		
- Exchange rate contracts	9,340	21,665

Accounting policies

(a) Statement of compliance

This disclosure of financial information has been prepared in accordance with the requirements as set out in Circular No. 004/B/2024-DSB/AMCM (Guideline on Disclosure of Financial Information) issued by the AMCM.

These financial statements have been prepared in accordance with the requirements as set out in Decree-Law No. 13/2023 (Financial System Act) and the Financial Reporting Standards issued by the Directive of Secretaria para a Economia e Finanças No. 44/2020 on 17 March 2020 ("New MFRS").

(b) Basis of preparation of the financial statements

The Branch is part of The Hongkong and Shanghai Banking Corporation Limited and accordingly it is not a separate legal entity. These financial statements have been prepared from the books and records maintained by the Branch in Macau, which contain evidence of all transactions entered into by the Branch locally but do not necessarily reflect all transactions that may be applicable to the Branch.

The financial statements are presented in thousands of Macau Patacas ("MOP"). The measurement basis used in the preparation of the financial statements is historical cost except for leasehold lands and properties, monetary bills issued by AMCM and derivative financial instruments, which are carried at fair value.

The financial statements of the Branch have been prepared in accordance with Financial Reporting Standards issued by the Directive of Secretaria para a Economia e Finanças No. 44/2020 on 17 March 2020 ("New MFRS").

The preparation of financial statements under New MFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is revised if the revision affects only that year, or in the year of the revision and future years if the revision affects both current and future years.

Accounting policies (continued)

(c) Financial instruments

(i) Classification of financial instruments

The Branch has applied IFRS 9 and classifies its financial assets in the following measurement categories:

– Amortised cost
– Fair value through other comprehensive income (“FVOCI”); or
– Fair value through profit or loss (“FVPL”)

The classification depends on the Branch’s business model for managing the financial assets and the contractual terms of the cash flows.

(ii) Recognition and derecognition of financial instruments

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Branch commits to purchase or sell the asset. Financial assets are derecognised when the contractual rights to receive the cash flows from the financial asset expire, or when the financial asset together with substantially all the risks and rewards of ownership, have been transferred. Financial liabilities are derecognised when the obligation specified in the contract is discharged, cancelled or expired.

(iii) Valuation of financial instruments

All financial instruments are initially recognised at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received).

(iv) Financial instruments measured at amortised cost

Financial assets that are held to collect the contractual cash flows and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at amortised cost. Such financial assets include most loans and advances to banks and customers and some debt securities. In addition, most financial liabilities are measured at amortised cost. The Branch accounts for regular way amortised cost financial instruments using trade date accounting. The carrying value of these financial assets at initial recognition includes any directly attributable transactions costs.

Accounting policies (continued)

(c) Financial instruments (continued)

(v) 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 and which contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily debt securities. They are recognised on the trade date when the Branch enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income ("OCI") until the assets are sold. Upon disposal, the cumulative gains or losses in OCI are recognised in the income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out below and impairment is recognised in the income statement.

(vi) Equity securities measured at fair value with fair value movements presented in other comprehensive income.

The equity securities for which fair value movements are shown in other comprehensive income are business facilitation and other similar investments where the Branch holds the investments other than to generate a capital return.

(vii) Derivatives

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

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets

Expected credit losses ("ECL") are recognised for loans and advances to banks and customers, other financial assets held at amortised cost and debt instruments measured at FVOCI. At initial recognition, an 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, an 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 that 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 so are considered to be in default or otherwise credit-impaired are in 'stage 3'.

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.

Credit-impaired (stage 3)

The Branch determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether contractual payments of either principal or interest are past due for more than 90 days, there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition, or the loan is otherwise considered to be in default.

If such unlikeliness to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, even where regulatory rules permit default to be defined based on 180 days past due. Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans that are considered defaulted or otherwise credit-impaired.

Interest income is recognised by applying the effective interest rate to the amortised cost amount, i.e., gross carrying amount less ECL allowance.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (continued)

Forbearance

Loans are identified as forborne and classified as either performing or non-performing when the Branch modifies the contractual terms due to financial difficulty of the borrower. Non-performing forborne loans are stage 3 and classified as non-performing until they meet the cure criteria, as specified by applicable credit risk policy (for example, when the loan is no longer in default and no other indicators of default have been present for at least 12 months). Any amount written off as a result of any modification of contractual terms upon entering forbearance would not be reversed.

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined 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).

A forborne loan 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 forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Significant increase in credit risk (stage 2)

An assessment of whether credit risk has increased significantly since initial recognition is performed at each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the reporting date compared with that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL.

The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk, and these criteria will differ for different types of lending, particularly between retail and wholesale.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (continued)

Significant increase in credit risk (stage 2) (continued)

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, which are 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 ("PD"), which encompasses a wide range of information including the obligor's customer risk rating ("CRR"), macroeconomic condition forecasts and credit transition probabilities.

