

HSBC Bank Australia Limited

A.B.N. 48 006 434 162

Annual Report and Accounts 2024

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Directors' report

The Directors of HSBC Bank Australia Limited (the 'Company' or the 'Bank') submit their report, together with the financial statements and related notes of the Company and its controlled entities (together the 'consolidated entity') for the financial year ended 31 December 2024 and the auditor's report thereon.

Directors

The Directors of the Company at any time during or since the end of the financial year are:

Grant King, Non-executive Director and Chairman

Philip Fellowes, Non-executive Director

Karina Kwan, Non-executive Director

Kenneth Ng, Non-executive Director (resigned 25 October 2024)

Gail Pemberton, Non-executive Director

Antony Shaw, Executive Director and Chief Executive Officer

Geoff Wilson, Non-executive Director

Anne Loveridge, Non-executive Director (appointed 1 February 2025; former PricewaterhouseCoopers partner)

The Company Secretary of the Company at any time during or since the end of the financial year was Dhawal Gadani.

Principal activities

The principal activities of the consolidated entity during the financial year were the provision of financial services comprising lending, deposit taking, domestic and international trade finance, custodial securities services, global liquidity and cash management, money market services, interest rate and foreign currency trading and services, and capital markets services.

The Company is an Australian unlisted public limited company.

The registered office and principal place of business of the consolidated entity is Level 36 International Tower One, 100 Barangaroo Avenue, Sydney NSW 2000.

Review of operations

In 2024, the consolidated entity reported a profit from its continuing operations before income tax of \$601.5m, up by \$15.1m from \$586.4m in 2023. Operating income before loan impairment charges increased by \$100.5m (7%) primarily driven by the increase in net interest income due to high cash rates. Operating costs increased by \$106.2m (13%) primarily due to increased inter-company management fees reflecting ongoing investment in digital initiatives and higher employee compensation and benefits.

Total assets increased to \$65,320.3m most notably in the mortgage portfolio driven by strong settlement volume in 2024 due to competitive variable interest rate mortgage in the market as well as lower attrition and increased financial investments due to deployment of commercial surplus.

Dividends

Details of dividends paid and dividends determined are outlined in Note 21(b) on the Consolidated financial statements.

Litigation and regulatory matters

The environment for financial services firms remains one of ongoing legislative reform, regulatory change and increased industry focus. In December 2024, the Australian Securities and Investments Commission ('ASIC') commenced legal proceedings against the Bank in the Federal Court of Australia in relation to losses suffered by retail customers from frauds and scams. The proceedings are ongoing. Based on the facts currently known, it is not practicable at this time for the Bank to determine the resolution of this matter, including the timing or possible impact on the Bank. The Board continues to monitor these proceedings.

Significant changes in the state of affairs

The Bank continued to maintain a strong liquidity policy in line with local regulatory requirements and the HSBC Group, which together with a strong capital position, ensured that the Bank was able to effectively service its long-standing commitment to its customers as well as maintaining its competitive position in the domestic market. In the opinion of the Directors, there were no significant changes in the state of affairs of the Company or the consolidated entity during the financial year.

Environmental regulation

The Company and its controlled entities are not subject to any particular or significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Events subsequent to reporting date

In the interval between the end of the financial year and the date of this report, an amount of AUD\$67m (\$0.098 per share) was declared and payable by the Company as dividends on ordinary shares. No other item, transaction or event of a material and unusual nature has arisen that is likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company and consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in current or future financial years.

Likely developments

Information about likely developments in the operations of the consolidated entity and the expected results of those operations in future financial years has not been included in this report because disclosure of the information would be likely to result in unreasonable prejudice to the consolidated entity.

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page [61] for the year ended 31 December 2024.

Indemnification and insurance of directors and officers

During the financial year, the consolidated entity paid premiums in respect of contracts insuring all the directors, executive officers and

those acting in a capacity of an officer of the Company and its controlled entities against any liability incurred by them in their role as directors or executive officers of any entity, except where:

- the liability arises out of conduct involving a wilful breach of duty; or
- there has been a contravention of sections 182 and/or 183 of the Corporations Act 2001.

The Directors have not included details of the nature of liabilities covered or the amount of premium paid in respect of the directors and officers liability contracts, as such disclosure is prohibited under the terms of the contract.

The report is made with a resolution of the Directors.



Grant King
Chairman

Regulatory disclosures

Full details of the market disclosures and liquidity under Pillar 3 as required by Australian Prudential Standard 330 'Public Disclosure' are provided in the Regulatory Disclosures section of the Bank's website at www.hsbc.com.au.

Rounding off of amounts

The Company is of the kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the Directors' report. Amounts in this report and the accompanying financial statements have been rounded, where appropriate, to the nearest tenth of a million dollars except where otherwise stated.



Antony Shaw
Director

Dated at Sydney this 26 February 2025

Income statements

for the year ended 31 December 2024

	Notes	Consolidated		Company	
		2024 \$m	2023 \$m	2024 \$m	2023 \$m
Interest income	4(i)	2,797.5	2,301.5	2,797.5	2,301.5
Interest expense	4(ii)	(1,670.5)	(1,313.7)	(1,670.5)	(1,313.7)
Net interest income		1,127.0	987.8	1,127.0	987.8
Fee and commission income	4(iv)	192.7	190.7	192.7	190.7
Fee and commission expense	4(v)	(90.6)	(72.1)	(90.6)	(72.1)
Net fee and commission income		102.1	118.6	102.1	118.6
Net trading income	4(vi)	172.7	193.9	172.7	193.9
Net gain/(loss) from disposal of financial investments		0.6	2.7	0.6	2.7
Other operating income	4(iii)	135.0	133.9	135.0	133.9
Net other operating income		308.3	330.5	308.3	330.5
Operating income before change in expected credit losses and other credit risk provisions		1,537.4	1,436.9	1,537.4	1,436.9
Net change in expected credit losses and other credit risk provisions	5	1.4	(19.4)	1.4	(19.4)
Net operating income		1,538.8	1,417.5	1,538.8	1,417.5
Operating expenses					
– employee compensation and benefits	6	(398.0)	(383.9)	(398.0)	(383.9)
– premises and equipment	6	(65.2)	(65.4)	(65.2)	(65.4)
– general and administrative expenses	6	(133.4)	(128.3)	(133.4)	(128.3)
– other expenses	6	(340.7)	(253.5)	(340.7)	(253.5)
Total operating expenses		(937.3)	(831.1)	(937.3)	(831.1)
Profit before income tax		601.5	586.4	601.5	586.4
Income tax expense	8	(180.6)	(176.6)	(180.6)	(176.6)
Profit for the year		420.9	409.8	420.9	409.8
Attributable to equity holders of the parent		420.9	409.8	420.9	409.8

The Notes on pages [9] to [57] are an integral part of these consolidated financial statements.

Statements of comprehensive income

for the year ended 31 December 2024

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Profit for the year	420.9	409.8	420.9	409.8
Other comprehensive income/(loss)				
Items that may be reclassified to Income statements:				
Financial assets measured at fair value through other comprehensive income				
– fair value movements recognised in other comprehensive income	(10.4)	10.5	(10.4)	10.5
– net amount transferred to Income statements	–	0.1	–	0.1
– deferred tax on items taken directly to or transferred from equity	2.7	(3.7)	2.7	(3.7)
– other movements	0.2	0.3	0.2	0.3
Cash flow hedges				
– net amount transferred to Income statement	–	(17.2)	–	(17.2)
– effective portion of changes in fair value	15.6	12.0	15.6	12.0
– deferred tax on items taken directly to or transferred from equity	(4.6)	1.6	(4.6)	1.6
Total other comprehensive income/(loss)	3.5	3.6	3.5	3.6
Total comprehensive income for the year	424.4	413.4	424.4	413.4
Attributable to equity holders of the parent	424.4	413.4	424.4	413.4

The Notes on pages [9] to [57] are an integral part of these consolidated financial statements.

Statements of financial position at 31 December 2024

	Notes	Consolidated		Company	
		2024 \$m	2023 \$m	2024 \$m	2023 \$m
Assets					
Cash and balances at central banks		4,992.4	4,882.4	4,992.4	4,882.4
Items in the course of collection from other banks		0.1	5.4	0.1	5.4
Other financial assets mandatorily measured at fair value through profit or loss		11.7	12.0	11.7	12.0
Derivatives	9	427.3	228.0	427.3	228.0
Loans and advances to banks	26	84.5	15.0	84.5	15.0
Loans and advances to customers	26	39,638.7	37,833.6	39,638.7	37,833.6
Financial investments	10	16,007.5	10,575.1	16,007.5	10,575.1
Receivables from related entities	32	2,672.3	4,401.1	2,672.3	4,401.1
Other assets	14	1,090.3	521.2	1,087.8	519.0
Right-of-use assets	23	170.5	144.4	170.5	144.4
Property, plant and equipment	11	44.6	52.4	44.6	52.4
Net deferred tax assets	15	114.8	123.9	114.8	123.9
Intangible assets	13	65.6	72.6	65.6	72.6
Total assets		65,320.3	58,867.1	65,317.8	58,864.9
Liabilities					
Deposits by banks		524.5	939.2	524.5	939.2
Items in the course of transmission to other banks		31.5	31.8	31.5	31.8
Sale and repurchase agreements – non-trading		–	513.1	–	513.1
Derivatives	9	228.6	296.8	228.6	296.8
Customer accounts		51,351.0	46,695.5	51,351.0	46,695.5
Debt securities in issue	17	2,998.7	1,817.8	–	200.0
Provisions for liabilities and charges	16	19.7	12.5	19.7	12.5
Payables to related entities	32	6,257.2	4,566.8	9,261.5	6,187.6
Other liabilities	18	398.4	443.6	390.3	438.4
Lease liabilities	23	189.6	165.7	189.6	165.7
Employee benefits	19	112.8	109.8	112.8	109.8
Total liabilities		62,112.0	55,592.6	62,109.5	55,590.4
Net assets		3,208.3	3,274.5	3,208.3	3,274.5
Equity					
Share capital	20	811.0	811.0	811.0	811.0
Reserves	21	357.7	357.0	357.7	357.0
Retained earnings		2,039.6	2,106.5	2,039.6	2,106.5
Total equity		3,208.3	3,274.5	3,208.3	3,274.5

The Notes on pages [9] to [57] are an integral part of these consolidated financial statements.

Statement of changes in equity – Consolidated
for the year ended 31 December 2024

	Share capital	FVOCI reserve	Cash flow hedging reserve	Capital contribution reserve	Other capital reserve	Retained profits	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2024	811.0	(29.7)	(13.9)	0.6	400.0	2,106.5	3,274.5
Profit for the year						420.9	420.9
Other comprehensive income (net of income tax)							
Cash flow hedges							
– effective portion of changes in fair value	–	–	11.0	–	–	–	11.0
– net amount transferred to Income statement	–	–	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income							
– net change in fair value	–	(10.4)	–	–	–	–	(10.4)
– net amount transferred to Statements of comprehensive income	–	2.9	–	–	–	–	2.9
Total other comprehensive income/(loss)	–	(7.5)	11.0	–	–	–	3.5
Total comprehensive income for year	–	(7.5)	11.0	–	–	420.9	424.4
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share based payments	–	–	–	(2.8)	–	1.1	(1.7)
Dividends to equity holders	–	–	–	–	–	(488.9)	(488.9)
Total contributions by and distributions to owners	–	–	–	(2.8)	–	(487.8)	(490.6)
At 31 Dec 2024	811.0	(37.2)	(2.9)	(2.2)	400.0	2,039.6	3,208.3
At 1 Jan 2023	811.0	(36.9)	(10.3)	3.4	400.0	2,003.5	3,170.7
Profit for the year	–	–	–	–	–	409.8	409.8
Other comprehensive income (net of income tax)							
Cash flow hedges							
– effective portion of changes in fair value	–	–	13.6	–	–	–	13.6
– net amount transferred to Income statement	–	–	(17.2)	–	–	–	(17.2)
Financial assets measured at fair value through other comprehensive income							
– net change in fair value	–	10.5	–	–	–	–	10.5
– net amount transferred to Statements of comprehensive income	–	(3.3)	–	–	–	–	(3.3)
Total other comprehensive income/(loss)	–	7.2	(3.6)	–	–	–	3.6
Total comprehensive income for year	–	7.2	(3.6)	–	–	409.8	413.4
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share based payments	–	–	–	(2.8)	–	0.8	(2.8)
Dividends to equity holders	–	–	–	–	–	(307.6)	(307.6)
Total contributions by and distributions to owners	–	–	–	(2.8)	–	(306.8)	(309.6)
At 31 Dec 2023	811.0	(29.7)	(13.9)	0.6	400.0	2,106.5	3,274.5

The Notes on pages [9] to [57] are an integral part of these consolidated financial statements.

Statement of changes in equity – Company

for the year ended 31 December 2024

	Share capital	FVOCI reserve	Cash flow hedging reserve	Capital contribution reserve	Other capital reserve	Retained profits	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2024	811.0	(29.7)	(13.9)	0.6	400.0	2,106.5	3,274.5
Profit for the year	—	—	—	—	—	420.9	420.9
Other comprehensive income (net of income tax)							
Cash flow hedges							
– effective portion of changes in fair value	—	—	11.0	—	—	—	11.0
– net amount transferred to Income statement	—	—	—	—	—	—	—
Financial assets measured at fair value through other comprehensive income							
– net change in fair value	—	(10.4)	—	—	—	—	(10.4)
– net amount transferred to Statements of comprehensive income	—	2.9	—	—	—	—	2.9
Total other comprehensive income/(loss)	—	(7.5)	11.0	—	—	—	3.5
Total comprehensive income for year	—	(7.5)	11.0	—	—	420.9	424.4
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share based payments	—	—	—	(2.8)	—	1.1	(1.7)
Dividends to equity holders	—	—	—	—	—	(488.9)	(488.9)
Total contributions by and distributions to owners	—	—	—	(2.8)	—	(487.8)	(490.6)
At 31 Dec 2024	811.0	(37.2)	(2.9)	(2.2)	400.0	2,039.6	3,208.3
At 1 Jan 2023	811.0	(36.9)	(10.3)	3.4	400.0	2,003.5	3,170.7
Profit for the year	—	—	—	—	—	409.8	409.8
Other comprehensive income (net of income tax)							
Cash flow hedges							
– effective portion of changes in fair value	—	—	(17.2)	—	—	—	(17.2)
– net amount transferred to Income statement	—	—	—	—	—	—	—
Financial assets measured at fair value through other comprehensive income							
– net change in fair value	—	(3.3)	—	—	—	—	(3.3)
– net amount transferred to Statements of comprehensive income	—	—	—	—	—	—	—
Total other comprehensive income/(loss)	—	7.2	(3.6)	—	—	—	3.6
Total comprehensive income for year	—	7.2	(3.6)	—	—	409.8	413.4
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
Share based payments	—	—	—	(2.8)	—	0.8	(2.8)
Dividends to equity holders	—	—	—	—	—	(307.6)	(307.6)
Total contributions by and distributions to owners	—	—	—	(2.8)	—	(306.8)	(309.6)
At 31 Dec 2023	811.0	(29.7)	(13.9)	0.6	400.0	2,106.5	3,274.5

The Notes on pages [9] to [57] are an integral part of these consolidated financial statements.

Statements of cash flows

for the year ended 31 December 2024

	Notes	Consolidated		Company	
		2024 \$m	2023 \$m	2024 \$m	2023 \$m
Cash flows from operating activities					
Interest received		2,650.1	2,232.7	2,650.1	2,232.7
Interest paid		(1,609.7)	(1,221.5)	(1,613.0)	(1,223.4)
Other income received		413.4	443.4	413.6	443.5
Other expenses paid		(835.8)	(803.6)	(835.8)	(803.6)
Loans and bills advanced		(1,313.5)	(2,549.7)	(1,313.5)	(2,549.5)
Net increase/(decrease) in deposits, repo and other borrowings		5,408.0	2,326.2	6,791.5	2,862.1
Net (increase)/decrease in trading assets		(385.0)	47.1	(385.0)	47.1
Net (increase)/decrease from movements in other assets/liabilities		(659.7)	168.9	(659.2)	168.7
Income tax paid		(190.7)	(135.6)	(190.7)	(135.6)
Net cash from/(used in) operating activities	28	3,477.1	507.9	4,858.0	1,042.0
Cash flows from investing activities					
Purchases of investment securities		(12,343.2)	(10,138.0)	(12,343.2)	(10,138.0)
Purchases of property, plant and equipment		(16.7)	(12.6)	(16.7)	(12.6)
Payments for intangible assets		(3.4)	1.1	(3.4)	1.1
Proceeds from sale and maturity of investments		7,159.7	7,704.4	7,159.7	7,704.4
Net cash from investing activities		(5,203.6)	(2,445.1)	(5,203.6)	(2,445.1)
Cash flows from financing activities					
Issuance of debt securities		2,000.0	1,200.0	—	200.0
Redemption of debt securities		(819.1)	(465.9)	(200.0)	—
Dividends paid		(488.9)	(307.6)	(488.9)	(307.6)
Principal elements of finance lease payments		(25.5)	(28.6)	(25.5)	(28.6)
Net cash from/(used in) financing activities		666.5	397.9	(714.4)	(136.2)
Net increase in cash and cash equivalents held		(1,060.0)	(1,539.3)	(1,060.0)	(1,539.3)
Cash and cash equivalents at the beginning of the year		7,882.7	9,422.0	7,882.7	9,422.0
Cash and cash equivalents at the end of the year	28	6,822.7	7,882.7	6,822.7	7,882.7

The Notes on pages [9] to [57] are an integral part of these consolidated financial statements.

A presentation error was discovered in relation to a gross up of two line items within the financing activities of the Company's prior year Statement of cash flows. The error had a net nil impact on Net cash flows used in financing activities or any other financial statement line items for the Company. The Group cash flows were not impacted. The error has been corrected by restating each of the affected cash flow line items for the Company in the prior period as follows:

- A reduction in Issuance of debt securities of \$1,000.0m;
- A reduction in Redemption of debt securities of \$1,000.0m.

Notes on the Consolidated financial statements

1 Reporting entity

HSBC Bank Australia Limited is a company domiciled in Australia. The consolidated financial report of the Company for the year ended 31 December 2024 comprises the 'Company' or the 'Bank' and its subsidiaries (together referred to as the 'consolidated entity'). References to 'HSBC' or 'the HSBC Group' within this document relate to the Company's ultimate parent entity - HSBC Holdings Plc - and its controlled entities. The consolidated entity operates as a for-profit entity.

2 Basis of preparation

(a) Statement of compliance

The financial report is a general purpose financial report which has been prepared in accordance with Australian Accounting Standards ('AASBs'), including Australian interpretations, adopted by the Australian Accounting Standards Board and the Corporations Act 2001. The consolidated financial report of the consolidated entity and the financial report of the Company comply with International Financial Reporting Standards ('IFRS') and interpretations adopted by the International Accounting Standards Board.

The financial report was authorised for issue by the Board of Directors on 26 February 2025.

(b) Basis of measurement

The financial report is prepared on the historical cost basis except that the following assets and liabilities are stated at their fair value: derivative financial instruments, trading assets/liabilities, assets and liabilities designated at fair value and financial instruments classified as fair value through other comprehensive income ('FVOCI'). The methods used to measure fair values are discussed further in Note [27].

(c) Rounding

The Company is of the kind referred to in ASIC Legislative Instrument 2016/191, relating to the 'rounding off' of amounts in the financial statements. Amounts in the financial statements have been rounded, where appropriate, to the nearest tenth of a million dollars except where otherwise stated.

(d) Going concern

These financial statements are prepared on a going concern basis, as the Directors are satisfied that the consolidated entity and the Bank have the resources to continue in business for the foreseeable future. In making this assessment, the Directors have considered a wide range of information relating to present and future conditions, including future projections of profitability, liquidity, capital requirements and capital resources. These considerations include stressed scenarios that reflect the uncertainty in the macroeconomic environment following disrupted supply chains, slower economic activity, ongoing geopolitical tensions and other matters.

(e) Critical accounting estimates and judgements

The preparation of the financial statements requires the use of accounting estimates which, by definition, will seldom equal the actual results. Management is required to exercise judgement in applying the Company and the consolidated entity's accounting policies.

The areas involving significant estimates or judgements in the current year that involved a higher degree of judgement or complexity, and of items which are more likely to be materially adjusted due to estimates and assumptions turning out to be incorrect are as follows:

- Loan impairment – refer to note [3(f)] for details
- Valuation of financial instruments – refer to note [3(i)] for details
- Goodwill impairment – refer to note [3(m)] for details
- Provisions – refer to note [3(r)]

Estimates and judgements are continually evaluated. They are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(f) Changes in accounting policies

The AASB has not published any major amendments effective from 1 January 2024 that are applicable to the Bank. There were no new accounting standards or interpretations adopted during 2024, that had a significant effect on the financial statements.

(g) Future accounting developments

Minor developments to accounting standards

The AASB has published a number of minor amendments to accounting standards that are effective from 1 January 2025. The Bank does not expect the impact of these amendments to be material, when adopted, on the financial statements.

3 Summary of material accounting policies

The accounting policies set out below have been applied consistently to all periods presented in the financial statements. Certain comparative amounts have been re-presented to conform with the current year presentation. Specifically, the Statement of cash flows has been more closely aligned in the current year to the presentation adopted by the HSBC Group. Comparative amounts have been re-presented, accordingly. Refer to note 3(s) for the accounting policy in relation to cash and cash equivalents.

(a) Principles of consolidation

Subsidiaries

Subsidiaries are entities controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

Investments in subsidiaries are carried at their cost of acquisition, less provision for impairment, in the Company's financial statements.

Special purpose entities

Special purpose entities are entities that are created to accomplish a narrow and well-defined objective such as the securitisation of particular assets, or the execution of specific borrowing or lending transactions. The financial information of special purpose entities are included in the consolidated entity's financial statements where the substance of the relationship is that the consolidated entity controls the special purpose entity.

Transactions eliminated on consolidation

Intragroup balances and any unrealised gains and losses or income and expenses arising from intragroup transactions, are eliminated in preparing the consolidated financial statements.

(b) Foreign currency transactions

Items included in each of the entities of the consolidated entity are measured using the currency of the primary economic environment in which the entity operates (the 'functional currency'). The financial statements are presented in Australian dollars which is the functional and presentation currency of the Bank and the consolidated entity.

Transactions in foreign currencies are translated at the foreign exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to Australian dollars 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 rate at the initial transaction date. Exchange differences are recognised in other comprehensive income ('OCI') or in the income statement depending on where the gain or loss on the underlying transaction is recognised.

(c) 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 Income statement using the effective interest rate method. However, as an exception to this, interest on debt securities issued by the Bank for funding purposes that are designated under the fair value option to reduce an accounting mismatch and on derivatives managed in conjunction with those debt securities are included in interest expense. Interest on credit impaired financial assets is recognised by applying the effective interest rate used to the amortised cost (i.e. gross carrying amount of the asset less allowance for Expected Credit Losses ('ECL')).

(d) Non-interest income

Fee income

The Bank generates fee income from services provided at a fixed price over time, such as account service and card fees, or when the Bank delivers a specific transaction at a point in time such as broking services and import/export services. With the exception of certain fund management and performance fees, all other fees are generated at a fixed price. Fund management and performance fees can be variable depending on the size of the customer portfolio and HSBC's performance as fund manager. Variable fees are recognised when all uncertainties are resolved. Fee income is generally earned from short-term contracts with payment terms that do not include a significant financing component.

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

The Bank 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 Bank offers a package of services that contains multiple non-distinct performance obligations, such as those included in account service packages, the promised services are treated as a single performance obligation. If a package of services contains distinct performance obligations, such as those including both account and insurance services, the corresponding transaction price is allocated to each performance obligation based on the estimated stand-alone selling prices.

Net income/(expense) from financial instruments measured at fair value through profit or loss

Net income/(expense) from financial instruments measured at fair value through profit or loss includes the following:

- 'Net income from financial instruments held for trading or managed on a fair value basis': This is comprised of the net trading income, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading, together with the related interest income, expense and dividends; and it also includes all gains and losses from changes in the fair value of derivatives that are managed in conjunction with financial assets and liabilities measured at fair value through profit or loss.
- 'Dividend income' is recognised when the right to receive payment is established. This is the ex-dividend date for listed equity securities, and usually the date when shareholders approve the dividend for unlisted equity securities.

- ‘Changes in fair value of designated debt and related derivatives’: Interest paid on the external long-term debt and interest cash flows on related derivatives is presented in interest expense.
- ‘Changes in fair value of other financial instruments mandatorily measured at fair value through profit or loss’: This includes interest on instruments which fail the solely payments of principal and interest (‘SPPI’) test.

Net income from financial instruments designated at fair value

Net income from financial instruments designated at fair value comprises all gains and losses from changes in the fair value of such financial assets and financial liabilities, together with interest income and expense and dividend income attributable to those financial instruments. Interest income and expense and dividend income arising on these financial instruments are also included, except for interest arising from debt securities issued, and derivatives managed in conjunction which was with those debt securities, which is recognised in ‘Interest expense’ Note [4(ii)].

(e) 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 to banks and customers and some debt securities, are measured at amortised cost. In addition, most financial liabilities are measured at amortised cost. The Bank 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 transaction costs.

Non-trading reverse repurchase, repurchase and similar agreements

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

Debt securities in issue and subordinated liabilities

Other debt securities in issue and subordinated liabilities are measured at amortised cost using the effective interest method and are reported under ‘Debt securities in issue’ or ‘Subordinated liabilities’. Debt securities issued for trading purposes or designated at fair value are reported under the appropriate Statement of financial position captions.

(f) Impairment of amortised cost and FVOCI financial assets

Expected credit losses (‘ECL’) are recognised for loans and advances to banks and customers, non-trading reverse repurchase agreements, other financial assets held at amortised cost, debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. 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 so 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 Bank 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; and
- the loan is otherwise considered to be in default.

If such unlikelihood to pay is not identified at an earlier stage, it is deemed to occur when an exposure is 90 days past due, 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 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.

Forbearance

Loans are identified as forbore and classified as either performing or non-performing when we modify the contractual payment terms due to financial difficulty of the borrower. Non-performing forbore 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.

HSBC Group applies the European Banking Authority (‘EBA’) Guidelines on the application of definition of default for retail portfolios, which affect credit risk policies and reporting in respect of the status of loans as credit impaired principally due to forbearance (or curing thereof). Further details are provided on page [45].

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Performing forbore loans are initially stage 2 and remain classified as forbore 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 forbore 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 forbore 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 forbore.

Loan modifications other than renegotiated loans

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 Bank'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. Modifications of certain higher credit risk wholesale loans are assessed for derecognition having regard to changes in contractual terms that either individually or in combination are judged to result in a substantially different financial instrument.

Mandatory and general offer loan modifications that are not borrower-specific, for example market-wide customer relief programmes, have not been classified as renegotiated loans and generally have not resulted in derecognition, but their stage allocation is determined considering all available and supportable information under our ECL impairment policy. Changes made to these financial instruments that are economically equivalent and required by interest rate benchmark reform do not result in the derecognition or a change in the carrying amount of the financial instrument, but instead require the effective interest rate to be updated to reflect the change of the interest rate benchmark.

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 and the characteristics of the financial instrument and the borrower. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale. 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 ('CRR'), macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average probability of default ('PD') for the remaining term estimated at origination with the equivalent estimation at the reporting date. For origination CRRs up to 3.3, a significant increase in credit risk is considered to have occurred when the PD increase exceeds the below thresholds. 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	15bps
2.1 – 3.3	30bps

For CRRs greater than 3.3 which 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 is 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 AASB 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 PDs and 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 homogeneous portfolios, generally by 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. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than what would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

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.

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. In the case of non-performing 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 that is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money.

In general, the Bank calculates ECL using three main components, a 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.

The Bank leverages the Basel II internal ratings based ('IRB') framework where possible, with recalibration to meet the differing AASB 9 requirements set out in the table below:

Model	Regulatory capital	AASB 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 II 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 judgement as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation based on its estimated fair value 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 three economic scenarios applied more generally by the Company 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 Bank 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 Bank'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 Bank 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.

Forward-looking economic inputs

The Bank 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 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 detailed methodology is disclosed in 'Measurement uncertainty and sensitivity analysis of ECL estimates' in Note [26].

Critical accounting estimates and judgements

The calculation of the Bank's ECL under AASB 9 requires the Bank to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
<ul style="list-style-type: none"> – Defining what is considered to be a significant increase in credit risk – Determining the lifetime and point of initial recognition of overdrafts and credit cards – Selecting and calibrating the PD, LGD and EAD models, which support the 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 developments with counterparties, model and data limitations and deficiencies, and expert credit judgements – Selecting applicable recovery strategies for certain wholesale credit-impaired loans 	<ul style="list-style-type: none"> – The section in Note [26], 'Measurement uncertainty and sensitivity analysis of ECL estimates' set out the assumptions used in determining ECL and provide an indication of the sensitivity of the result to the application of different weightings being applied to different economic assumptions

(g) Financial instruments designated at fair value through profit or loss

Financial instruments, other than those held for trading, are classified in this category if they meet one or more of the criteria set out below and are so designated irrevocably at inception:

- the use of the designation removes or significantly reduces an accounting mismatch;
- a group of financial assets and liabilities or a group of financial liabilities is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; and
- the financial liability contains one or more non-closely related embedded derivatives.

Designated financial assets are recognised when the Bank enters into contracts with counterparties, which is generally on trade date, and are normally derecognised when the rights to the cash flows expire or are transferred. Designated financial liabilities are recognised when the Bank enters into contracts with counterparties, which is generally on settlement date, and are normally derecognised when extinguished. Subsequent changes in fair values are recognised in the Income statement in 'Net income from financial instruments held for trading or managed on a fair value basis' or 'Net income/(expense) from assets and liabilities, including related derivatives, measured at fair value through profit or loss' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income', unless that treatment would create or enlarge an accounting mismatch in profit or loss.

Under the above criterion, the main classes of financial instruments designated by the Bank may be:

- Debt instruments for funding purposes that are designated to reduce an accounting mismatch: This can happen where the interest and/or foreign exchange exposure on certain fixed-rate debt securities issued has been matched with the interest and/or foreign exchange exposure on certain swaps as part of a documented risk management strategy.
- Financial liabilities which contain both deposit and derivative components: These financial liabilities are managed and their performance evaluated on a fair value basis.

(h) Financial assets measured at fair value through other comprehensive income ('FVOCI')

Financial assets held for a business model that is achieved by both collecting and selling contractual cash flows 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 primarily debt securities. They are recognised on the trade date when the Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the Income statement as 'Gains less losses from financial instruments'. Financial assets measured at FVOCI are included in the impairment calculations set out above and impairment is recognised in the income statement.

The equity securities for which fair value movements are shown in OCI are business facilitation and other similar investments where the consolidated entity holds the investments other than to generate a capital return. Dividends from such investments are recognised in the income statement. Gains or losses on the derecognition of these equity securities are not transferred to the Income statement. Otherwise, equity securities are measured at fair value through profit or loss.

(i) 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 be paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value of a financial instrument on initial recognition is generally its transaction price (that is, the fair value of the consideration given or received). However, if there is a difference between the transaction price and the fair value of financial instruments whose fair value is based on a quoted price in an active market or a valuation technique that uses only data from observable markets, the Bank recognises the difference as a trading gain or loss at inception ('day 1 gain or loss'). In all other cases, the entire day 1 gain or loss is deferred and recognised in the Income statement over the life of the transaction until the transaction matures or is closed out, the valuation inputs become observable or the Bank enters into an offsetting transaction. The fair value of financial instruments is generally measured on an individual basis. However, in cases where the Bank manages a group of financial assets and liabilities according to its net market or credit risk exposure, the fair value of the group of financial instruments is measured on a net basis but the underlying financial assets and liabilities are presented separately in the financial statements, unless they satisfy the offsetting criteria in Note [3(l)].

Subsequent to initial recognition, the fair values of financial instruments measured at fair value are measured in accordance with the Bank's valuation methodologies, which are described in Note [27].

Critical accounting estimates and judgements

The majority of valuation techniques employ only observable market data, which is assumed to include the potential effects of a variety of factors. However, certain financial instruments are classified on the basis of valuation techniques that feature one or more significant market inputs that are unobservable, and for them, the measurement of fair value is more judgemental.

Judgements	Estimates
<ul style="list-style-type: none">- An instrument in its entirety is classified as valued using significant unobservable inputs if, in the opinion of management, a significant proportion of the instrument's inception profit or greater than 5% of the instrument's valuation is driven by unobservable inputs.- 'Unobservable' in this context means there is little or no current market data available from which to determine the price at which an arms' length transaction would be likely to occur. It generally does not mean there is no data available at all upon which to base a determination of fair value (consensus pricing data may, for example, be used).	<ul style="list-style-type: none">- Details on the Bank's level 3 financial instruments are set out in Note 27.

(j) Derivatives and hedge accounting

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

Where the derivatives are managed with debt securities issued by the group that are designated at fair value where doing so reduces an accounting mismatch, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

Gains and losses from changes in the fair value of derivatives, including the contractual interest, that do not qualify for hedge accounting are reported in 'Net trading income' except for derivatives managed in conjunction with financial instruments designated at fair value, where gains and losses are reported in 'Net income from financial instruments designated at fair value' together with the gains and losses on the economically hedged items. Where the derivatives are managed with debt securities in issue, the contractual interest is shown in 'Interest expense' together with the interest payable on the issued debt.

When derivatives are designated as hedges, the Bank classifies them as either:

- hedges of the change in fair value of recognised assets or liabilities or firm commitments ('fair value hedges'); or
- hedges of the variability in highly probable future cash flows attributable to a recognised asset or liability, or a forecast transaction ('cash flow hedges').

Hedge accounting

When derivatives are not part of fair value designated relationships, if held for risk management purposes they are designated in hedge accounting relationships where the required criteria for documentation and hedge effectiveness are met. The Bank uses these derivatives or, where allowed, other non-derivative hedging instruments in fair value hedges or cash flow hedges as appropriate to the risk being hedged.