For origination CRRs up to 3.3, significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at the reporting date. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significance trigger – PD to increase by
0.1-1.2	15 bps
2.1-3.3	30 bps

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. 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.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (continued)

Significant increase in credit risk (stage 2) (continued)

For loans originated prior to the implementation of 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 these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds as set out in the table below:

Origination CRR	Additional significance criteria – Number of CRR grade notches deterioration required to identify as significant credit deterioration (stage 2) (> or equal to)
0.1	5 notches
1.1-4.2	4 notches
4.3-5.1	3 notches
5.2-7.1	2 notches
7.2-8.2	1 notch
8.3	0 notch

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores, which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogenous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due.

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

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

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (continued)

Movement between stages

Financial assets can be transferred between the different categories 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. In the case of non-performing forborne loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

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 considers other factors such as climate-related risks.

In general, the Branch calculates ECL using three main components, 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, taking into account 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.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (continued)

Measurement of ECL (continued)

The Branch makes use of the Basel II internal ratings-based ("IRB") framework where possible, with recalibration to meet the differing IFRS 9 requirements as follows:

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

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

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ("DCF") methodology. The expected future cash flows are based on the 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.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (continued)

Measurement of ECL (continued)

Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on the 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 four different scenarios are probability-weighted by reference to the economic scenarios applied more generally by the Branch 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

ECL 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 Branch is exposed to credit risk.

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 Branch'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 Branch remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years.

In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision. For wholesale overdraft facilities, credit risk management actions are taken no less frequently than on an annual basis.

Accounting policies (continued)

(c) Financial instruments (continued)

(viii) Impairment of amortised cost and FVOCI financial assets (continued)

Forward-looking economic inputs

The Branch applies multiple forward-looking global economic scenarios determined with reference to external forecast distributions representative of its view of forecast economic conditions. This approach is considered sufficient to calculate unbiased expected credit loss in most economic environments. In certain economic environments, additional analysis may be necessary and may result in additional scenarios or adjustments, to reflect a range of possible economic outcomes sufficient for an unbiased estimate.

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.

At 31 December 2023, four scenarios "Central", "Upside", "Downside" and "Downside 2" 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 external consensus forecasts, market data and distributional estimates of the entire 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 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 the entire range of economic outcomes. The fourth scenario, the 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.

The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10% probability. The Downside 2 is constructed to a 5% probability. The Central scenario is assigned the remaining 75% probability. This weighting scheme is deemed appropriate for the unbiased estimation of ECL in most circumstances. However, management may depart from this probability-based scenario weighting approach when the economic outlook and forecasts are determined to be particularly uncertain and risks are elevated.

Accounting policies (continued)

(d) Property, plant and equipment

(i) Land and buildings

Land and buildings held for own use are carried at their revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses.

Revaluations are performed by professional qualified valuers, on a market basis, with sufficient regularity to ensure that the net carrying amount does not differ materially from the fair value. Surpluses arising on revaluation are credited firstly to the income statement, to the extent of any deficits arising on revaluation previously charged to the income statement in respect of the same land and buildings, and are thereafter taken to the 'Property revaluation reserve'. Deficits arising on revaluation are first set off against any previous revaluation surpluses included in the 'Property revaluation reserve' in respect of the same land and buildings, and are thereafter recognised in the income statement.

Leasehold land and buildings are depreciated on a straight-line basis over the shorter of the unexpired terms of the leases or the remaining useful lives.

(ii) Other equipment

Equipment, fixtures and fittings are stated at cost less any impairment losses. Depreciation is calculated on a straight-line basis to write-off the assets over their useful lives, which are generally between 4 and 10 years.

Equipment is subject to review for impairment if there are events or changes in circumstances that indicate that the carrying amount may not be recoverable.

Gains or losses arising from the retirement or disposal of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the profit and loss on the date of retirement or disposal.

(e) Impairment of non-financial assets

Other non-financial assets such as property, plant and equipment are tested for impairment at the individual asset level when there is indication of impairment at that level. Impairment testing compares the carrying amount of the non-financial asset with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use.

Impairment loss recognised in prior periods for non-financial assets is reversed when there has been a change in the estimate used to determine the recoverable amount. The impairment loss is reversed to the extent that the carrying amount of the non-financial assets would not exceed the amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised in prior periods.

Accounting policies (continued)

(f) ***Cash and cash equivalents***

For the purposes of the cash flow statement, cash and cash equivalents include high liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of change in value. Such investments comprise cash and current balances with banks, balances with AMCM, monetary bills issued by AMCM and loans and advances to banks with less than three months' maturity from the date of acquisition.

(g) ***Operating leases***

Leases where substantially all the risks and rewards of ownership of assets remain with the lessor are accounted for as operating leases. Operating leases are charged to the income statement on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment that has to be made to the lessor is recognised as an expense in the period the termination takes place.

(h) ***Employee compensation and benefits***

(i) Short term employee benefits

Salaries, annual bonuses, paid annual leave, leave passage and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees of the Branch. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Post-employment benefit plans

The Branch operates a defined benefit and a defined contribution scheme.

Payments to defined contribution schemes are charged as an expense as the employees render service.

Defined benefit pension obligations are calculated using the projected unit credit method. The net charge to the income statement mainly comprises the service cost and the net interest on the net defined benefit asset or liability, and is presented in operating expenses. Remeasurements of the net defined benefit asset or liability, which comprise actuarial gains and losses, return on plan assets excluding interest and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in OCI. The net defined benefit asset or liability represents the present value of defined benefit obligations reduced by the fair value of plan assets, after applying the asset ceiling test, where the net defined benefit surplus is limited to the present value of available refunds and reductions in future contributions to the plan.

Accounting policies (continued)

(i) ***Tax***

Income tax comprises current tax and deferred tax. Income tax is recognised in the income statement except to the extent that it relates to items recognised in OCI or directly in equity, in which case the tax is recognised in the same statement as the related item appears.

Current tax is the tax expected to be payable on the taxable profit for the year and on any adjustment to tax payable in respect of previous years. The Branch 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.

In assessing the probability and sufficiency of future taxable profit, management considers the availability of evidence to support the recognition of deferred tax assets, taking into account the inherent risks in long-term forecasting, including climate change-related, and drivers of recent history of tax losses where applicable. Management also considers the future reversal of existing taxable temporary differences and tax planning strategies, including corporate reorganisations.

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

(j) ***Provisions and contingent liabilities***

Provisions are recognised when it is probable that an outflow of economic benefits will be required to settle a present legal or constructive obligation that 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.

Accounting policies (continued)

(k) Assets held for sale

The Branch classifies assets as held for sale when their carrying amounts will be recovered principally through sale rather than through continuing use. To be classified as held for sale, the non-current asset must be available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, and the sale must be highly probable. For a sale to be highly probable, the appropriate level of management must be committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan must have been initiated. Further, the asset must be actively marketed for sale at a price that is reasonable in relation to its current fair value. In addition, the sale should be expected to qualify as a completed sale within one year from the date of classification and actions required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

Held for sale assets are measured at the lower of their carrying amount and fair value less costs to sell except for those assets and liabilities that are not within the scope of the measurement requirements of IFRS 5. If the carrying amount of the non-current asset is greater than the fair value less costs to sell, an impairment loss for any initial or subsequent write down of the asset to fair value less costs to sell is recognised. Any such impairment loss is first allocated against the non-current assets that are in scope of IFRS 5 for measurement.

(l) Revenue recognition

Provided it is probable that the economic benefits will flow to the Branch and the revenue and costs, if applicable, can be measured reliably, revenue is recognised in the profit and loss as follows:

(i) Interest income and expense

Interest income and expense for all financial instruments are recognised in ‘Interest income’ and ‘Interest expense’ in the income statement using the effective interest method. Interest on credit 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.

(ii) Non-interest income and expense

The Branch generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Branch delivers a specific transaction at a point in time such as import/export services.

The Branch 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.

Accounting policies (continued)

(m) Foreign currencies

Items in the financial statements are measured using the currency of the primary economic environment in which the Branch operates (the "functional currency"). The financial statements are presented in Macao Official Patacas ("MOP").

Transactions in foreign currencies are recorded at the rate of exchange on the date of the transaction. Assets and liabilities denominated in foreign currencies are translated at the rate of exchange at the balance sheet date except non-monetary assets and liabilities measured at historical cost which are translated using the rate of exchange at the initial transaction date. Exchange differences are included in OCI or in the income statement depending on where the gain or loss on the underlying item is recognised.

(n) Related parties

(i) A person, or a close member of that person's family, is related to the Branch if that person:

- (a) has control or joint control over the Branch;
- (b) has significant influence over the Branch; or
- (c) is a member of the key management personnel of the Branch or the Branch's parent.

(ii) An entity is related to the Branch if any of the following conditions applies:

- (a) The entity and the Branch are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
- (b) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
- (c) Both entities are joint ventures of the same third party.
- (d) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
- (e) The entity is a post-employment benefit plan for the benefit of employees of either the Branch or an entity related to the Branch.
- (f) The entity is controlled or jointly controlled by a person identified in (i).
- (g) A person identified in (i)(a) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

Significant related party transactions

(Expressed in thousands of Macau Patacas)

The Branch entered into the following significant related party transactions.

(a) ***Transactions with group companies***

During the year, the Branch entered into transactions with related parties in the ordinary course of its banking business including lending and placement of inter-bank deposits, correspondent banking transactions and off-balance sheet transactions. The transactions were priced at the relevant market rates at the time of each transaction.

The amount of related-party transactions during the year and outstanding balances at 31 December 2023 and 31 December 2022 are set out below:

	Associates, other branches, subsidiaries and fellow subsidiaries		*The Hongkong and Shanghai Banking Corporation, Hong Kong Branch*	
	2023	*2022*	*2023*	*2022*
	MOP'000	MOP'000	MOP'000	MOP'000
Interest income	7,188	951	195,003	33,799
Interest expense	(733)	(326)	(286,651)	(100,047)
Fee and commission income	6,104	3,020	704	850
Fee and commission expense	(1,062)	(1,011)	(378)	(518)
Other operating income	11,449	8,440	1,555	-
Operating expenses	(42,709)	(51,321)	(58,655)	(62,493)
For the year ended 31 December	(19,763)	(40,247)	(148,422)	(128,409)
Cash and current balances with banks	142,260	812,847	138,889	298,589
Loans and advances to banks	483,012	1,150,434	5,656,353	3,729,593
Other assets	4,547	3,989	55,050	18,333
As at 31 December	629,819	1,967,270	5,850,292	4,046,515
Deposits by banks	22,885	4,353	5,210,841	7,352,789
Customer accounts	56,148	39,671	-	-
Other liabilities	4,723	4,208	53,089	83,733
As at 31 December	83,756	48,232	5,263,930	7,436,522

Significant related party transactions (continued)

(Expressed in thousands of Macau Patacas)

(a) Transactions with group companies (continued)

The Branch's immediate parent is The Hongkong and Shanghai Banking Corporation Limited, which is incorporated in Hong Kong and the Branch's ultimate parent is HSBC Holdings plc, which is incorporated in the United Kingdom. Both the immediate and ultimate parent companies produce consolidated financial statements for public use.