Fair value hedge

Fair value hedge accounting does not change the recording of gains and losses on derivatives and other hedging instruments, but results in recognising changes in the fair value of the hedged assets or liabilities attributable to the hedged risk that would not otherwise be recognised in the Income statement. If a hedge relationship no longer meets the criteria for hedge accounting, hedge accounting is discontinued and the cumulative adjustment to the carrying amount of the hedged item is amortised to the Income statement on a recalculated effective interest rate, unless the hedged item has been derecognised, in which case it is recognised in the Income statement immediately.

Cash flow hedge

The effective portion of gains and losses on hedging instruments is recognised in other comprehensive income and the ineffective portion of the change in fair value of derivative hedging instruments that are part of a cash flow hedge relationship is recognised immediately in the Income statement within 'Net trading income'. The accumulated gains and losses recognised in other comprehensive income are reclassified to the Income statement in the same periods in which the hedged item affects profit or loss. In hedges of forecast transactions that result in recognition of a non-financial asset or liability, previous gains and losses recognised in other comprehensive income are included in the initial measurement of the asset or liability. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in other comprehensive income remains in equity until the forecast transaction is recognised in the Income statement. When a

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forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in other comprehensive income is immediately reclassified to the Income statement.

Derivatives that do not qualify for hedging

Non-qualifying hedges are derivatives entered into as economic hedges of assets and liabilities for which hedge accounting is not applied.

(k) Derecognition of financial assets and liabilities

Financial assets are derecognised when the rights to receive cash flows from the assets have expired; or when the consolidated entity has transferred its contractual rights to receive the cash flows of the financial assets, and substantially all the risks and rewards of ownership; or where control is not retained.

Financial liabilities are derecognised when they are extinguished, that is when the obligation is discharged, cancelled or expired.

(l) Offsetting financial assets and financial liabilities

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

(m) Goodwill

Goodwill arises on business combinations when the cost of acquisition exceeds the fair value of the consolidated entity's share of the identifiable assets, liabilities and contingent liabilities acquired.

Goodwill is allocated to cash-generating units ('CGUs') 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, and whenever there is an indication that the CGU may be impaired, by comparing the recoverable amount of a CGU with the carrying amount of its net assets, including attributable goodwill. The recoverable amount of an asset is the higher of its fair value less cost to sell, and its value in use ('VIU'). VIU is the present value of the expected future cash flows from a CGU. If the recoverable amount of the CGU is less than the carrying value, an impairment loss is charged to the Income statement. Any write-off in excess of the carrying value of goodwill is limited to the fair value of the individual assets and liabilities of the CGU.

Goodwill is stated at cost, less accumulated impairment losses, which are charged to the Income statement (see Note [13]).

At the date of disposal of a business, attributable goodwill is included in the consolidated entity's share of net assets in the calculation of the gain or loss on disposal.

Critical accounting estimates and judgements

The assessment of impairment of Goodwill involves estimates of VIU:

Judgements	Estimates
	<ul style="list-style-type: none">The VIU calculation uses cash flow projections based on management's best estimates of future earnings.The discount rate and long term growth rate applied to those cash flow projections.

(n) Property, plant and equipment

Recognition and measurement

Items of property, plant and equipment held for own use are stated at cost less accumulated depreciation and impairment losses (see Note [11]).

Cost includes expenditures that are directly attributable to the acquisition of the asset. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use, and the cost of dismantling and removing the items and restoring the site on which they are located.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment.

Where parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items of property, plant and equipment.

Subsequent costs

The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the entity and the cost of the item can be measured reliably. All other costs are recognised in the Income statement as an expense as incurred.

Depreciation

Depreciation is charged to the Income statement on a straight-line basis over the estimated useful lives of each part of an item of property, plant and equipment. The estimated useful lives in the current and comparative periods are as follows:

Plant and equipment	3-5 years
Fixtures and fittings	3-5 years
Leasehold improvements	life of the leasehold

The residual value, the useful life and the depreciation method applied to an asset are reassessed at least annually.

(o) Income tax

Income tax on the profit or loss for the year comprises current and deferred tax. Income tax is recognised in the Income statement except to the extent that it relates to items recognised directly in equity, in which case it is recognised in equity.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

HSBC Australia Holdings Pty Limited and its wholly-owned Australian resident entities which include the Company and its controlled entities have formed a tax-consolidated group with effect from 1 July 2002 and are therefore taxed as a single entity from that date. The head entity within the tax-consolidated group is HSBC Australia Holdings Pty Limited.

The following temporary differences are not provided for: initial recognition of goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit and differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

In determining the amount of current and deferred tax, the consolidated entity takes into account the impact of uncertain tax positions and whether additional taxes and interest may be due. The consolidated entity believes that its accruals for tax liabilities are adequate for all open years based on its assessment of many factors, including interpretations of tax laws and prior experience. This assessment relies on estimates and assumptions and may involve a series of judgements about future events. New information may become available that causes the consolidated entity to change its judgement regarding the adequacy of its existing tax liabilities, such changes to tax liabilities will impact tax expense in the period that the determination is made.

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognised to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

The current and deferred tax amounts for the tax-consolidated group are allocated among the entities in the consolidated entity using a 'separate taxpayer within group' approach whereby each entity in the tax-consolidated group measures its current and deferred taxes as if it continued to be a separately taxable entity in its own right. Intercompany transactions are not eliminated.

Any current tax liabilities (or assets) and deferred tax assets arising from unused tax losses assumed by the head entity from the subsidiaries in the tax-consolidated group are recognised in conjunction with any tax funding arrangement amounts (refer below). Any difference between these amounts is recognised by the Company as an equity contribution from or distribution to the head entity.

The members of the tax-consolidated group have entered into a valid tax sharing agreement which sets out the funding obligations of members of the tax-consolidated group in respect of tax amounts. The tax funding agreement requires payments equal to the current tax liability (asset) assumed by the head entity and any tax-loss deferred tax asset assumed by the head entity.

The tax sharing agreement sets out the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations and the treatment of entities leaving the tax consolidated group.

The Company recognises deferred tax assets arising from unused tax losses of the tax-consolidated group to the extent that it is probable that future taxable profits of the tax-consolidated group will be available against which the asset can be utilised.

Any subsequent period adjustments to deferred tax assets arising from unused tax losses as a result of revised assessments of the probability of recoverability is recognised by the head entity only.

(p) Goods and services tax

Revenue, expenses and assets are recognised net of the amount of Goods and Services Tax ('GST'), except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of the expense.

Receivables and payables are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the Australian Taxation Office is included as a current asset or liability in the Statement of financial position.

Cash flows are included in the Statement of cash flows on a gross basis. The GST components of cash flows arising from investing and financing activities, which are recoverable from, or payable to, the Australian Taxation Office are classified as operating cash flows.

(q) Employee benefits

Defined contribution plans

Obligations for contributions to defined contribution pension plans are recognised as an expense in the Income statement as incurred.

Long-term service benefits

The liability for employee entitlements to long service leave represents the present value of the estimated future cash outflows to be made by the employer resulting from employees' services provided up to the reporting date. The provision has been calculated using estimated future increases in wage and salary rates, including related on-costs, and is discounted using the corporate bond rate.

Termination benefits

Termination benefits are recognised as an expense when the consolidated entity is demonstrably committed, without realistic possibility of withdrawal, to a formal detailed plan to terminate employment before the normal retirement date. Termination benefits for voluntary redundancies are recognised if the consolidated entity has made an offer encouraging voluntary redundancy, it is probable that the offer will be accepted, and the number of acceptances can be estimated reliably.

(r) Provisions, contingent liabilities and guarantees

Provisions

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.

The recognition and measurement of provisions requires the Bank to make a number of judgements, assumptions and estimates. The most significant are set out below:

Judgements	Estimates
<ul style="list-style-type: none">Determining whether a present obligation exists. Professional advice may be taken on the assessment of litigation, property (including onerous contracts) and similar obligations.Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous estimates as appropriate. At more advanced stages, it is typically easier to make estimates around a better defined set of possible outcomes.	<ul style="list-style-type: none">Provisions for legal proceedings and regulatory matters remain sensitive to the assumptions used in the estimate. There could be a wider range of possible outcomes for any pending legal proceedings, investigations or inquiries. As a result it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

Contingent liabilities

Contingent liabilities, which include certain guarantees and letters of credit, 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.

Financial guarantees

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 present value of the fee receivable. Subsequently, financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortisation, and the best estimate of the expenditure required to settle the obligations.

(s) Cash and cash equivalents

For the purpose of the Statement of cash flows, cash and cash equivalents comprise of highly liquid assets that can be readily converted into cash with minimal risk of loss in value. These balances comprise of cash balances; balances with other banks maturing within one month, such as loans and advances, securities purchased under repurchase agreements, and cash collateral provided; and treasury bills and certificates of deposit with maturities of less than three months from the acquisition date.

(t) Share capital and other capital instruments

Shares and other financial instruments are classified as equity when the Bank has the unconditional right to avoid transferring cash or other financial assets to the holder. Incremental costs directly attributable to the issue of equity instruments are shown in equity as a deduction from the proceeds, net of tax. The additional tier 1 capital instruments are perpetual subordinated loans on which coupon payments may be cancelled at the sole discretion of the Bank. The subordinated loans will be written down at the point of non-viability on the occurrence of a trigger event as defined in the banking (capital) rules. They rank higher than ordinary shares in the event of a wind-up.

(u) Intangible assets

The Bank develops a number of internally generated software assets which are used in order to generate income across the operations of these assets. The Bank generates business cases during the research phase of the development and this forms the basis of the approval to proceed with the development of the internally generated software. Intangible assets with finite useful lives are generally amortised, on a straight-line basis, over their useful lives of between three and five years. The amortisation period and amortisation method for an intangible asset with a finite useful life is reviewed at least at each financial year-end.

(v) Leases

The Bank leases various offices across multiple sites. Rental contracts are typically made for fixed periods and may include extension options. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. Leases are recognised as a right-of-use ('ROU') asset and corresponding liability at the date at which the leased asset is available for use by the Bank. Assets and liabilities arising from a lease are initially measured on a present value basis. Lease payments to be made under reasonably certain extension options are included in the measurement of the liability. The discount rate used is the incremental borrowing rate should the Bank have to borrow the funds. The Bank is exposed to potential future increases in variable lease payments based on an index or rate, which are not included in the lease liability until they take effect. When adjustments to lease payments based on an index or rate take effect, the lease liability is reassessed and adjusted against the ROU asset. ROU assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

4 Net operating income

	Notes	Consolidated		Company	
		2024 \$m	2023 \$m	2024 \$m	2023 \$m
(i) Interest income					
Loans and advances to banks		144.9	135.2	144.9	135.2
Loans and advances to customers		2,013.2	1,685.8	2,013.2	1,685.8
Financial investments		516.5	326.9	516.5	326.9
Related entities	32	122.6	153.1	122.6	153.1
Key management personnel	33	0.3	0.5	0.3	0.5
		2,797.5	2,301.5	2,797.5	2,301.5
(ii) Interest expense					
Deposits by banks		26.0	25.5	26.0	25.5
Customer accounts		1,251.8	980.7	1,251.8	980.7
Repurchase agreements		0.6	2.0	0.6	2.0
Debt securities in issue		145.8	81.1	145.8	8.0
Related entities	32	237.4	215.2	237.4	288.3
Lease liability	23	7.7	6.3	7.7	6.3
Other interest		1.2	2.9	1.2	2.9
		1,670.5	1,313.7	1,670.5	1,313.7
(iii) Other operating income					
Recharge to related entities		134.8	133.2	134.8	133.2
Other income/(loss)		0.2	0.7	0.2	0.7
		135.0	133.9	135.0	133.9
(iv) Fee and commission income					
Fees and commissions		180.4	175.4	180.4	175.4
Fee income on fiduciary activities		12.3	15.3	12.3	15.3
		192.7	190.7	192.7	190.7
(v) Fee and commission expense					
Fees and commissions		90.5	72.0	90.5	72.0
Fees on fiduciary activities		0.1	0.1	0.1	0.1
		90.6	72.1	90.6	72.1
(vi) Net trading income					
Exchange rates		165.6	170.2	165.6	170.2
Interest rates		7.1	7.0	7.1	7.0
		172.7	177.2	172.7	177.2
Gains/(losses) from hedging activities					
Fair value hedges					
Net gain on hedged items attributable to the hedged risk		8.5	59.1	8.5	59.1
Net (loss) on hedging instruments		(8.5)	(59.6)	(8.5)	(59.6)
Net gain on termination of hedges		—	17.2	—	17.2
		—	16.7	—	16.7
Total net trading income		172.7	193.9	172.7	193.9

5 Net change in expected credit losses and other credit risk provisions

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Loans and advances to banks and customers				
New allowances net of allowance releases	(1.2)	(23.1)	(1.2)	(23.1)
Recoveries of amounts previously written off	3.0	3.1	3.0	3.1
Loan commitments and guarantees and other financial assets	—	1.1	—	1.1
Financial investments	(0.4)	(0.5)	(0.4)	(0.5)
Net change in expected credit losses and other credit risk provisions	1.4	(19.4)	1.4	(19.4)

6 Operating expenses

	Notes	Consolidated		Company	
		2024	2023	2024	2023
		\$m	\$m	\$m	\$m
(i) Employee compensation and benefits					
Wages and salaries		257.0	250.5	257.0	250.5
Bonuses		68.4	60.7	68.4	60.7
Retirement and termination benefits		30.8	35.7	30.8	35.7
Share-based payment transactions	19	7.3	4.5	7.3	4.5
Other		34.5	32.5	34.5	32.5
		398.0	383.9	398.0	383.9
(ii) Premises and equipment					
Property rental		6.2	9.7	6.2	9.7
Equipment and other premises expense		11.2	11.5	11.2	11.5
Depreciation		47.8	44.2	47.8	44.2
		65.2	65.4	65.2	65.4
(iii) General and administrative expenses					
Marketing and communication		27.8	27.1	27.8	27.1
Legal and professional expenses		22.1	18.7	22.1	18.7
Printing and communication costs		8.3	8.3	8.3	8.3
Travel and entertainment		3.6	4.9	3.6	4.9
Auditor's remuneration	7	3.4	3.3	3.4	3.3
Fraud and operational losses		17.3	13.9	17.3	13.9
Contracted services		21.3	32.1	21.3	32.1
Other		29.6	20.0	29.6	20.0
		133.4	128.3	133.4	128.3
(iv) Other expenses					
Intercompany management fees	32	330.3	248.4	330.3	248.4
Amortisation of intangibles		4.7	5.1	4.7	5.1
Impairment of intangibles		5.7	—	5.7	—
		340.7	253.5	340.7	253.5

7 Auditor's remuneration

	Consolidated		Company	
	2024	2023	2024	2023
	\$	\$	\$	\$
Auditor of the consolidated entity				
Audit services				
Audit and review of financial reports	1,945,469	1,969,474	1,945,469	1,969,474
Other assurance services				
Regulatory and other assurance services	1,486,968	1,324,691	1,486,968	1,324,691
	3,432,437	3,294,165	3,432,437	3,294,165

Amounts in the note are in whole units.

8 Income tax expense

	Notes	Consolidated		Company	
		2024	2023	2024	2023
		\$m	\$m	\$m	\$m
Recognised in the Income statement					
(a) Current tax expense					
Current year		(181.6)	(164.8)	(181.6)	(164.8)
Adjustments for prior years		9.3	0.8	9.3	0.8
		(172.3)	(164.0)	(172.3)	(164.0)
Deferred tax expense					
Origination and reversal of temporary differences		0.9	(11.4)	0.9	(11.4)
Adjustments for prior years		(9.2)	(1.2)	(9.2)	(1.2)
	15	(8.3)	(12.6)	(8.3)	(12.6)
Total income tax expense in Income statement					
Attributable to continuing operations		(180.6)	(176.6)	(180.6)	(176.6)
Numerical reconciliation between income tax expense and profit before income tax					
Profit before income tax		601.5	586.4	601.5	586.4
Income tax using the corporation tax rate of 30%		(180.4)	(175.9)	(180.4)	(175.9)
Increase in income tax expense due to:					
– non-deductible expenses		(0.3)	(0.3)	(0.3)	(0.3)
– other		–	–	–	–
		(180.7)	(176.2)	(180.7)	(176.2)
(Under)/Over provided in prior years		0.1	(0.4)	0.1	(0.4)
Income tax expense					
(b) Deferred tax recognised directly in equity					
Relating to capital contribution reserve		1.1	0.8	1.1	0.8
Relating to financial assets measured at FVOCI and cash flow hedging reserves		(1.9)	(2.2)	(1.9)	(2.2)
	15	(0.8)	(1.4)	(0.8)	(1.4)

On 20 June 2023, legislation was substantively enacted in the UK, the jurisdiction of HSBC Bank Australia Limited's ultimate parent entity, HSBC Holdings plc, to introduce the 'Pillar Two' Global Minimum Tax model rules (the 'model rules') of the Organisation for Economic Cooperation and Development ('OECD') under the Inclusive Framework on Base Erosion and Profit Shifting ('BEPS') and a Qualified Domestic Minimum top-up tax ('QDMTT'), with effect from 1 January 2024.

Under these rules, a top-up tax liability arises where the effective tax rate of the HSBC Group's operations in a jurisdiction, calculated based on principles set out in the OECD's Pillar Two model rules, is below 15%. Any top-up tax arising in relation to jurisdictions in which a QDMTT applies will be payable to the tax authority in that jurisdiction. Where there is no QDMTT, the top-up tax is payable by HSBC Holdings plc, being HSBC Bank Australia Limited's ultimate parent, to the UK tax authority.

During December 2024, the government of Australia passed the proposed Pillar Two legislation and a QDMTT effective from 1 January 2024. Based on the HSBC Group's forecasts, no material top-up tax liability is expected to arise in Australia. Nonetheless, the impact is dependent upon the ongoing evolution of rules and guidance in the UK and Australia.

9 Derivatives

Derivatives are financial instruments that derive their value from the price of an underlying item such as equities, bonds, interest rates, foreign exchange, credit spreads, commodities and equity or other indices.

Derivatives are carried at fair value and shown in the Statement of financial position as separate totals of assets and liabilities. A description of how the fair value of derivatives is derived is set out in Note [27].

Derivative assets and liabilities on different transactions are only offset if: the transactions are with the same counterparty, a legal right of set-off exists and the cash flows are intended to be settled on a net basis. Changes in the values of derivatives are recognised in accordance with the consolidated entity's accounting policy as described in Note [3(j)].

Use of derivatives

The consolidated entity transacts derivatives for three primary purposes: to create risk management solutions for clients, to manage the portfolio risk arising from client business, and to manage and hedge own risks. Derivatives (except for derivatives which are designated as effective hedging instruments) are held for trading. Within the held for trading classification are two types of derivative instruments: those used in sales and trading activities, and those used for risk management purposes but for various reasons do not meet the qualifying criteria for hedge accounting. The second category includes derivatives managed in conjunction with financial instruments designated at fair value.

Derivative positions are managed constantly to ensure that they remain within acceptable risk levels. When entering into derivative transactions, the consolidated entity employs the same credit risk management procedures to assess and approve potential credit exposures as are used for traditional lending.

Trading derivatives

Most of the consolidated entity's derivative transactions relate to sales. Sales activities include the structuring and marketing of derivative products to customers to enable them to take, transfer, modify or reduce current or expected risks.

As mentioned above, other derivatives classified as held-for-trading include: non-qualifying hedging derivatives; ineffective hedging derivatives; and the components of hedging derivatives that are excluded from assessing hedge effectiveness. Non-qualifying hedging derivatives are entered into for risk management purposes but do not meet the criteria for hedge accounting. Ineffective hedging derivatives were previously designated as hedges, but no longer meet the criteria for hedge accounting.

Hedging derivatives

The consolidated entity uses derivatives (principally interest rate swaps) for hedging purposes in the management of its own asset and liability portfolios and structural positions. This enables the consolidated entity to optimise the overall cost of accessing debt capital markets, and to mitigate the market risk, which would otherwise arise from structural imbalances in the maturity and other profiles of its assets and liabilities.

The accounting treatment of hedge transactions varies according to the nature of the instrument hedged and the type of hedge transactions. Derivatives may qualify as hedges for accounting purposes if they are fair value hedges or cash flow hedges.

Offsetting

Offsetting can occur in the following instances:

- the counterparty has an offsetting exposure with the banks and a master netting or similar arrangement is in place with a right to set off only in the event of default, insolvency or bankruptcy, or the offset criteria are otherwise not satisfied; and
- in the case of derivatives and reverse repurchase/repurchase, stock borrowing/lending and similar agreements, cash and non-cash collateral has been received/pledged.

Offsetting of financial assets and financial liabilities

	Amounts subject to enforceable netting arrangements							Total \$m
	Gross amounts \$m	Amounts offset \$m	Net amounts in the balance sheet \$m	Amounts not offset in the balance sheet			Amounts not subject to enforceable netting arrangements \$m	
				Financial instruments, including non-cash collateral \$m	Cash collateral \$m	Net amount \$m		
Financial assets								
Derivatives	354.0	—	354.0	—	(231.0)	123.0	73.0	427.0
Reverse repos, stock borrowing and similar agreements	2,358.0	—	2,358.0	(2,358.0)	—	—	—	2,358.0
At 31 Dec 2024	2,712.0	—	2,712.0	(2,358.0)	(231.0)	123.0	73.0	2,785.0
Derivatives	153.0	—	153.0	—	—	153.0	75.0	228.0
Reverse repos, stock borrowing and similar agreements	4,128.0	—	4,128.0	(4,128.0)	—	—	—	4,128.0
At 31 Dec 2023	4,281.0	—	4,281.0	(4,128.0)	—	153.0	75.0	4,356.0
Financial liabilities								
Derivatives	134.0	—	134.0	—	—	134.0	95.0	229.0
Repos, stock lending and similar agreements	—	—	—	—	—	—	—	—
At 31 Dec 2024	134.0	—	134.0	—	—	134.0	95.0	229.0
Derivatives	236.0	—	236.0	—	(103.0)	133.0	61.0	297.0
Repos, stock lending and similar agreements	513.0	—	513.0	(513.0)	—	—	9.0	522.0
At 31 Dec 2023	749.0	—	749.0	(513.0)	(103.0)	133.0	70.0	819.0

Fair value of open positions by product type

The following table summarises the fair values of third party and inter-company derivatives' open positions by product contract type.

Fair values of third party and related entities derivatives' open positions by product contract type

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Assets				
Trading derivatives				
Third party				
– exchange rate	64.8	63.3	64.8	63.3
– interest rate	0.4	0.7	0.4	0.7
	65.2	64.0	65.2	64.0
Related entities				
– exchange rate	290.7	66.3	290.7	66.3
– interest rate	0.1	1.1	0.1	1.1
	290.8	67.4	290.8	67.4
Hedging derivatives				
Related entities				
– interest rate	71.3	96.6	71.3	96.6
	427.3	228.0	427.3	228.0
Liabilities				
Trading derivatives				
Third party				
– exchange rate	85.9	65.2	85.9	65.2
– interest rate	0.1	1.0	0.1	1.0
	86.0	66.2	86.0	66.2
Related entities				
– exchange rate	119.8	191.8	119.8	191.8
– interest rate	0.1	0.2	0.1	0.2
	119.9	192.0	119.9	192.0
Hedging derivatives				
Related entities				
– interest rate	22.7	38.6	22.7	38.6
	228.6	296.8	228.6	296.8

Fair value hedges

The consolidated entity's fair value hedges principally consist of interest rate swaps that are used to protect against changes in the fair value of fixed-rate long-term financial instruments due to movements in market interest rates.

For qualifying fair value hedges, all changes in the fair value of the derivative and in the fair value of the item in relation to the risk being hedged are recognised in income. If the hedge relationship is terminated, the fair value adjustment to the hedged item continues to be reported as part of the basis of the item and is amortised to income as a yield adjustment over the remainder of the hedging period.

The fair values of outstanding derivatives designated as fair value hedges at 31 December 2024 were assets of \$70.2m (2023:\$96.7m) and liabilities of \$17.0m (2023: \$16.9m).

The notional contract amount at 31 December 2024 was \$1,735.9m (31 December 2023: \$2,175.9m).

Gains or losses arising from fair value hedges

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Gains or losses arising from fair value hedges				
Gains/(losses)				
– on hedging instruments	(8.5)	(59.6)	(8.5)	(59.6)
– on hedged items attributable to the hedged risk	8.5	59.1	8.5	59.1
	–	(0.5)	–	(0.5)

Cash flow hedges

The consolidated entity is exposed to variability in future interest cash flows on non-trading assets and liabilities which bear interest at variable rates or which are expected to be re-funded or reinvested in the future. The amounts and timing of future cash flows, representing both principal and interest flows, are projected for each portfolio of financial assets and liabilities on the basis of their contractual terms and other relevant factors, including estimates of prepayments and defaults. The aggregate principal balances and interest cash flows across all portfolios over time form the basis for identifying gains and losses on the effective portions of derivatives designated as cash flow hedges. These are initially recognised directly in equity as gains or losses and are transferred to current period earnings when the forecast cash flows affect net profit or loss.

At 31 December 2024, the fair values of outstanding derivatives designated as cash flow hedges were assets of \$1.1 (2023: \$Nil) and liabilities of \$5.7m (2023: \$21.7m).

The notional contract amount at 31 December 2024 was \$1,296.0m (31 December 2023: \$1,300.0m).

10 Financial investments

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Analysis of financial assets measured at FVOCI by security type				
– debt securities	8,701.9	5,001.0	8,701.9	5,001.0
– equities	5.1	6.7	5.1	6.7
– treasury and other eligible bills	3,754.6	1,548.7	3,754.6	1,548.7
	12,461.6	6,556.4	12,461.6	6,556.4
Analysis of financial assets measured at FVOCI by security issuer				
– government securities and Australian Government agencies	11,482.6	5,623.3	11,482.6	5,623.3
– banks and building societies	979.0	933.1	979.0	933.1
	12,461.6	6,556.4	12,461.6	6,556.4
Analysis of financial assets measured at amortised cost by security type				
– debt securities	3,545.9	4,018.7	3,545.9	4,018.7
– treasury and other eligible bills	—	—	—	—
	3,545.9	4,018.7	3,545.9	4,018.7
Analysis of financial assets measured at amortised cost by security issuer				
– government securities and Australian Government agencies	3,545.9	4,018.7	3,545.9	4,018.7
Total financial investments	16,007.5	10,575.1	16,007.5	10,575.1

11 Property, plant and equipment

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Leasehold improvements at cost				
Balance at 1 Jan	79.8	119.3	79.8	119.3
Assets acquired	5.4	7.3	5.4	7.3
Assets disposed	(2.3)	(46.9)	(2.3)	(46.9)
Balance at 31 Dec	82.9	79.8	82.9	79.8
Furniture, fittings, office equipment at cost				
Balance at 1 Jan	22.6	21.4	22.6	21.4
Assets acquired	1.7	5.0	1.7	5.0
Assets disposed	(2.3)	(3.8)	(2.3)	(3.8)
Balance at 31 Dec	22.0	22.6	22.0	22.6
Leasehold improvements accumulated depreciation				
Balance at 1 Jan	(36.6)	(71.8)	(36.6)	(71.8)
Depreciation charge for the year	(12.0)	(10.7)	(12.0)	(10.7)
Disposals	2.2	45.9	2.2	45.9
Balance at 31 Dec	(46.4)	(36.6)	(46.4)	(36.6)
Furniture, fittings, office equipment accumulated depreciation				
Balance at 1 Jan	(13.4)	(14.2)	(13.4)	(14.2)
Depreciation charge for the year	(2.8)	(3.2)	(2.8)	(3.2)
Disposals	2.3	4.0	2.3	4.0
Balance at 31 Dec	(13.9)	(13.4)	(13.9)	(13.4)
Carrying amounts				
At 1 Jan	52.4	54.7	52.4	54.8
At 31 Dec	44.6	52.4	44.6	52.4

12 Group entities

	Notes	2024 %	2023 %	Place of incorporation
Controlling entity				
HSBC Bank Australia Limited		—	—	Australia
Controlled entities				
HSBC Custody Nominees (Australia) Limited		100	100	Australia
Lion Series 2009-1 Trust	1	N/A	N/A	Australia
Lion Series 2020-1 Trust	2	N/A	NA	Australia
Lion Series 2022-1 Trust	2	N/A	NA	Australia
Lion Series 2023-1 Trust	2	N/A	NA	Australia
Lion Series 2024-1 Trust	2	N/A	NA	Australia

- The Company established the Lion Series 2009-1 Trust in July 2009 to enable the creation of notes eligible for sale and repurchase with the Reserve Bank of Australia ('RBA'), as part of the consolidated entity's contingency liquidity plan. The Company does not hold any ownership interests in Lion Series 2009-1 Trust. It owns all the notes and receives substantially all of the benefits related to the Lion Series securitisation programme. As a result, the Company consolidates this entity.
- The Company has established the Lion Series 2020-1, 2022-1, 2023-1 and 2024-1 Trusts to enable the securitisation of residential mortgages with notes issued to external investors. Although the Company does not hold any ownership interests in Lion Series Trusts, it receives substantially all of the benefits related to the Lion Series securitisation programme. Consequently, the Company consolidates this entity. Further details are contained in Note [30].

13 Intangible assets

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Goodwill				
Cost and carrying amount				
Balance at 1 Jan	58.7	58.7	58.7	58.7
Balance at 31 Dec	58.7	58.7	58.7	58.7
Software				
Cost				
Balance at 1 Jan	52.8	54.7	52.8	54.7
(Disposal)/addition	2.2	(1.9)	2.2	(1.9)
Balance at 31 Dec	55.0	52.8	55.0	52.8
Accumulated amortisation				
Balance at 1 Jan	(38.9)	(34.6)	(38.9)	(34.6)
Amortisation charge for the year	(3.5)	(4.3)	(3.5)	(4.3)
Impairment charges for the year	(5.7)	—	(5.7)	—
Balance at 31 Dec	(48.1)	(38.9)	(48.1)	(38.9)
Carrying amounts				
At 1 Jan	13.9	20.1	13.9	20.1
At 31 Dec	6.9	13.9	6.9	13.9
Total intangible assets	65.6	72.6	65.6	72.6

Segment allocation of goodwill

In accordance with Australian Accounting Standard AASB 138 'Intangible Assets', the consolidated entity's carrying amount of goodwill as at 31 December 2024 is disclosed for each segment of business.

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Wealth and Personal Banking	57.4	57.4	57.4	57.4
Global Banking and Markets	1.3	1.3	1.3	1.3
	58.7	58.7	58.7	58.7

Impairment tests for goodwill

Goodwill has been allocated for impairment testing purposes to cash generating units ('CGU') in the following business segments: Wealth and Personal Banking, and Global Banking and Markets. Under AASB 136 'Impairment of assets', a cash-generating unit to which goodwill has been allocated shall be tested for impairment annually, and whenever there is an indication that the unit may be impaired. The key assumptions in calculating the recoverable amounts of these segments are disclosed below.

Wealth and Personal Banking

Goodwill allocated to Wealth and Personal Banking arose from the Company's acquisition in 2001 of NRMA Building Society Group Limited. The Wealth and Personal Banking unit's impairment test is based on value in use calculations ('VIU').

The VIU is calculated by discounting management's cash flow projections for the CGU. The cash flow projections are based on the Board approved 5-year forecast profitability plans and minimum capital levels with cash flows in perpetuity extrapolated using a long-term growth rate because of the long-term perspective within the Bank. The long-term growth rate of 2.32% (2023: 2.41%) reflects nominal GDP and inflation and is based on a 20-year forecast or historical inflation data (whichever is lower).

Notes on the Consolidated financial statements

The discount rate of 14.8% (2023: 12.9%) is based on the cost of capital the HSBC Group allocates to investments in the countries within which the CGU operates.

The cash flow forecasts were updated for changes in the external outlook, although economic and geopolitical risks increase the inherent estimation uncertainty.

The forecasts applied by management are not reliant on any one particular assumption and there are no reasonably possible changes in assumptions that would result in an indication of impairment.

Global Banking and Markets

Goodwill allocated to Global Banking and Markets arose from the business and associated clients that were purchased through an acquisition from State Street and was tested for impairment on substantially the same basis as goodwill allocated to the Wealth and Personal Banking unit.

14 Other assets

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
Acceptances and endorsements	15.2	16.2	15.2	16.2
Prepayments and accrued income	235.8	214.7	233.3	212.4
Margins with exchange	832.5	263.5	832.5	263.5
Other assets	5.0	24.6	5.0	24.7
Assets held for resale	1.8	2.2	1.8	2.2
Total	1,090.3	521.2	1,087.8	519.0

Assets held for resale mainly comprised assets acquired by repossession of collateral for realisation.

15 Tax assets and liabilities

Current tax assets and liabilities

Both the Bank and the consolidated entity have no current tax assets or liabilities. In accordance with the tax legislation the immediate parent entity, HSBC Australia Holdings Pty Limited as head entity of the tax consolidated group has assumed the current tax liability/(asset) initially recognised by members in the tax consolidated group. In accordance with the tax funding agreement, the members in the tax consolidated group recognise a corresponding intercompany (asset)/liability to the head entity.