(b) Key management personnel

The remuneration of key management personnel, which is included in the staff costs, is as follows:

	2023 MOP'000	*2022* MOP'000
Executive officers	4,125	4,028

Credit risk management

(Expressed in thousands of Macau Patacas)

The Branch's credit risk is primarily attributable to loans and advances to customers. The Branch manages this risk as follows:

In respect of loans and advances to customers, individual credit evaluations are performed on all customers requiring credit. Normally, the Branch obtains collateral from customers.

At the balance sheet date, the Branch's greatest concentration of credit risk on one market sector was 43.1% of total loans and advances to customers.

The maximum exposure to credit risk is represented by the carrying amount of each financial asset in the balance sheet after deducting any ECL allowance and adjustment of mark to market value if applicable.

(a) Geographical distribution of credit risk exposures

The geographical distribution is based on the countries where the counterparties were operated or located after taking into account any transfer of risk. In general, such transfer of risk takes place if the claims are guaranteed by a party in a country which is different from that of the counterparty or if the claims are on an overseas branch of a bank whose head office is located in another country.

Exposures to individual countries or jurisdiction, groups of countries or regions within countries amounting to 10% or more of the relevant major types of credit exposures at balance sheet date are shown as follows:

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(a) ***Geographical distribution of credit risk exposures (continued)***

As at 31 December 2023

	Banks MOP'000	Governments MOP'000	Public sector entities MOP'000	Others MOP'000	Total exposures MOP'000	Stage 1 ECL MOP'000	Stage 2 ECL MOP'000	Stage 3 ECL MOP'000	Total ECL MOP'000
Loans and advances to customers									
- Macau	-	-	-	12,531,350	12,531,350	3,105	3,242	363,944	370,291
- Hong Kong	-	-	-	283,486	283,486	146	44	164	354
- British Virgin Islands	-	-	-	597,257	597,257	291	51	-	342
- Others	-	-	-	23,872	23,872	3	8	-	11
	-	-	-	13,435,965	13,435,965	3,545	3,345	364,108	370,998
Undrawn commitments									
- Macau	-	-	-	11,205,058	11,205,058	102	107	-	209
- Hong Kong	-	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-	-
	-	-	-	11,205,058	11,205,058	102	107	-	209
Loans and advances to banks									
- Macau	2,463,286	-	-	-	2,463,286	142	-	-	142
- Hong Kong	5,701,208	-	-	-	5,701,208	55	-	-	55
- Others	-	-	-	-	-	-	-	-	-
	8,164,494	-	-	-	8,164,494	197	-	-	197

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(a) Geographical distribution of credit risk exposures (continued)

As at 31 December 2022

	Banks MOP'000	Governments MOP'000	Public sector entities MOP'000	Others MOP'000	Total exposures MOP'000	Stage 1 ECL MOP'000	Stage 2 ECL MOP'000	Stage 3 ECL MOP'000	Total ECL MOP'000
Loans and advances to customers									
- Macau	-	-	-	13,678,187	13,678,187	3,369	4,564	319,514	327,447
- Hong Kong	-	-	-	949,260	949,260	419	261	-	680
- Others	-	-	-	678,662	678,662	509	39	-	548
	-	-	-	15,306,109	15,306,109	4,297	4,864	319,514	328,675
Undrawn commitments									
- Macau	-	-	-	11,784,561	11,784,561	105	44	-	149
- Hong Kong	-	-	-	59,369	59,369	1	-	-	1
- Others	-	-	-	-	-	-	-	-	-
	-	-	-	11,843,930	11,843,930	106	44	-	150
Loans and advances to banks									
- Macau	1,330,826	-	-	-	1,330,826	407	-	-	407
- Hong Kong	3,729,593	-	-	-	3,729,593	27	-	-	27
- Others	909,510	-	-	-	909,510	7	-	-	7
	5,969,929	-	-	-	5,969,929	441	-	-	441

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(a) Geographical distribution of credit risk exposures (continued)

Geographic region with higher than or equal to 10% of the total loans and advances to customers are shown as follows:

	At 31 Dec 2023	*At 31 Dec 2022*
	MOP'000	MOP'000
Macau		
Gross loans and advances to customers	12,531,350	13,678,187
Impaired loans	1,374,983	855,349
Expected credit loss	363,943	306,257

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(b) Loans and advances to customers analysed by industry sector