Recognised deferred tax assets and liabilities

Deferred tax assets and liabilities

	Deferred tax assets		Deferred tax liabilities		Net deferred tax assets	
	2024	2023	2024	2023	2024	2023
	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated and Company						
Impairment allowances	19.7	26.6	—	—	19.7	26.6
Property, plant and equipment	16.7	22.7	—	—	16.7	22.7
Prepayments and accrued income	—	—	(0.4)	(0.3)	(0.4)	(0.3)
Other assets	9.9	7.7	—	—	9.9	7.7
Other liabilities/accrued expenses	8.0	6.3	(5.3)	(3.5)	2.7	2.8
Accruals and deferred income	45.1	41.9	—	—	45.1	41.9
Provision for liabilities and charges	3.1	3.7	—	—	3.1	3.7
Capital contribution reserve	2.4	1.3	—	—	2.4	1.3
Cash flow hedging reserve	1.3	5.9	—	—	1.3	5.9
Financial assets measured at FVOCI	14.3	11.6	—	—	14.3	11.6
Total tax assets/(liabilities)	120.5	127.7	(5.7)	(3.8)	114.8	123.9

Movement in deferred tax

	1 Jan 2024	Recognised in income	Recognised in equity	31 Dec 2024	1 Jan 2023	Recognised in income	Recognised in equity	31 Dec 2023
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated and Company								
Impairment allowances	26.6	(6.9)	—	19.7	38.9	(12.3)	—	26.6
Property, plant and equipment	22.7	(6.0)	—	16.7	22.4	0.3	—	22.7
Prepayments and accrued income	(0.3)	(0.1)	—	(0.4)	(0.4)	0.1	—	(0.3)
Other assets	7.7	2.2	—	9.9	9.2	(1.5)	—	7.7
Other liabilities/accrued expenses	2.8	(0.1)	—	2.7	1.3	1.5	—	2.8
Accruals and deferred income	41.9	3.2	—	45.1	45.3	(3.4)	—	41.9
Provision for liabilities and charges	3.7	(0.6)	—	3.1	1.0	2.7	—	3.7
Capital contribution reserve	1.3	—	1.1	2.4	0.5	—	0.8	1.3
Cash flow hedging reserve	5.9	—	(4.6)	1.3	4.4	—	1.5	5.9
Financial assets measured at FVOCI	11.6	—	2.7	14.3	15.3	—	(3.7)	11.6
	123.9	(8.3)	(0.8)	114.8	137.9	(12.6)	(1.4)	123.9

16 Provisions for liabilities and charges

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
At 1 Jan	12.5	8.0	12.5	8.0
New provisions	19.9	6.6	19.9	6.6
Release of provision	(2.8)	2.5	(2.8)	2.5
Provisions utilised	(9.9)	(4.6)	(9.9)	(4.6)
Other movements	—	—	—	—
At 31 Dec	19.7	12.5	19.7	12.5

Provisions contain the ECL provision for off balance sheet items of \$4.0m (2023: \$5.4m) (see Note [26]). Other provisions include provisions for lease restoration obligations, provisions for legal proceedings and regulatory matters (where necessary), restructuring provisions, provisions in respect of certain constructive obligations, and other provisions.

17 Debt securities in issue

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
Bonds and medium-term notes				
Securitised issuance	2,998.7	1,617.8	—	—
Other issuance	—	200.0	—	200.0
	2,998.7	1,817.8	—	200.0

18 Other liabilities

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
Acceptances and endorsements	15.2	16.2	15.2	16.2
Accruals and deferred income	57.3	48.1	55.9	46.2
Accrued interest Payable	215.1	154.3	208.6	151.1
Settlement balances	34.6	24.4	34.6	24.4
Other liabilities	76.2	200.6	76.0	200.5
	398.4	443.6	390.3	438.4

19 Employee benefits

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
Liability for annual leave	10.4	12.6	10.4	12.6
Bonus payable	69.7	66.9	69.7	66.9
Liability for long service leave	32.7	30.3	32.7	30.3
	112.8	109.8	112.8	109.8

Defined contribution plans

The Company and the consolidated entity makes contributions to the staff superannuation scheme, a defined contribution plan.

The amount recognised as an expense was \$28.0m for the year ended 31 December 2024 (2023: \$25.7m).

Share-based payments

The consolidated entity's key management personnel and employees participate in both discretionary and voluntary HSBC Holdings plc compensation plans. Discretionary share plans include performance and restricted/achievement share awards.

Sharesave and Sharematch are voluntary savings related share plans for all eligible employees.

During 2024, \$7.3m (2023: \$4.5m) was charged to the Income statement by the Company and the consolidated entity in respect of share-based transactions. This expense was computed from the fair values of the share-based payment transactions when contracted, arising under employee share awards made in accordance with HSBC Group's reward structures.

20 Share capital

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
Issued capital				
685,250,305 ordinary shares fully paid	811.0	811.0	811.0	811.0
	811.0	811.0	811.0	811.0

Ordinary shares

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at shareholder meetings. In the event of winding up of the Company, ordinary shareholders rank after all creditors and are fully entitled to any proceeds of liquidation.

The Company does not have authorised capital or par value in respect of its issued shares.

21 Reserves and dividends

(a) Reserves

Other capital reserve

This reserve represents the issuance of Tier 1 capital instruments. The Tier 1 capital instruments are perpetual subordinated loans on which coupon payments may be cancelled at the sole discretion of the Bank. The subordinated loans will be written down at the point of non-viability on the occurrence of a trigger event as defined by the Australian Prudential Regulation Authority ('APRA') or the Hong Kong Monetary Authority. They rank higher than ordinary shares in the event of a wind-up.

Financial assets measured at FVOCI reserve

The FVOCI reserve includes the cumulative net change in the fair value of financial assets measured at FVOCI until the asset is derecognised.

Cash flow hedging reserve

The hedging reserve comprises the effective portion of the cumulative net change in the fair value of cash flow hedging instruments related to hedged transactions that have not been realised.

Capital contribution reserve

This reserve represents the capital contribution received by the consolidated entity from the ultimate parent entity, HSBC Holdings plc, in respect of the various share-based payment schemes in operation.

(b) Dividends

	2024		2023	
	Per share	Total	Per share	Total
	\$	\$m	\$	\$m
Ordinary shares				
Dividend 1	0.090	62.0	0.051	35.0
Dividend 2	0.117	80.0	0.045	31.0
Dividend 3	0.219	150.0	0.066	45.3
Dividend 4	0.117	80.0	0.238	163.0
Dividend 5	0.117	80.0	—	—
		452.0		274.3
Tier 1 instruments				
Dividend 1		11.7		10.0
Dividend 2		6.8		5.9
Dividend 3		11.7		10.9
Dividend 4		6.7		6.5
		36.9		33.3
		488.9		307.6

Subsequent to the balance sheet date, an amount of AUD\$67m (\$0.098 per share) was declared and payable by the Company as dividends on ordinary shares. No liability has been recorded in these financial statements as a result of these dividends declared after year end.

22 Commitments

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
Documentary credits and trade related transactions	130.5	297.0	130.5	297.0
Undrawn lending facilities	15,008.0	14,110.5	15,008.0	14,110.5
	15,138.5	14,407.5	15,138.5	14,407.5

23 Right-of-use assets and lease liabilities

	Consolidated		Company	
	2024	2023	2024	2023
	\$m	\$m	\$m	\$m
Right-of-use assets				
Balance at 1 Jan	280.6	260.3	280.6	260.3
New lease agreements	97.8	35.7	97.8	35.7
Decreases/amendments to leases	(56.6)	(15.4)	(56.6)	(15.4)
Balance at 31 Dec	321.8	280.6	321.8	280.6
Leasehold office buildings accumulated depreciation				
Balance at 1 Jan	(136.2)	(115.2)	(136.2)	(115.2)
Depreciation charge for the year	(33.1)	(30.3)	(33.1)	(30.3)
Impairment during the year	—	—	—	—
Decreases/amendments to leases	17.9	9.3	17.9	9.3
Balance at 31 Dec	(151.4)	(136.2)	(151.4)	(136.2)
Carrying amounts				
At 1 Jan	144.4	145.1	144.4	145.1
At 31 Dec	170.4	144.4	170.4	144.4

The 2024 depreciation charge for the year included \$5.4m in respect of lease restoration obligation costs not previously recognised.

The expense related to short-term leases which have been directly expensed is nil (2023: \$4.3m) and the expense related to variable leases is \$6.2m (2023: \$9.7m).

Lease liabilities

	Consolidated and Company	
	2024	2023
	\$m	\$m
Current	29.1	28.2
Non-current	160.5	137.5
	189.6	165.7

The interest expense on the lease liabilities is \$7.7m (2023: \$6.3m) and is disclosed within the interest expense Note [4 (iii)]. The total cash outflow for lease liabilities is \$25.5m (2023: \$28.6m).

24 Contingent liabilities

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Contingent liabilities in respect of guarantees given	1,109.8	987.4	1,109.8	987.4
Letters of credit and other contingencies	1,652.1	1,458.6	1,652.1	1,458.6

HSBC Bank Australia Limited and its controlled entities have commitments in respect of foreign exchange contracts, futures and options contracts, forward rate agreements, and currency and interest rate swap contracts. The commitments have been entered into in the normal course of business and it is not envisaged that any irrecoverable liability will arise from these contracts.

The Bank is party to legal proceedings and regulatory matters arising from its normal business operations. Apart from the matters described below, the Bank considers that none of these matters are material. The recognition of provisions is determined in accordance with the accounting policies set out in Note [3]. While the outcome of legal proceedings and regulatory matters is inherently uncertain, management believes that, based on the information available to it, appropriate provisions have been made, where necessary, in respect of these matters as at 31 December 2024 in Note [16]. Where an individual provision is material, the fact that a provision has been made is stated and quantified, except to the extent doing so would be seriously prejudicial to the Bank. Any provision recognised does not constitute an admission of wrongdoing or legal liability.

At the present time, the Bank does not expect the ultimate resolution of any of these matters to be material to the Bank's and consolidated entity's financial position; however, given the uncertainties involved in legal proceedings and regulatory matters, there can be no assurance regarding the eventual outcome of a particular matter or matters.

Litigation

There are ongoing court proceedings, claims and possible claims for and against the Bank. Contingent liabilities exist in respect of potential claims and proceedings. An assessment of the Bank's likely loss has been made on a case-by-case basis for the purpose of the financial statements but cannot always be reliably estimated or anticipated. Where appropriate, specific provisions have been made in note [16].

In December 2024, ASIC commenced proceedings against the Bank in the Federal Court of Australia in relation to losses suffered by retail customers from frauds and scams. The proceedings are ongoing. Based on the facts currently known, it is not practicable at this time for the Bank to determine the resolution of this matter, including the timing or possible impact on the Bank.

The Board continues to monitor these proceedings. The Bank also engages with the regulators and other bodies in relation to these matters under investigation.

Regulatory

The regulatory environment for financial services firms remains one of ongoing legislative reform, regulatory change and increased industry focus. Regulators and other bodies such as ASIC, APRA, Australian Competition and Consumer Commission ('ACCC'), Australian Transaction Reports and Analysis Centre ('AUSTRAC'), Australian Securities Exchange ('ASX') and the Australian Taxation Office ('ATO') continue to progress various investigations, reviews and inquiries (some of which are industry wide) that may involve the Bank. The nature of these can be wide-ranging. Across the industry, they currently include reviews and inquiries relating to governance, remuneration, culture, accountability and financial crime.

As a consequence of these investigations, reviews and inquiries and the Bank's ongoing program of internal investigations and reviews, actual or potential regulatory breaches from past conduct may be identified. At any point in time, there is a potential for a number of these matters to be under discussion with regulators.

These regulators and other bodies may make findings that the Bank has breached rules, regulations and laws or engaged in conduct that falls below community standards and expectations. Any findings made may result in litigation, fines, penalties, revocation, suspension or variation of conditions of relevant regulatory licences or other enforcement or administrative action being taken by regulators or other bodies.

25 Fiduciary activities

	Consolidated	
	2024 \$m	2023 \$m
Funds under custody	555,927.8	507,876.6

The Bank provides custody and clearing services to global custodians, fund managers and broker dealers.

26 Additional financial instrument disclosure

(a) Risk management

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 effective operation.

We aim to use a comprehensive risk management approach across the organisation and across all risk types, underpinned by the HSBC Group's culture and values. This is outlined in our risk management framework, including the 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.

The following diagram and descriptions summarise key aspects of the risk management framework, including governance and structure, our risk management tools and our culture, which together help align employee behaviour with our risk appetite.

Key components of our risk management framework

HSBC Values and risk culture		
Risk governance	Non-executive risk governance	The Board approves the Bank's risk appetite, plans and performance targets, and sets the 'tone from the top'.
	Executive risk governance	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 HSBC Group.
Roles and responsibilities	Three lines of defence model	Our 'three lines of defence' model defines roles and responsibilities for risk management. An independent Global Risk function helps ensure the necessary balance in risk/return decisions.
Processes and tools	Risk appetite	The consolidated entity has processes in place to identify/assess, monitor, manage and report risks to help ensure we remain within our risk appetite.
	Enterprise-wide risk management tools	
	Active risk management: identification/assessment, monitoring, management and reporting	
Internal controls	Policies and procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks.
	Control activities	Operational and resilience risk management defines minimum standards and processes for managing operational risks and internal controls.
	Systems and infrastructure	The HSBC Group has systems and processes that support the identification, capture and exchange of information to support risk management activities.

Risk governance

The Board Risk Committee ('RC') is mandated by the Board to oversee the management of risk and the Bank's risk appetite and future risk strategy, including capital and liquidity management strategy. The executive Risk Management Meeting ('RMM') exercises oversight of the Bank's risk framework.

The RC has responsibility for oversight and advice to the Board on risk-related matters. The key responsibilities of the RC in this regard include providing advice to the Board on the overall risk appetite tolerance and strategy within the consolidated entity and seeking such assurance as it may deem appropriate that account has been taken of the current and prospective macroeconomic and financial environment. The RC is also responsible for the periodic review of the effectiveness of the internal control and risk management frameworks and advising the Board on all high level risk matters.

RMM has the responsibility for maintaining risk approval authorities and approving definitive risk policies and controls at an executive level. It monitors risk inherent to the financial services business, receives reports, determines action to be taken and reviews the efficacy of the risk management framework.

The Executive Committee and RMM are supported by a dedicated risk function headed by the Chief Risk and Compliance Officer, who is a member of both the Executive Committee and RMM and at an entity level reports to the Chief Executive Officer.

Three lines of defence

All our people are responsible for identifying and managing risk within the scope of their roles. Roles are defined using the three lines of defence model, which takes into account our business and functional structures as described below.

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.

Notes on the Consolidated financial statements

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 management of 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.

Material Risks

The material risk types associated with our banking operations are described in the following table:

Description of risks

Risks	Arising from	Measurement, monitoring and management of risk
<p>Credit risk</p> <p>Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.</p>	<p>Credit risk arises principally from direct lending, trade finance and leasing business, but also from other products such as guarantees and derivatives.</p>	<p>Credit risk is:</p> <ul style="list-style-type: none"> – measured as the amount that could be lost if a customer or counterparty fails to make repayments; – monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and – managed through a robust risk control framework, which outlines clear and consistent policies, principles and guidance for risk managers, and by setting limits and appetite across geographical markets, portfolios or sectors.
<p>Treasury risk</p> <p>Treasury risk is the risk of having insufficient capital, liquidity or funding resources to meet financial obligations and satisfy regulatory requirements, including the risk of adverse impact on earnings or capital due to structural foreign exchange exposures and changes in market interest rates.</p>	<p>Treasury risk arises from changes to the respective resources and risk profiles driven by customer behaviour, management decisions or the external environment.</p>	<p>Treasury risk is:</p> <ul style="list-style-type: none"> – measured through appetites set as target and minimum ratios; – monitored and projected against appetites and by using stress and scenario testing; and – managed through control of resources in conjunction with risk profiles, strategic objectives and cash flows.
<p>Market risk</p> <p>Market risk is the risk of adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads.</p>	<p>Exposure to market risk is separated into two portfolios: trading portfolios and non-trading portfolios.</p>	<p>Market risk is:</p> <ul style="list-style-type: none"> – measured using sensitivities, value at risk and stress testing, giving a detailed picture of potential gains and losses for a range of market movements and scenarios, as well as tail risks over specified time horizons; – monitored using value at risk, stress testing and other measures; and – managed using risk limits approved by the Board for the group and the various global businesses.
<p>Climate risk</p> <p>Climate risk relates to the financial and non-financial impacts that may arise as a result of climate change and the move to a net zero economy.</p>	<p>Climate risk is likely to materialise through:</p> <ul style="list-style-type: none"> – physical risk, which arises from the increased frequency and severity of weather events; – transition risk, which arises from the process of moving to a low-carbon economy; – net zero alignment risk, which arises from failing to meet the Group's net zero commitments or to meet external expectations related to net zero because of inadequate ambition and/or plans, poor execution, or inability to adapt to changes in the external environment; and – the risk of greenwashing, which arises from the act of knowingly or unknowingly making inaccurate, unclear, misleading or unsubstantiated claims regarding sustainability to stakeholders. 	<p>Climate risk is:</p> <ul style="list-style-type: none"> – measured using risk metrics and stress testing; – monitored against risk appetite statements; and – managed through adherence to risk appetite thresholds, through specific policies, and through enhancements to processes and development of tools and the development of portfolio steering capabilities to contribute to the Group's net zero targets.