	At 31 Dec 2023				
	Gross loans and advances to customers	*Impaired*	*ECL Stage 1*	*ECL Stage 2*	*ECL Stage 3*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Agriculture and fisheries	-	-	-	-	-
Mining industries	-	-	-	-	-
Manufacturing industries	51,804	-	4	-	-
Electricity, gas and water	100,589	-	7	-	-
Construction and public works	1,748,165	341,960	117	3	193,690
Wholesale and retail trade	3,725,873	443,350	579	271	137,152
Restaurants, hotels and similar	9,808	-	4	1	-
Transport, warehousing and communications	-	-	-	-	-
Non-monetary financial institutions	4,854	-	-	-	-
Gaming	-	-	-	-	-
Exhibition and conference	-	-	-	-	-
Education	-	-	-	-	-
Information technology	10,059	-	-	-	-
Other industries	1,995,591	462,789	632	150	28,804
Personal loans	5,789,222	130,230	2,202	2,920	4,462
	13,435,965	1,378,329	3,545	3,545	364,108

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(b) Loans and advances to customers analysed by industry sector (continued)

	At 31 Dec 2022				
	Gross loans and advances to customers	*Impaired*	*ECL Stage 1*	*ECL Stage 2*	*ECL Stage 3*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Agriculture and fisheries	-	-	-	-	-
Mining industries	-	-	-	-	-
Manufacturing industries	579,445	-	52	13	-
Electricity, gas and water	-	-	-	-	-
Construction and public works	846,536	387,882	187	6	118,780
Wholesale and retail trade	5,114,130	196,877	850	814	184,387
Restaurants, hotels and similar	10,468	-	10	3	-
Transport, warehousing and communications	-	-	-	-	-
Non-monetary financial institutions	-	-	-	-	-
Gaming	-	-	-	-	-
Exhibition and conference	-	-	-	-	-
Education	-	-	-	-	-
Information technology	29	-	-	-	-
Other industries	2,511,107	140,880	1,641	367	-
Personal loans	6,244,394	130,135	1,557	3,661	16,347
	15,306,109	855,774	4,297	4,864	319,514

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(c) Ageing analysis on accounting past due exposures

The ageing analysis of loans and advances to customers that are past due is as follows:

	At 31 Dec 2023 MOP'000	*At 31 Dec 2022* MOP'000
Gross loans and advances to customers that are past due		
– more than 3 months but less than 6 months	4,789	116,001
– more than 6 months but less than 1 year	614,992	421,273
– more than 1 year	660,975	235,568
	1,280,756	772,842

	At 31 Dec 2023 MOP'000	*At 31 Dec 2022* MOP'000
Value of collateral on past due loans and advances to customers		
– more than 3 months but less than 6 months	13,390	124,202
– more than 6 months but less than 1 year	941,353	271,071
– more than 1 year	563,076	82,914
	1,517,819	478,187

	At 31 Dec 2023 MOP'000	*At 31 Dec 2022* MOP'000
Amount of expected credit loss made on past due loans and advance to customers		
– more than 3 months but less than 6 months	225	43,301
– more than 6 months but less than 1 year	23,122	80,431
– more than 1 year	338,364	193,980
	361,711	317,712

As at 31 December 2023, there were no other assets that have been past due for bank and non-bank customers.

As at 31 December 2023, all the past due loans and advances to customers more than 3 months were considered to be impaired.

As at 31 December 2023, there was no management overlay of ECL on loans and advances to customers.

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(d) ***Credit quality analysis under regulatory asset classification***

	At 31 Dec 2023					
	Gross exposure MOP'000	*Value of collateral* MOP'000	*Stage 1 ECL* MOP'000	*Stage 2 ECL* MOP'000	*Stage 3 ECL* MOP'000	*Net exposure* MOP'000
Deposits with AMCM						
Pass	460,603	-	-	-	-	460,603
Loans and advances to banks						
Pass	8,164,494	-	197	-	-	8,164,297
Loans and advances to customers						
Pass	11,940,033	16,364,277	3,102	2,064	-	-
Special mention	116,075	159,531	43	297	-	-
Substandard	59,283	127,408	-	242	1,204	-
Doubtful	654,024	1,053,776	401	741	24,313	-
Loss	666,550	576,466	-	-	338,591	-
	13,435,965	18,281,458	3,546	3,344	364,108	-

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(d) ***Credit quality analysis under regulatory asset classification (continued)***

	At 31 Dec 2022					
	Gross exposure MOP'000	*Value of collateral* MOP'000	*Stage 1 ECL* MOP'000	*Stage 2 ECL* MOP'000	*Stage 3 ECL* MOP'000	*Net exposure* MOP'000
Deposits with AMCM						
Pass	435,346	-	-	-	-	435,346
Loans and advances to banks						
Pass	5,969,929	-	411	-	-	5,969,488
Loans and advances to customers						
Pass	13,642,487	17,828,074	3,922	3,327	-	-
Special mention	751,799	1,224,217	372	1,078	-	-
Substandard	99,434	240,517	-	354	1,563	-
Doubtful	558,709	520,729	3	105	123,552	-
Loss	253,680	103,124	-	-	194,399	-
	15,306,109	19,916,661	4,297	4,864	319,514	-

Market risk management

Market risk

Market risk is the risk that movements in foreign exchange rates, interest rates, credit spreads, or equity and commodity prices will result in profits or losses to the Branch. Market risk arises on financial 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 Branch monitors market risk separately for trading portfolios and non-trading portfolios. Trading portfolios include positions arising from market-making in exchange rate, interest rate, credit and equity derivative instruments, as well as in debt and equity securities. Trading risks arise either from customer-related business or from proprietary position-taking.