Description of risks (continued)

Risks	Arising from	Measurement, monitoring and management of risk
<p>Resilience risk</p> <p>Resilience risk is the risk of sustained and significant business disruption from execution, delivery or physical security or safety events, causing the inability to provide critical services to our customers, affiliates and counterparties.</p>	<p>Resilience risk arises from failures or inadequacies in processes, people, systems or external events.</p>	<p>Resilience risk is:</p> <ul style="list-style-type: none"> – measured using a range of metrics with defined maximum acceptable impact tolerances, and against our agreed risk appetite; – monitored through oversight of enterprise processes, risks, controls and strategic change programmes; and – managed by continual monitoring and thematic reviews.
<p>Regulatory compliance risk</p> <p>Regulatory compliance risk is the risk associated with breaching our duty to clients and other counterparties, inappropriate market conduct and breaching related financial services regulatory standards.</p>	<p>Regulatory compliance risk arises from the failure to observe the 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.</p>	<p>Regulatory compliance risk is:</p> <ul style="list-style-type: none"> – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our regulatory compliance teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
<p>Financial crime risk</p> <p>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.</p>	<p>Financial crime risk arises from day-to-day banking operations involving customers, third parties and employees.</p>	<p>Financial crime risk is:</p> <ul style="list-style-type: none"> – measured by reference to risk appetite, identified metrics, incident assessments, regulatory feedback and the judgement and assessment of our financial crime risk teams; – monitored against the first line of defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and – managed by establishing and communicating appropriate policies and procedures, training employees in them and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.
<p>Model risk</p> <p>Model risk is the potential for adverse consequences from model errors or the inappropriate use of modelled outputs to inform business decisions.</p>	<p>Model risk arises in both financial and non-financial contexts whenever business decision making includes reliance on models.</p>	<p>Model risk is:</p> <ul style="list-style-type: none"> – measured by reference to model performance tracking and the output of detailed technical reviews, with key metrics including model review statuses and findings; – monitored against model risk appetite statements, insight from the independent validations completed by the model risk management team, feedback from internal and external audits, and regulatory reviews; and – managed by creating and communicating appropriate policies, procedures and guidance, training colleagues in their application, and supervising their adoption to ensure operational effectiveness.

For the following credit, liquidity risk and market risk management notes, the disclosures are for the consolidated entity as management monitors risk on a consolidated basis and because the market risk, credit risk and liquidity risk of the Bank are not considered materially different for separate disclosure. The exception is capital management where this is monitored for both the Company and consolidated entity.

(b) Credit risk disclosures

Credit Risk Management

Credit risk sub-function

Credit approval authorities are delegated by the Board to the Chief Executive Officer together with the authority to sub-delegate them. The Credit Risk sub-function in Global Risk is responsible for the key policies and processes for managing credit risk, which include formulating HSBC Group credit policies and risk rating frameworks, guiding the Bank'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 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.

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Credit quality of financial instruments

The risk rating system facilitates the internal ratings-based approach under the Basel framework adopted by the HSBC Group to support its calculation of our minimum credit regulatory capital requirement. The five credit quality classifications encompass a range of granular internal credit rating grades assigned to wholesale and retail customers, and the external ratings attributed by external agencies to debt securities. For debt securities and certain other financial instruments, external ratings have been aligned to the five quality classifications based upon the mapping of related customer risk ratings ('CRR') to external credit ratings.

Credit quality classification

	Sovereign debt securities and other bills	Other debt securities and other bills	Wholesale lending and derivatives		Retail lending	
	External credit rating	External credit rating	Internal credit rating	12-month probability of default %	Internal credit rating	12-month probability weighted PD %
Quality classification						
Strong	BBB and above	A- and above	CRR0 to CRR2	0 – 0.169	Band 1 and 2	0.000 – 0.500
Good	BBB- to BB	BBB+ to BBB-	CRR3	0.170 – 0.740	Band 3	0.501 – 1.500
Satisfactory	BB- to B and unrated	BB+ to B and unrated	CRR4 to CRR5	0.741 – 4.914	Band 4 and 5	1.501 – 20.000
Sub-standard	B- to C	B- to C	CRR6 to CRR8	4.915 – 99.999	Band 6	20.001 – 99.999
Impaired	Default	Default	CRR9 to CRR10	100	Band 7	100

1 Customer risk rating ('CRR').

2 12-month point in time ('PIT') Probability of Default ('PD').

Quality classification definitions

- 'Strong' exposures demonstrate a strong capacity to meet financial commitments, with negligible or low probability of default or low levels of expected loss.
- 'Good' exposures demonstrate a good capacity to meet financial commitments, with low default risk.
- 'Satisfactory' exposures require closer monitoring and demonstrate an average to fair capacity to meet financial commitments, with moderate default risk.
- 'Sub-standard' exposures require varying degrees of special attention and default risk is of greater concern.
- 'Credit-impaired' exposures have been assessed as impaired.

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in AASB 9 Financial Instruments are applied and the associated allowance for ECL. The following tables analyse loans by industry sector and represent the concentration of exposures on which credit risk is managed.

The table presents the maximum exposure to credit risk from on-balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the Statement of financial position, the maximum exposure to credit risk equals their carrying amount, for financial guarantees and similar contracts granted, it is the maximum amount that would have to be paid if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the commitments.

Write off of loans and advances

Unsecured personal facilities, including credit cards, are generally written off when the account becomes 180 days contractually delinquent. For secured facilities, write-off should occur upon repossession of collateral, receipt of proceeds via settlement, or determination that recovery of the collateral will not be pursued. Where these assets are maintained on the balance sheet beyond 60 months of consecutive delinquency-driven default, the prospect of recovery is re-assessed. Where local regulation or legislation constraints require, write-off, either partially or in full, may be earlier when there is no reasonable expectation of further recovery, for example, in the event of a bankruptcy or equivalent legal proceedings. Recovery activity, on both secured and unsecured assets, may continue after write-off.

Summary of financial instruments to which the impairment requirements in AASB 9 are applied

	At 31 Dec 2024		At 31 Dec 2023	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m
Loans and advances to customers at amortised cost				
Personal	36,388.3	(25.7)	34,343.6	(35.2)
– mortgages	35,732.0	(11.4)	33,691.0	(7.1)
– other personal (including credit cards)	656.3	(14.3)	652.6	(28.0)
Corporate and commercial	3,183.0	(39.0)	3,376.5	(52.7)
Non-bank financial institutions	132.0	–	202.0	–
Loans and advances to banks at amortised cost	84.0	–	15.0	–
Other financial assets measured at amortised cost	9,611.7	(1.0)	9,409.3	(1.0)
– cash and balances at central banks	4,992.4	–	4,882.4	–
– items in the course of collection from other banks	0.1	–	5.4	–
– other financial assets held at amortised cost	4,619.2	(1.0)	4,521.5	(1.0)
Total gross carrying amount on-balance sheet	49,399.0	(65.7)	47,346.4	(88.9)
Loans and other credit related commitments	11,663.3	(2.0)	11,322.0	(2.0)
– personal	9,413.0	–	8,786.0	–
– corporate and commercial	1,729.3	(2.0)	1,944.0	(2.0)
– financial	521.0	–	592.0	–
Financial guarantee and similar contracts	945.0	(2.0)	960.0	(2.0)
– personal	3.0	–	3.0	–
– corporate and commercial	840.0	(2.0)	855.0	(2.0)
– financial	102.0	–	102.0	–
Total nominal amount off-balance sheet	12,608.3	(4.0)	12,282.0	(4.0)
At 31 Dec 2024	62,007.3	(69.7)	59,628.4	(92.9)

	Fair value \$m	Memorandum allowance for ECL \$m	Fair value \$m	Memorandum allowance for ECL \$m					
					Debt instruments measured at FVOCI ¹	12,457.0	(1.0)	6,550.0	0.5

1 Debt instruments measured at FVOCI continue to be measured at fair value with the allowance for ECL as a memorandum item. Change in ECL is recognised in 'Change in expected credit losses and other credit impairment charges' in the consolidated income statement.

The following table provides an overview of the consolidated entity's credit risk by stage and industry, and the associated ECL coverage. The financial assets recorded in each stage have the following characteristics:

- Stage 1: Unimpaired and without significant increase in credit risk on which a 12-month allowance for ECL is recognised.
- Stage 2: A significant increase in credit risk has been experienced since initial recognition on which a lifetime ECL is recognised.
- Stage 3: Objective evidence of impairment, and are therefore considered to be in default or otherwise credit impaired on which a lifetime ECL is recognised.

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL sector

	Gross carrying/ notional amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%
Loans and advances to customers at amortised cost	37,651.3	1,361.0	691.0	39,703.3	(6.9)	(7.9)	(49.9)	(64.7)	–	(0.6)	(7.2)	(0.2)
– personal	34,517.3	1,245.0	626.0	36,388.3	(5.9)	(6.9)	(12.9)	(25.7)	–	(0.6)	(2.1)	(0.1)
– corporate and commercial	3,002.0	116.0	65.0	3,183.0	(1.0)	(1.0)	(37.0)	(39.0)	–	(0.9)	(56.9)	(1.2)
– non-bank financial institutions	132.0	–	–	132.0	–	–	–	–	–	–	–	–
Loans and advances to banks at amortised cost	84.0	–	–	84.0	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	9,593.8	10.9	7.0	9,611.7	(1.0)	–	–	(1.0)	–	–	(0.7)	–
Loans and other credit-related commitments	11,578.3	63.0	22.0	11,663.3	(2.0)	–	–	(2.0)	–	–	–	–
– personal	9,368.0	24.0	21.0	9,413.0	–	–	–	–	–	–	–	–
– corporate and commercial	1,689.3	39.0	1.0	1,729.3	(2.0)	–	–	(2.0)	(0.1)	–	–	(0.1)
– financial	521.0	–	–	521.0	–	–	–	–	–	–	–	–
Financial guarantee and similar contracts	926.0	12.0	7.0	945.0	–	(1.0)	(1.0)	(2.0)	–	(8.3)	(14.3)	(0.2)
– personal	3.0	–	–	3.0	–	–	–	–	–	–	–	–
– corporate and commercial	822.0	11.0	7.0	840.0	–	(1.0)	(1.0)	(2.0)	–	(9.1)	(14.3)	(0.2)
– financial	101.0	1.0	–	102.0	–	–	–	–	–	–	–	–
At 31 Dec 2024	59,833.4	1,446.9	727.0	62,007.3	(9.9)	(8.9)	(50.9)	(69.7)	–	(0.6)	(7.0)	(0.1)

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Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL sector (continued)

	Gross carrying/ notional amount				Allowance for ECL				ECL coverage %			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%
Loans and advances to customers at amortised cost	35,422.6	2,007.0	492.5	37,922.1	(13.2)	(22.0)	(52.7)	(87.9)	—	(1.1)	(10.7)	(0.2)
– personal	32,042.6	1,864.0	437.0	34,343.6	(12.2)	(12.0)	(11.0)	(35.2)	—	(0.6)	(2.5)	(0.1)
– corporate and commercial	3,179.0	142.0	55.5	3,376.5	(1.0)	(10.0)	(41.7)	(52.7)	—	(7.0)	(75.1)	(1.6)
– non-bank financial institutions	201.0	1.0	—	202.0	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	15.0	—	—	15.0	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	9,392.9	9.8	6.6	9,409.3	(1.0)	—	—	(1.0)	—	—	(0.1)	—
Loans and other credit-related commitments	11,189.8	88.2	44.0	11,322.0	(1.0)	(1.0)	—	(2.0)	—	(1.1)	—	—
– personal	8,707.0	36.0	43.0	8,786.0	—	—	—	—	—	—	—	—
– corporate and commercial	1,927.0	16.0	1.0	1,944.0	(1.0)	(1.0)	—	(2.0)	(0.1)	(6.3)	—	(0.1)
– financial	555.8	36.2	—	592.0	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	900.8	35.2	24.0	960.0	—	—	(2.0)	(2.0)	—	—	(8.3)	(0.2)
– personal	3.0	—	—	3.0	—	—	—	—	—	—	—	—
– corporate and commercial	811.0	20.0	24.0	855.0	—	—	(2.0)	(2.0)	—	—	(8.3)	(0.2)
– financial	86.8	15.2	—	102.0	—	—	—	—	—	—	—	—
At 31 Dec 2023	56,921.1	2,140.2	567.1	59,628.4	(15.2)	(23.0)	(54.7)	(92.9)	—	(1.1)	(9.7)	(0.2)

For the 2023 gross carrying amount of residential mortgages (part of loans advances to customers at amortised cost-personal, in the table above), \$62m was reclassified from Stage 1 to Stage 3.

Unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when they are 30 days past due ('DPD') and are transferred from Stage 1 to Stage 2. The disclosure below presents the ageing of Stage 2 financial assets, analysed between less than 30 DPD and greater than 30 DPD, and therefore presents those amounts classified as Stage 2 due to ageing (30 DPD) and those identified at an earlier stage (less than 30 DPD).

Stage 2 and days past due analysis for loans and advances to customers

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2	of which:		Stage 2	of which:		Stage 2	of which:	
		1 to 29 DPD	30 and > DPD		1 to 29 DPD	30 and > DPD		1 to 29 DPD	30 and > DPD
\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	
Loans and advances to customers at amortised cost	1,361.0	224.0	35.0	(7.9)	(1.0)	—	(0.6)	(0.4)	—
– personal	1,245.0	223.0	35.0	(6.9)	(1.0)	—	(0.6)	(0.4)	—
– corporate and commercial	116.0	1.0	—	(1.0)	—	—	(0.9)	—	—
– non-bank financial institutions	—	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	10.9	—	—	—	—	—	—	—	—
At 31 Dec 2024	1,371.9	224.0	35.0	(7.9)	(1.0)	—	(0.6)	(0.4)	—
Loans and advances to customers at amortised cost	2,007.0	237.0	45.0	(22.0)	(10.0)	—	(1.1)	(4.2)	—
– personal	1,864.0	214.0	45.0	(12.0)	—	—	(0.6)	—	—
– corporate and commercial	142.0	23.0	—	(10.0)	(10.0)	—	(7.0)	(43.5)	—
– non-bank financial institutions	1.0	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	9.8	—	—	—	—	—	—	—	—
At 31 Dec 2023	2,016.8	237.0	45.0	(22.0)	(10.0)	—	(1.1)	(4.2)	—

Measurement uncertainty and sensitivity analysis of ECL

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, model deficiencies and expert credit judgements.

Methodology

Four economic scenarios are used to capture the current economic environment and to articulate management's view of the range of potential outcomes. Each scenario is updated with new forecasts and estimates each quarter.

The upside, central and downside scenarios are drawn from consensus forecasts and distributional estimates. The Central scenario is constructed from a consensus of external forecasters. It remains subject to uncertainty and error that has been impacted in recent years by the environment of inflation and changing policy expectations.

The Upside and Downside scenarios are constructed with reference to forecast probability distributions, published by major Central Banks.

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

The consensus Downside and the consensus Upside scenarios are each constructed to be consistent with a 10% probability. The Downside 2 is constructed with a 5% probability. The Central scenario is assigned the remaining 75%. 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 is determined to be particularly uncertain and risks are elevated.

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 HSBC with reference to external forecasts 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 a 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.

Consensus Central scenario

HSBC'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 banks are expected to reduce rates through 2025 with a return to more elevated levels in the outer years.

Australia GDP is expected to grow by 1.8% in 2025 in the central scenario and the average rate of GDP growth is 2.3% 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 key features of our Central scenario are:

- GDP growth rate is expected to remain muted in 2025, followed by a moderate recovery in 2026. The key driver of weaker growth is high interest rates, which act to deter consumption and investment.
- Unemployment is expected to rise moderately as economic activity slows, although it remains low by historical standards.
- Inflation is expected to continue to fall as commodity prices decline, supply disruptions abate, and wage growth moderates. Inflation is used to inform the central and other scenarios but is not a characteristic in the ECL models.
- Soft conditions in housing markets are expected to persist through 2025, with high interest rates weighing on prices.

The Central scenario was first created with forecasts available in November, and reviewed continuously until late December.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario.

Central scenario 2025-2029

	2024	2023
	%	%
GDP growth rate (annual average rate)	2.3	2.4
Unemployment rate (annual average rate)	4.4	4.4
House price growth (annual average rate)	5.0	4.6
Inflation rate (annual average rate)	2.5	2.5
Probability	75.0	75.0

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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-Hamas and Russia-Ukraine wars move towards conclusions, and the US-China relationship improves.

The following table describes key macroeconomic variables and the probabilities assigned in the consensus Upside scenario:

Consensus Upside scenario 2025-2029

	2024 %	2023 %
GDP growth rate (annual average rate)	4.2	4.2
Unemployment rate (annual average rate)	3.5	3.7
House price growth (annual average rate)	8.6	10.8
Inflation rate (annual average rate)	1.7	1.7
Probability	10.0	10.0

Consensus Downside scenario

In the consensus Downside scenario, economic activity is weaker compared with 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 following table describes key macroeconomic variables and the probabilities assigned in the consensus Downside scenario:

Consensus Downside scenario 2025-2029

	2024 %	2023 %
GDP growth rate (annual average rate)	0.1	(0.4)
Unemployment rate (annual average rate)	5.4	5.5
House price growth (annual average rate)	1.1	0.2
Inflation rate (annual average rate) (min)	1.6	1.5
Inflation rate (annual average rate) (max)	4.3	4.7
Probability	10.0	10.0

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 is expected to prove short-lived, as recession takes hold, causing commodity prices to correct sharply and global price inflation to fall.