Interest rate risk management

Interest rate risk

The Branch's interest rate risk arises primarily from investments in financial instruments, and loans and deposits.

Interest rate risk arises principally from mismatches between the future yield on assets and our 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 mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand, for example current accounts.

As part of the Bank's Asset, Liability and Capital Management ("ALCM") structure, we have established the Asset and Liability Management Committee ("ALCO") and Markets Treasury ("MKTY") at the Branch level. In order to manage this risk optimally, all interest rate risk is transferred to MKTY.

The transfer of interest rate risk to books managed by MKTY is usually achieved by a series of internal deals between the business units and these books. When the behavioural characteristics of a product differ from its contractual characteristics, the behavioural characteristics are assessed to determine the true underlying interest rate risk. Local ALCOs regularly monitor all such behavioural assumptions and interest rate risk positions, to ensure they comply with interest rate risk limits established by senior management.

As noted above, in certain cases, the non-linear characteristics of products cannot be adequately captured by the risk transfer process. For example, both the flow from customer deposit accounts to alternative investment products and the precise prepayment speeds of mortgages will vary at different interest rate levels. In such circumstances, simulation modelling is used to identify the impact of varying scenarios on valuations and net interest income.

Once interest rate risk has been consolidated in MKTY, the net exposure is typically managed through the use of pre-designated market instruments within agreed limits.

Operational risk management

Operational risk

Operational risk is the risk of loss arising from fraud, unauthorised activities, error, omission, inefficiency, systems failure or external events. It is inherent in every business organisation and covers a wide spectrum of issues.

The Branch manages this risk through a controls-based environment in which processes are documented, authorisation is independent and transactions are reconciled and monitored. This is supported by an independent programme of periodic reviews undertaken by internal audit, and by monitoring external operational risk events, which ensure that the Branch stays in line with industry best practice and takes account of lessons learnt from publicised operational failures within the financial services industry.

The Branch has codified its operational risk management process by issuing a high level standard, supplemented by more detailed formal guidance. This explains how the Branch manages operational risk by identifying, assessing, monitoring, controlling and mitigating the risk, rectifying operational risk events, and implementing any additional procedures required for compliance with local regulatory requirements. The standard covers the following:

- operational risk management responsibility is assigned to senior management within the business operation;

- information systems are used to record the identification and assessment of operational risks and to generate appropriate, regular management reporting;

- assessments are undertaken of the operational risks facing each business and the risks inherent in its processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;

- operation loss data is collected and reported to senior management; and

- risk mitigation, including insurance, is considered where this is cost-effective.

Foreign exchange risk management

Foreign currency risk

The Branch is exposed to currency risks primarily arising from financial instruments that are denominated in United States dollars ("USD") and other major currencies. As the Patacas is pegged to the Hong Kong dollar ("HKD") which is in turn pegged to USD, the Branch considers the risk of movements in exchange rates between the HKD and the USD, and to Patacas to be insignificant. In respect of financial instruments denominated in other currencies, the Branch ensures that the net exposure is kept to an acceptable level by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances.

As most of the Branch's financial instruments at 31 December 2023 and 2022 were denominated in either HKD or USD, management does not consider there to be any significant currency risk associated with them.

Analysis on total net position in currencies other than MOP:

	At 31 Dec 2023			
In thousands of MOP equivalent	*United States Dollars*	*Hong Kong Dollars*	*Other foreign currencies*	*Total*
Spot assets	7,553,533	10,467,427	2,562,778	20,583,738
Spot liabilities	(7,541,730)	(10,949,063)	(2,565,607)	(21,056,400)
Forward purchase	1,723,314	14,989	1,749,772	3,488,075
Forward sales	(1,723,994)	(14,978)	(1,748,163)	(3,487,135)
Net long/(short) non-structural position	11,123	(481,625)	(1,220)	(471,722)

	At 31 Dec 2022			
In thousands of MOP equivalent	*United States Dollars*	*Hong Kong Dollars*	*Other foreign currencies*	*Total*
Spot assets	5,052,505	13,858,807	2,126,329	21,037,641
Spot liabilities	(6,994,330)	(13,008,483)	(1,216,994)	(21,219,807)
Forward purchase	2,537,669	35,061	1,103,311	3,676,041
Forward sales	(621,829)	(1,082,589)	(2,011,637)	(3,716,055)
Net long/(short) non-structural position	(25,985)	(197,204)	1,009	(222,180)

Liquidity risk management

The Branch's policy is to daily monitor its liquidity requirements and its compliance with lending covenants, including the terms of borrowings from other group entities, to ensure that it maintains sufficient reserves of cash, readily realisable marketable securities or committed lines of funding (from major financial institutions or other group companies) to satisfy its contractual and reasonably foreseeable obligations as they fall due.