The following table describes key macroeconomic variables and the probabilities assigned in the Downside 2 scenario:

Downside 2 scenario 2025-2029

	2024 %	2023 %
GDP growth rate (annual average rate)	(3.3)	(2.2)
Unemployment rate (annual average rate)	8.8	8.9
House price growth (annual average rate)	(8.1)	(0.6)
Inflation rate (annual average rate) (min)	1.0	1.0
Inflation rate (annual average rate) (max)	4.3	5.0
Probability	5.0	5.0

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. As described above, modelled assumptions and linkages based on historical information could not alone produce relevant information under the conditions experienced in 2024, and judgemental adjustments were still required to support modelled outcomes.

HSBC Group have developed globally consistent methodologies for the application of forward economic guidance into the calculation of ECL for wholesale and retail credit risk. These standard approaches are described below, followed by the management judgemental adjustments made.

For our wholesale portfolio, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, we consider the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations we consider the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, ECL estimates are derived based on discounted cash flow ('DCF') calculations for internal forward-looking scenarios specific to individual company circumstances. Probability-weighted outcomes are applied, and depending on materiality and status of the borrower, the number of scenarios considered will change. Where relevant for the case being assessed, forward economic guidance is incorporated as part of these scenarios. LGD-driven proxy and modelled estimates are used for certain less material cases.

For our retail portfolios, the models are predominantly based on historical observations and correlations with default rates and collateral values.

For PD, the impact of economic scenarios is modelled for each portfolio, leveraging historical relationships between default rates and macro-economic variables. These are included within AASB 9 ECL estimates using either economic response models or models which contain internal, external and macro-economic variables. The macro-economic impact of PD is modelled over the period equal to the remaining maturity of the underlying assets.

For LGD, the impact is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset, leveraging national level house price index forecast and applying the corresponding LGD expectation relative to the updated forecast collateral values. Management judgemental adjustments are described below.

Management judgemental adjustments

In the context of AASB 9, management judgemental adjustments are short-term increases or decreases to the ECL at either a customer, segment 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.

Internal governance is in place to regularly monitor management judgemental adjustments and, where possible, to reduce the reliance on these through model recalibration or redevelopment, as appropriate.

At 31 December 2024, there is no significant management judgemental adjustment (2023: No significant management judgemental adjustment).

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 and 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 lower and upper limits of possible actual 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 more severe risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes ECL and financial instruments related to defaulted (Stage 3) obligors. It is generally impracticable to separate the effect of macroeconomic factors in individual assessments of obligors in default. The measurement of Stage 3 ECL is relatively more sensitive to credit factors specific to the obligor than future economic scenarios, and therefore the effect of macroeconomic factors are not necessarily the key consideration when performing individual assessments of ECL for obligors in default. Loans to defaulted obligors are a small portion of the overall wholesale lending exposure, even if representing the majority of the allowance for ECL. Due to the range and specificity of the credit factors to which the ECL is sensitive, it is not possible to provide a meaningful alternative sensitivity analysis for a consistent set of risks across all defaulted obligors.

For retail credit risk exposures, the sensitivity analysis includes ECL for loans and advances to customers related to defaulted obligors. This is because the retail ECL for secured mortgage portfolios including loans in all stages is sensitive to macroeconomic variables.

In the analysis below, the comparative period results for the downside 2 scenario is not directly comparable to the current period because they reflect different risks relative with the consensus scenarios for the period end.

ECL sensitivity to future economic conditions at 31 Dec 2024

	Retail \$m	Wholesale \$m	Total \$m
Central scenario	24.1	5.8	29.9
Upside scenario	22.9	4.8	27.7
Downside scenario	26.6	7.3	33.9
Downside 2 scenario	37.9	13.1	51.0

ECL sensitivity to future economic conditions at 31 Dec 2023

	Retail \$m	Wholesale \$m	Total \$m
Central scenario	36.1	15.2	51.3
Upside scenario	28.1	14.2	42.3
Downside scenario	41.9	16.8	58.7
Downside 2 scenario	50.8	20.6	71.4

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

The disclosure below provides a reconciliation of the consolidated entity's gross carrying/nominal amount and allowances for loans and advances to banks and customers including loan commitments and financial guarantees. The reconciliation excludes the movement in other financial assets measured at amortised cost and debt instruments measured at FVOCI. The 31 December 2024 gross carrying amount and allowance for ECL for these financial instruments is presented in the 'Summary of financial instruments to which the impairment requirements in AASB 9 are applied' disclosure.

The transfers of financial instruments represents the impact of stage transfers upon the gross carrying/nominal amount and associated allowance for ECL. 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 ('CRR')/probability of default ('PD') movements of the financial instruments transferring stage. This is captured, along with other credit quality movements in the 'changes to risk (model inputs) parameters and changes to ECL model' line item. Changes in 'New financial assets originated or purchased', 'Assets derecognised (including final repayments)' represent the impact from volume movements within the consolidated entity's lending portfolio.

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

	Non credit Impaired				Credit Impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2024	40,752.6	(12.2)	1,900.0	(12.0)	480.0	(11.0)	43,132.6	(35.2)
Transfers of financial instruments:								
– transfers from Stage 1 to Stage 2	(1,720.5)	1.1	1,720.5	(1.1)	–	–	–	–
– transfers from Stage 2 to Stage 1	1,919.9	(11.2)	(1,919.9)	11.2	–	–	–	–
– transfers to Stage 3	(152.0)	0.3	(289.6)	4.7	441.6	(5.0)	–	–
– transfers from Stage 3	0.2	–	36.3	(1.0)	(36.4)	1.0	0.1	–
– net remeasurement of ECL arising from transfer of stage	–	3.1	–	(1.8)	–	–	–	1.3
New financial assets originated or purchased	9,516.8	(1.0)	–	–	–	–	9,516.8	(1.0)
Changes to risk (model inputs) parameters and changes to ECL model	(750.9)	13.3	154.9	(7.9)	(1.9)	(20.7)	(597.9)	(15.3)
Asset derecognised (including final repayments)	(5,677.8)	0.7	(333.2)	1.0	(224.2)	10.7	(6,235.2)	12.4
Assets written off	–	–	–	–	(12.1)	12.1	(12.1)	12.1
At 31 Dec 2024	43,888.3	(5.9)	1,269.0	(6.9)	647.0	(12.9)	45,804.3	(25.7)
ECL (release)/charge for the period	–	(16.2)	–	8.8	–	7.9	–	0.5
Recoveries	–	–	–	–	–	–	–	–
Other	–	0.5	–	–	–	4.5	–	5.0
Total ECL (release)/charge for the period	–	(15.7)	–	8.8	–	12.4	–	5.5

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

	Non credit Impaired				Credit Impaired		Total	
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2024	6,760.6	(2.0)	230.4	(11.0)	80.5	(43.7)	7,071.5	(56.7)
Transfers of financial instruments:								
– transfers from Stage 1 to Stage 2	(242.9)	0.1	242.9	(0.1)	–	–	–	–
– transfers from Stage 2 to Stage 1	231.4	(0.3)	(231.4)	0.3	–	–	–	–
– transfers to Stage 3	–	–	(39.1)	9.2	39.1	(9.2)	–	–
– transfers from Stage 3	–	–	–	–	–	–	–	–
– net remeasurement of ECL arising from transfer of stage	–	0.1	–	(0.1)	–	–	–	–
New financial assets originated or purchased	1,430.2	(0.8)	–	–	–	–	1,430.2	(0.8)
Changes to risk (model inputs) parameters and changes to ECL model	(1,330.9)	(0.1)	(23.2)	(0.3)	(35.7)	1.6	(1,389.8)	1.2
Asset derecognised (including final repayments)	(581.1)	–	(12.6)	–	–	–	(593.7)	–
Assets written off	–	–	–	–	(13.7)	13.7	(13.7)	13.7
Other/foreign exchange	–	–	–	–	2.8	(0.4)	2.8	(0.4)
At 31 Dec 2024	6,267.3	(3.0)	167.0	(2.0)	73.0	(38.0)	6,507.3	(43.0)
ECL (release)/charge for the period		(0.2)		(0.5)		(0.5)		(1.2)
Recoveries		–		–		–		–
Other		(3.1)		(9.0)		9.5		(2.6)
Total ECL (release)/charge for the period	–	(3.3)	–	(9.5)	–	9.0	–	(3.8)

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

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	35,929.2	(14.0)	4,063.6	(14.7)	350.2	(15.3)	40,343.0	(44.0)
Transfers of financial instruments:								
– transfers from Stage 1 to Stage 2	(2,776.8)	5.9	2,776.8	(5.9)	–	–	–	–
– transfers from Stage 2 to Stage 1	4,377.1	(13.4)	(4,377.1)	13.4	–	–	–	–
– transfers to Stage 3	(134.8)	0.1	(119.3)	4.6	254.1	(4.8)	–	–
– transfers from Stage 3	–	–	22.0	(0.9)	(22.0)	0.9	–	–
– net remeasurement of ECL arising from transfer of stage	–	5.6	–	(4.9)	–	–	–	0.7
New financial assets originated or purchased	10,598.9	(3.6)	–	–	–	–	10,598.9	(3.6)
Changes to risk (model inputs) parameters and changes to ECL model	(755.9)	5.9	164.0	(5.3)	(28.8)	(14.8)	(620.7)	(14.2)
Asset derecognised (including final repayments)	(6,485.1)	1.2	(630.1)	1.7	(60.7)	10.3	(7,175.8)	13.3
Assets written off	–	–	–	–	(12.7)	12.7	(12.7)	12.7
At 31 Dec 2023	40,752.6	(12.2)	1,900.0	(12.0)	480.0	(11.0)	43,132.6	(35.2)
ECL (release)/charge for the period		(9.0)		8.6		4.4		4.0
Recoveries		–		–		–		3.1
Other		(1.5)		–		2.1		0.5
Total ECL (release)/charge for the period	–	(10.6)	–	8.6	–	6.5	–	7.5

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

	Non-credit impaired				Credit impaired		Total	
	Stage 1		Stage 2		Stage 3			
	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL	Gross carrying/nominal amount	Allowance for ECL
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
At 1 Jan 2023	7,849.7	(1.9)	226.9	(0.7)	91.0	(85.6)	8,167.6	(88.2)
Transfers of financial instruments:								
– transfers from Stage 1 to Stage 2	(415.2)	0.4	415.2	(0.4)	—	—	—	—
– transfers from Stage 2 to Stage 1	143.8	(0.3)	(143.8)	0.3	—	—	—	—
– transfers to Stage 3	—	—	(12.5)	0.4	12.5	(0.4)	—	—
– transfers from Stage 3	—	—	—	—	—	—	—	—
– net remeasurement of ECL arising from transfer of stage	—	0.2	—	(0.4)	—	(9.7)	—	(9.9)
New financial assets originated or purchased	2,497.4	(0.7)	—	—	—	—	2,497.4	(0.7)
Changes to risk (model inputs) parameters and changes to ECL model	(2,043.8)	0.3	(234.1)	(10.1)	22.3	6.0	(2,255.6)	(3.9)
Asset derecognised (including final repayments)	(1,271.3)	—	(21.4)	—	—	—	(1,292.7)	0.1
Assets written off	—	—	—	—	(46.8)	46.7	(46.8)	46.7
Other/Foreign exchange	—	—	—	—	1.6	(0.7)	1.6	(0.7)
At 31 Dec 2023	6,760.6	(2.0)	230.4	(11.0)	80.5	(43.7)	7,071.5	(56.7)
ECL (release)/charge for the period	—	1.4	—	10.3	—	2.8	—	14.6
Recoveries	—	—	—	—	—	—	—	—
Other	—	0.8	—	—	—	0.1	—	0.9
Total ECL (release)/charge for the period	—	2.3	—	10.3	—	2.9	—	15.5

Credit quality

Credit quality of financial instruments

We assess the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point-in-time assessment of the probability of default of financial instruments, whereas Stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and Stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in Stage 2.

Distribution of financial instruments to which the impairment requirements in AASB 9 are applied, by credit quality (see page [35]) and stage allocation

	Gross carrying/notional amount						Total \$m	Allowance for ECL \$m	Net \$m
	Strong \$m	Good \$m	Satisfactory \$m	Sub- standard \$m	Credit impaired \$m				
Loans and advances to customers at amortised cost	29,995.3	7,143.7	1,838.7	34.6	691.0	39,703.3	(64.7)	39,638.6	
– Stage 1	29,987.7	6,614.3	1,046.1	3.2	—	37,651.3	(6.9)	37,644.4	
– Stage 2	7.6	529.4	792.6	31.4	—	1,361.0	(7.9)	1,353.1	
– Stage 3	—	—	—	—	691.0	691.0	(49.9)	641.1	
– POCI	—	—	—	—	—	—	—	—	
Loans and advances to banks at amortised cost	83.0	1.0	—	—	—	84.0	—	84.0	
– Stage 1	83.0	1.0	—	—	—	84.0	—	84.0	
– Stage 2	—	—	—	—	—	—	—	—	
– Stage 3	—	—	—	—	—	—	—	—	
– POCI	—	—	—	—	—	—	—	—	
Other financial assets measured at amortised cost	9,378.7	132.0	94.0	—	7.0	9,611.7	(1.0)	9,610.7	
– Stage 1	9,370.8	131.0	92.0	—	—	9,593.8	(1.0)	9,592.8	
– Stage 2	7.9	1.0	2.0	—	—	10.9	—	10.9	
– Stage 3	—	—	—	—	7.0	7.0	—	7.0	
– POCI	—	—	—	—	—	—	—	—	
Loan and other credit-related commitments	8,810.7	2,435.0	394.6	1.0	22.0	11,663.3	(2.0)	11,661.3	
– Stage 1	8,809.7	2,428.0	340.6	—	—	11,578.3	(2.0)	11,576.3	
– Stage 2	1.0	7.0	54.0	1.0	—	63.0	—	63.0	
– Stage 3	—	—	—	—	22.0	22.0	—	22.0	
– POCI	—	—	—	—	—	—	—	—	
Financial guarantees and similar contracts	268.0	351.0	306.0	13.0	7.0	945.0	(2.0)	943.0	
– Stage 1	268.0	351.0	302.0	5.0	—	926.0	—	926.0	
– Stage 2	—	—	4.0	8.0	—	12.0	(1.0)	11.0	
– Stage 3	—	—	—	—	7.0	7.0	(1.0)	6.0	
– POCI	—	—	—	—	—	—	—	—	
Debt instruments at FVOCI	12,457.0	—	—	—	—	12,457.0	(1.0)	12,456.0	
– Stage 1	12,457.0	—	—	—	—	12,457.0	(1.0)	12,456.0	
– Stage 2	—	—	—	—	—	—	—	—	
– Stage 3	—	—	—	—	—	—	—	—	
– POCI	—	—	—	—	—	—	—	—	
At 31 Dec 2024	60,992.7	10,062.7	2,633.3	48.6	727.0	74,464.3	(70.7)	74,393.6	
Loans and advances to customers at amortised cost	27,531.0	7,977.0	1,836.0	85.7	492.5	37,922.2	(87.9)	37,834.3	
– Stage 1	27,522.1	7,091.8	801.7	7.1	—	35,422.7	(13.2)	35,409.5	
– Stage 2	8.9	885.2	1,034.3	78.6	—	2,007.0	(22.0)	1,985.0	
– Stage 3	—	—	—	—	492.5	492.5	(52.7)	439.8	
– POCI	—	—	—	—	—	—	—	—	
Loans and advances to banks at amortised cost	15.0	—	—	—	—	15.0	—	15.0	
– Stage 1	15.0	—	—	—	—	15.0	—	15.0	
– Stage 2	—	—	—	—	—	—	—	—	
– Stage 3	—	—	—	—	—	—	—	—	
– POCI	—	—	—	—	—	—	—	—	
Other financial assets measured at amortised cost	9,243.7	122.0	37.0	—	6.6	9,409.3	(1.0)	9,408.3	
– Stage 1	9,236.9	121.0	35.0	—	—	9,392.9	(1.0)	9,391.9	
– Stage 2	6.8	1.0	2.0	—	—	9.8	—	9.8	
– Stage 3	—	—	—	—	6.6	6.6	—	6.6	
– POCI	—	—	—	—	—	—	—	—	
Loan and other credit-related commitments	8,061.8	2,828.0	381.2	7.0	44.0	11,322.0	(2.0)	11,320.0	
– Stage 1	8,060.8	2,815.0	312.0	2.0	—	11,189.8	(1.0)	11,188.8	
– Stage 2	1.0	13.0	69.2	5.0	—	88.2	(1.0)	87.2	
– Stage 3	—	—	—	—	44.0	44.0	—	44.0	
– POCI	—	—	—	—	—	—	—	—	
Financial guarantees and similar contracts	297.8	331.0	298.2	9.0	24.0	960.0	(2.0)	958.0	
– Stage 1	297.8	326.0	273.0	4.0	—	900.8	—	900.8	
– Stage 2	—	5.0	25.2	5.0	—	35.2	—	35.2	
– Stage 3	—	—	—	—	24.0	24.0	(2.0)	22.0	
– POCI	—	—	—	—	—	—	—	—	
Debt instruments at FVOCI	6,550.0	—	—	—	—	6,550.0	0.5	6,550.5	
– Stage 1	6,550.0	—	—	—	—	6,550.0	0.5	6,550.5	
– Stage 2	—	—	—	—	—	—	—	—	
– Stage 3	—	—	—	—	—	—	—	—	
– POCI	—	—	—	—	—	—	—	—	
At 31 Dec 2023	51,699.3	11,257.9	2,552.3	101.7	567.1	66,178.4	(92.4)	66,086.1	