As part of the Bank's Asset, Liability and Capital Management ("ALCM") structure, we have established the Asset and Liability Management Committee ("ALCO") at the Branch level. The terms of reference of ALCO includes the monitoring and control of liquidity and funding.

The following table summarizes the key quantitative indicators for liquidity risk:

	Year ended 31 Dec 2023 MOP'000	*Year ended 31 Dec 2022* MOP'000
(a) The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	474,639	431,509
(b) The arithmetic mean of the average weekly amount of cash in hand	738,535	723,464
(c) The arithmetic mean of the specified liquid assets at the end of each month	11,969,033	10,482,547
(d) The average ratio of specified liquid assets to total basic liabilities at the end of the month	61.5%	66.9%
(e) The arithmetic mean of its one-month liquidity ratio in the last week of each month	250.7%	770.8%
(f) The arithmetic mean of its three-month liquidity ratio in the last week of each month	127.3%	396.2%

The above ratios and figures calculations are computed based on the data extracted from the weekly and monthly returns submitted to AMCM.

Liquidity risk management (continued)

(Expressed in thousands of Macau Patacas)

Analysis on assets and liabilities by remaining maturity

	At 31 Dec 2023							
	on demand	*within 1 month (except those repayable on demand)*	*within a period of more than 1 month but not more than 3 months*	*within a period of more than 3 months but not more than 1 year*	*within a period of more than 1 year but not more than 3 years*	*within a period of more than 3 years*	*within an indefinite period*	*Total*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Assets								
Loans and advances to customers	106,108	1,513,673	992,169	3,303,075	2,057,092	5,092,850	-	13,064,967
Cash and balances with and loans and advances to banks	993,561	4,142,768	1,366,293	2,655,236	-	-	-	9,157,858
Monetary bills issued by AMCM	-	1,519,102	1,257,272	920,362	-	-	-	3,696,736
Other securities	-	-	-	-	-	-	250	250
Liabilities								
Deposits by banks	53,433	-	-	1,970,568	3,213,600	-	-	5,237,601
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Customer accounts	9,052,714	3,250,457	3,882,215	4,050,320	20,228	-	-	20,255,934
Other securities issued	-	-	-	-	-	-	-	-

Liquidity risk management (continued)

(Expressed in thousands of Macau Patacas)

Analysis on assets and liabilities by remaining maturity (continued)

	At 31 Dec 2022							
	on demand	*within 1 month (except those repayable on demand)*	*within a period of more than 1 month but not more than 3 months*	*within a period of more than 3 months but not more than 1 year*	*within a period of more than 1 year but not more than 3 years*	*within a period of more than 3 years*	*within an indefinite period*	*Total*
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Assets								
Loans and advances to customers	434,730	2,835,234	1,433,870	2,402,458	2,148,391	5,722,751	-	14,977,434
Cash and balances with and loans and advances to banks	1,546,833	3,596,864	948,820	1,423,804	-	-	-	7,516,321
Monetary bills issued by AMCM	-	1,049,264	745,038	488,924	-	-	-	2,283,226
Other securities	-	-	-	-	-	-	250	250
Liabilities								
Deposits by banks	260,258	10,844	813,156	-	6,592,000	-	-	7,676,258
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Customer accounts	11,222,118	1,114,074	1,503,207	2,726,215	170,043	-	-	16,735,657
Other securities issued	-	-	-	-	-	-	-	-

Other information

(Expressed in thousands of Macau Patacas)

(a) Capital commitments

There were no capital commitments outstanding not provided for in the financial statements as at 31 December 2023 and 31 December 2022.

(b) Operating lease commitments

The total future minimum lease payments under non-cancellable operating leases are payable as follows:

	At 31 Dec 2023 MOP'000	*At 31 Dec 2022* MOP'000
Within 1 year	15,978	5,086
After 1 year but within 5 years	6,729	421
	22,707	5,507

(c) Assets pledged as security

There were no assets that pledged as security for the liabilities of the Branch as at 31 December 2023 and 31 December 2022.

(d) Outstanding litigations

There were no outstanding litigations which may have a significant impact on the financial position of the Branch as at 31 December 2023 and 31 December 2022.

(e) Subsequent Event

In compliance with the Macau regulatory requirement of working capital for branches of overseas bank in Macau under the Article 31(1) of the new Financial System Act ("FSA") (Decree-Law No. 013/2023), the Branch is required to maintain 50% of minimum capital to be treated as working capital reserve with one year transition allowance from the effective date of the new FSA on 1 Nov 2023.

To fulfil the new working capital reserve requirement, on 27 March 2024, an amount of MOP150,000,000 has been transferred from the Branch's retained earnings as of 31 Dec 2023 and recorded as working capital reserve. Such capital transfer has been communicated with AMCM.

Other information in relation to positions of Head Office, The Hongkong and Shanghai Banking Corporation Limited

The Branch is one of the branches of The Hongkong and Shanghai Banking Corporation Limited ("the Bank") and therefore it is not required to prepare consolidated accounts. Unless otherwise stated, all information disclosed below is extracted from the corresponding information in the most recently available annual audited consolidated financial statements of the Bank of which the Branch is a member.

The audited consolidated financial statements can be accessed through various channels, including its website (http://www.hsbc.com.hk). For more comprehensive understanding of the financial position and results of operations of HSBC, the information disclosed below should be read in conjunction with the audited consolidated financial statements.

(a) Consolidated capital adequacy ratio

	At 31 Dec 2023	*At 31 Dec 2022*
	%	%
Capital adequacy ratio		
Tier 1 capital ratio	17.5	16.9
Total capital ratio	19.7	18.8

The capital ratios were contained in the 'Capital Adequacy Ratio' return submitted to the Hong Kong Monetary Authority ("HKMA") by The Hongkong and Shanghai Banking Corporation Limited on a consolidated basis that is specified by the HKMA under the requirements of section 3C(1) of the Banking (Capital) Rules.

Other information in relation to positions of Head Office, The Hongkong and Shanghai Banking Corporation Limited (continued)

(Expressed in Hong Kong dollars)

(b) *Capital and reserves*

	At 31 Dec 2023 HKD million	*At 31 Dec 2022* HKD million (restated)*
Share capital	180,181	180,181
Other equity instruments	52,465	52,386
Other reserves	117,214	108,837
Retained earnings	462,866	466,148
Total shareholders' equity	812,726	807,552
Non-controlling interests	59,860	56,828
Total equity	872,586	864,380

(c) *Consolidated assets, liabilities and profits position*

	At 31 Dec 2023 HKD million	*At 31 Dec 2022* HKD million (restated)*
Total assets	10,500,393	10,197,843
Total liabilities	9,627,807	9,333,463
Loans and advances to customers	3,557,076	3,695,068
Deposits by banks	182,146	198,908
Customer accounts	6,261,051	6,113,709

	Year ended 31 Dec 2023 HKD million	*Year ended 31 Dec 2022* HKD million (restated)*
Profit before taxation	121,443	96,687

**From 1 January 2023, we adopted HKFRS 17 'Insurance Contracts', which replaced HKFRS 4 'Insurance Contracts'. We have restated 2022 comparative data and the HKFRS 17 transition impact on the balance sheet at 1 January 2022.*

Other information in relation to positions of Head Office, The Hongkong and Shanghai Banking Corporation Limited (continued)

(d) Shareholders with qualifying holdings

The Branch is one the branches of The Hongkong and Shanghai Banking Corporation Limited ("the Bank"). The ultimate holding company of the Bank is HSBC Holdings plc, which is incorporated in the United Kingdom. There are no shareholders with major holdings in HSBC Holdings plc ordinary shares.

(e) Board of Directors

The Board of Directors of the Bank at 31 December 2023 comprises:

Peter Tung Shun WONG, GBS, JP *(Non-executive Chairman)*
David Gordon ELDON, GBS, CBE, JP *(Non-executive Deputy Chairman)*
David Yi Chien LIAO *(Co-Chief Executive Officer)*
Surendranath Ravi ROSHA *(Co-Chief Executive Officer)*
Paul Jeremy BROUGH *(Independent non-executive Director)*
Edward Wai Sun CHENG, GBS, JP *(Independent non-executive Director)*
Sonia Chi Man CHENG *(Independent non-executive Director)*
Yiu Kwan CHOI *(Independent non-executive Director)*
Andrea Lisa DELLA MATTEA *(Independent non-executive Director)*
Pam KAUR *(Non-executive Director)*
Rajnish KUMAR *(Independent non-executive Director)*
Beau Khoon Chen KUOK *(Independent non-executive Director)*
Irene Yun-lien LEE *(Independent non-executive Director)*
Annabelle Yu LONG *(Independent non-executive Director)*
Kevin Anthony WESTLEY, BBS *(Independent non-executive Director)*

INDEPENDENT AUDITOR'S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

TO THE MANAGEMENT OF THE HONGKONG AND SHANGHAI BANKING CORPORATION LIMITED, MACAU BRANCH

The accompanying summary financial statements of The Hongkong and Shanghai Banking Corporation Limited, Macau Branch (the "Branch") set out on pages 3 to 7, which comprise the summary balance sheet as at 31 December 2023, the summary income statement and summary of comprehensive income for the year then ended and related notes, are derived from the audited financial statements of the Branch for the year ended 31 December 2023. We expressed an unmodified audit opinion on those financial statements, from which the summary financial statements are derived, in our report dated 5 April 2024.

The summary financial statements do not contain all the disclosures required by Financial Reporting Standards issued by the Government of the Macao Special Administrative Region. Reading the summary financial statements, therefore, is not a substitute for reading the audited financial statements of the Branch.

Management's Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements in accordance with AMCM Circular No.004/B/2024-DSB/AMCM.

Auditor's Responsibility

Our responsibility is to express an opinion on the summary financial statements based on our procedures and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with International Standard on Auditing 810 "Engagements to Report on Summary Financial Statements", which is included in the Auditing Standards, issued by the Professional Committee of Accountants of the Government of the Macao Special Administrative Region.

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Branch for the year ended 31 December 2023 are consistent, in all material respects, with the audited financial statements, in accordance with Article 86 of the Financial System Act of Macao and AMCM Circular No.004/B/2024-DSB/AMCM.

Li Ching Lap Bernard
Certified Public Accountant
PricewaterhouseCoopers

Macao, 5 April 2024