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Total retail lending by stage distribution

	Gross carrying amount				Allowance for ECL			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m
By portfolio								
First lien residential mortgages	33,913.0	1,209.6	609.4	35,732.0	(1.4)	(2.8)	(7.2)	(11.4)
Other personal lending	604.3	35.4	16.6	656.3	(4.5)	(4.1)	(5.7)	(14.3)
– other	53.2	2.7	0.1	56.0	(0.4)	(0.2)	(0.1)	(0.7)
– credit cards	551.1	32.7	16.5	600.3	(4.1)	(3.9)	(5.6)	(13.6)
At 31 Dec 2024	34,517.3	1,245.0	626.0	36,388.3	(5.9)	(6.9)	(12.9)	(25.7)

By portfolio								
First lien residential mortgages	31,479.2	1,790.6	421.2	33,691.0	(1.0)	(1.1)	(5.0)	(7.1)
Other personal lending	563.4	73.4	15.8	652.6	(11.2)	(10.9)	(6.0)	(28.1)
– other	69.4	2.8	0.1	72.3	(0.8)	(0.4)	—	(1.2)
– credit cards	494.0	70.6	15.7	580.3	(10.4)	(10.4)	(6.0)	(26.8)
At 31 Dec 2023	32,042.6	1,864.0	437.0	34,343.6	(12.2)	(12.0)	(11.0)	(35.2)

Total wholesale lending by stage distribution

	Gross carrying amount				Allowance for ECL			
	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m
Corporate and commercial	3,002.0	116.0	65.0	3,183.0	(1.0)	(1.0)	(37.0)	(39.0)
– agriculture, forestry and fishing	11.1	—	—	11.1	(0.1)	—	—	(0.1)
– mining and quarrying	174.8	34.6	—	209.4	—	(0.5)	—	(0.5)
– manufacture	508.8	19.8	—	528.6	0.1	—	—	0.1
– electricity, gas, steam and air-conditioning supply	115.0	—	—	115.0	—	—	—	—
– water supply, sewerage, waste management and remediation	5.0	0.5	—	5.5	—	—	—	—
– real estate and construction	538.4	13.4	—	551.8	(0.3)	(0.1)	—	(0.4)
– wholesale and retail trade, repair of motor vehicles and motorcycles	1,069.0	20.1	19.3	1,108.4	(0.2)	(0.3)	(12.0)	(12.5)
– transportation and storage	139.6	—	—	139.6	(0.1)	—	—	(0.1)
– accommodation and food	—	—	—	—	—	—	—	—
– publishing, audiovisual and broadcasting	37.9	3.2	—	41.1	(0.1)	—	—	(0.1)
– professional, scientific and technical activities	180.0	17.5	—	197.5	(0.1)	—	—	(0.1)
– administrative and support services	66.3	0.3	22.9	89.5	(0.1)	—	(9.5)	(9.6)
– public administration and defence, compulsory social security	—	—	—	—	—	—	—	—
– education	18.3	6.6	—	24.9	—	(0.1)	—	(0.1)
– health and care	78.0	—	—	78.0	(0.1)	—	—	(0.1)
– arts, entertainment and recreation	—	—	—	—	—	—	—	—
– other services	—	—	22.8	22.8	—	—	(15.5)	(15.5)
– government	59.8	—	—	59.8	—	—	—	—
Non-bank financial institutions	132.0	—	—	132.0	—	—	—	—
Loans and advances to banks	84.0	—	—	84.0	—	—	—	—
At 31 Dec 2024	3,218.0	116.0	65.0	3,399.0	(1.0)	(1.0)	(37.0)	(39.0)

Corporate and commercial	3,179.0	142.0	55.5	3,376.5	(1.0)	(10.0)	(41.7)	(52.7)
– agriculture, forestry and fishing	61.5	—	—	61.5	(0.1)	—	—	(0.1)
– mining and quarrying	252.6	25.9	—	278.5	(0.2)	(0.2)	—	(0.4)
– manufacture	647.9	73.0	—	720.9	—	(0.3)	—	(0.3)
– electricity, gas, steam and air-conditioning supply	129.9	—	—	129.9	—	—	—	—
– water supply, sewerage, waste management and remediation	35.0	0.5	—	35.5	—	—	—	—
– real estate and construction	339.8	9.6	—	349.4	(0.3)	—	—	(0.3)
– wholesale and retail trade, repair of motor vehicles and motorcycles	1,103.3	8.2	19.7	1,131.3	(0.2)	—	(12.7)	(12.9)
– transportation and storage	86.0	—	—	86.1	—	—	—	—
– accommodation and food	—	—	—	—	—	—	—	—
– publishing, audiovisual and broadcasting	63.9	—	—	63.9	—	—	—	—
– professional, scientific and technical activities	242.4	—	—	242.4	(0.1)	—	—	(0.1)
– administrative and support services	116.0	24.8	—	140.8	—	(9.5)	—	(9.5)
– public administration and defence, compulsory social security	—	—	—	—	—	—	—	—
– education	2.0	—	—	2.0	—	—	—	—
– health and care	31.8	—	13.5	45.3	—	—	(10.4)	(10.4)
– arts, entertainment and recreation	14.0	—	—	14.0	—	—	—	—
– other services	1.5	—	22.3	23.7	—	—	(18.6)	(18.6)
– government	51.2	—	—	51.2	—	—	—	—
Non-bank financial institutions	200.4	1.3	—	201.7	—	—	—	—
Loans and advances to banks	15.0	—	—	15.0	(0.1)	—	—	(0.1)
At 31 Dec 2023	3,394.4	143.3	55.5	3,593.2	(1.0)	(10.0)	(41.7)	(52.7)

Forborne loans and forbearance

Forbearance measures consist of concessions towards an obligor that is experiencing or is about to experience difficulties in meeting its financial commitments.

We continue to class loans as forborne when we modify the contractual payment terms due to having significant concerns about the borrowers' ability to meet contractual payments when they fall due. Our definition of forborne captures non-payment-related concessions, such as covenant waivers.

Forborne loans and recognition of expected credit losses

Forborne loans expected credit loss assessments reflect the higher rates of losses typically experienced with these types of loans such that they are in Stage 2 and Stage 3. The higher rates are more pronounced in unsecured retail lending requiring further segmentation. For wholesale lending, forborne loans are typically assessed individually. Credit risk ratings are intrinsic to the impairment assessments. The individual impairment assessment takes into account the higher risk of the future non-payment inherent in forborne loans.

The following table shows the gross carrying amounts of the Bank's holdings of forborne loans and advances to customers by industry sector and by stages. Wholesale renegotiated loans are classified as 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. Personal renegotiated loans are deemed to remain credit impaired until repayment or derecognition.

Forborne loans and advances to customers at amortised cost by stage distribution

	Stage 1 \$m	Stage 2 \$m	Stage 3 \$m	Total \$m
Gross carrying amount				
Personal				
– first lien residential mortgages		65.0	387.0	452.0
– credit card		–	5.0	5.0
Wholesale				
– corporate and commercial			23.0	23.0
– non-bank financial institutions		–	–	–
At 31 Dec 2024	–	65.0	415.0	480.0
Allowance for ECL				
Personal				
– first lien residential mortgages		(1.0)	(4.0)	(5.0)
– other personal lending			(4.0)	(4.0)
Wholesale				
– corporate and commercial			(9.0)	(9.0)
– non-bank financial institutions			–	–
At 31 Dec 2024	–	(1.0)	(17.0)	(18.0)
Gross carrying amount				
Personal				
– first lien residential mortgages		99.0	255.6	354.6
– credit card		–	6.4	6.4
Wholesale				
– corporate and commercial		22.8	–	22.8
– non-bank financial institutions		–	–	–
At 31 Dec 2023	–	121.8	262.0	383.8
Allowance for ECL				
Personal				
– first lien residential mortgages		(0.8)	(2.3)	(3.1)
– other personal lending			(3.5)	(3.5)
Wholesale				
– corporate and commercial		(9.5)	–	(9.5)
– non-bank financial institutions		–	–	–
At 31 Dec 2023	–	(10.4)	(5.8)	(16.2)

Collateral and other credit enhancements

Although collateral can be an important mitigant of credit risk, it is HSBC Group's practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than placing primary reliance on collateral and other credit risk enhancements.

Depending on the customer's standing and the type of product, facilities may be provided without any collateral or other credit enhancements. For other lending a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default the Bank may utilise the collateral as a source of repayment.

Depending on its form, collateral can have a significant financial effect in mitigating the Bank's exposure to credit risk. Where there is sufficient collateral, an expected credit loss is not recognised. This is the case for reverse repurchase agreements and for certain loans and advances to customers where the loan to value ('LTV') is very low. LTV is the ratio of the loan amount to the value of the collateral.

The collateral measured in the following paragraph consists of fixed first charges on real estate, and charges over cash and marketable financial instruments. The values 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.

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Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer's business are not measured. 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.

The LTV ratios presented are calculated by directly associating loans and advances with the collateral that individually and uniquely supports each facility. When collateral assets are shared by multiple loans and advances, whether specifically or, more generally, by way of an all monies charge, the collateral value is pro-rated across the loans and advances protected by the collateral.

For credit-impaired loans, the collateral values cannot be directly compared with impairment allowances recognised. The LTV figures use open market values with no adjustments. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral.

The Bank may also manage its risk by employing other types of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees, but the valuation of such mitigants is less certain and their financial effect has not been quantified.

The collateral types are as follows:

- in the personal sector, mortgages over residential properties (mortgage loans where the loan has a greater than 80% loan to value, the level at which lender mortgage insurance is required on origination) represent 2.6% (2023: 3.1%) of total mortgage loan portfolio;
- in the commercial and industrial sector, charges over business assets such as premises, stock and debtors;
- in the commercial real estate sector, charges over the properties being financed and personal guarantees; and
- in the financial sector, charges over financial instruments such as debt securities and equities in support of trading facilities.

Collateral held on impaired assets as at 31 December 2024 was \$587.6m (2023: \$402.1m).

Derivatives

We participate in transactions exposing us to counterparty credit risk. Counterparty credit risk is the risk of financial loss if the counterparty to a transaction defaults before satisfactorily settling it. It arises principally from over-the-counter ('OTC') derivatives and securities financing transactions and is calculated in both the trading and non-trading books. Transactions vary in value by reference to a market factor such as an interest rate, exchange rate or asset price.

The International Swaps and Derivatives Association ('ISDA') Master Agreement is the Bank's preferred agreement for documenting derivatives activity. It provides the contractual framework within which dealing activity across a full range of over the counter products is conducted, and contractually binds both parties to apply close-out netting across all outstanding transactions covered by an agreement if either party defaults or another pre-agreed termination event occurs. It is common, and the Bank's preferred practice, for the parties to execute a Credit Support Annex ('CSA') in conjunction with the ISDA Master Agreement. Under a CSA, collateral is passed between the parties to mitigate the counterparty risk inherent in outstanding positions. The majority of the Bank's CSAs are with financial institution clients.

Other credit risk exposures

In addition to collateralised lending described above, other credit enhancements are employed and methods used to mitigate credit risk arising from financial assets. These are described in more detail below.

Government, bank and other financial institution issued securities may benefit from additional credit enhancement, notably through government guarantees that reference these assets. Corporate issued debt securities are primarily unsecured. Debt securities issued by banks and financial institutions include asset-backed securities ('ABSs') and similar instruments, which are supported by underlying pools of financial assets.

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. As such, their collective ability to meet contractual obligations is uniformly 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.

(c) Treasury risk disclosures

Capital

The Bank's approach to capital management is driven by its strategic and organisational requirements, taking into account the regulatory, economic and commercial environment in which it operates.

It is our objective to maintain a strong capital base to support the risks inherent in our business, to invest in accordance with our strategy and to meet regulatory capital requirements at all times. To achieve this, our policy is to hold capital in a range of different forms and all capital raising is in line with the HSBC Group's capital management processes.

Framework

The policy on capital management is underpinned by a capital management framework. The framework sets out our approach to determining key capital risk appetites and target ratios for Common Equity Tier 1 ('CET1'), Tier 1, and Total capital, which enables us to manage our capital in a consistent manner.

The internal capital adequacy assessment process ('ICAAP') is an assessment of the consolidated entity's capital position and requirements resulting from our business model, strategy, risk profile, performance and planning, and the findings arising from stress testing. Our assessment of capital adequacy is driven by an assessment of risks that include credit, market, operational, structural foreign exchange and interest rate risk in the banking book. Climate risk is also considered as part of the ICAAP, and we are continuing to develop our approach for climate risk management.

Our capital management process is articulated in our annual capital plan which is approved by the Board. The plan is drawn up with the objective of maintaining both an appropriate amount of capital and an optimal mix between the different components of capital. Capital and Risk-Weighted Assets ('RWAs') are monitored and managed against the plan, with capital forecasts reported to relevant governance committees. In accordance with our capital management objectives, capital generated in excess of planned requirements is returned to HSBC Group, normally by way of dividends.

The principal forms of capital are share capital, retained earnings, other reserves and subordinated liabilities.

Externally imposed capital requirements

The Bank is an Authorised Deposit Taking Institution and is subject to APRA regulation under the authority of the Banking Act 1959.

APRA sets and monitors the Bank and consolidated entity's capital requirements under a tiered approach to the measurement of the entity's capital adequacy covering:

- Level 1 – Bank; and
- Level 2 – consists of the consolidated Bank, excluding non-controlled subsidiaries and subsidiaries with non-financial operations and securitisation special purpose vehicles.

The Bank uses the standardised approach to credit risk, operational risk and market risk.

During the year, the Bank and the consolidated entity complied with all of the externally imposed capital requirements by APRA.

Liquidity and funding

Liquidity risk is the risk that the consolidated entity does not have sufficient financial resources to meet its obligations as they fall due or can only secure them at excessive cost. This risk arises from mismatches in the timing of cash flows. Funding risk is the risk that we cannot raise funding or can only do so at excessive cost.

The objective of the consolidated entity'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 coordinated and cost-effective. To this end, the consolidated entity maintains a diversified funding base comprising core retail and corporate customer deposits and institutional balances. This is complemented with a portfolio of highly liquid assets diversified by maturity which are held to enable the Bank to respond quickly and smoothly to unforeseen liquidity requirements.

The Board is responsible for sound and prudent management of liquidity risk, approving the liquidity risk tolerance and ensuring that there is an appropriate framework for managing this risk. The Chief Financial Officer ('CFO') with the assistance of the Asset, Liability and Capital Management ('ALCM') team is responsible for implementing the liquidity and funding risk management framework and associated documents (strategies, policies and principles) for maintaining and planning liquidity and funding.

Compliance with liquidity and funding requirements is monitored by the Bank's Asset-Liability Committee ('ALCO'), RMM and Executive Committee on a regular basis. Liquidity and management processes include:

- maintaining compliance with relevant regulatory requirements;
- monitoring liquidity and funding ratios against internal and regulatory requirements;
- managing term funding profile where appropriate;
- maintaining debt financing plans where appropriate;
- 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.

Funding and liquidity plans form part of the financial resource plan that is approved by the Board. The Board-level risk appetite measures are the liquidity coverage ratio ('LCR'), internal liquidity metric ('ILM') and net stable funding ratio ('NSFR').

LCR

The LCR metric is designed to promote the short-term resilience of a bank's liquidity profile. It 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.

NSFR

The NSFR requires institutions to maintain sufficient 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.

ILM

The ILM is HSBC's internal liquidity risk measurement and management tool.

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Cash flows payable by the consolidated entity under financial liabilities by remaining contractual maturities

	On demand	Due within 3 months	Due between 3 and 12 months	Due between 1 and 5 years	Due after 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Deposits by banks	1,123.6	824.4	2,325.4	1,214.2	—	5,487.6
Customer accounts	42,184.1	3,644.8	5,779.2	148.1	—	51,756.2
Repurchase agreements – non-trading	—	—	—	—	—	—
Derivatives	205.9	1.9	2.4	4.8	13.9	228.9
Debt securities in issue	48.9	95.5	394.7	1,475.7	1,149.6	3,164.4
Subordinated liabilities	—	—	106.5	279.2	—	385.7
Other financial liabilities	1,246.7	16.0	26.5	103.0	92.0	1,484.2
Statement of financial position	44,809.2	4,582.6	8,634.7	3,225.0	1,255.5	62,507.0
Loan and other credit-related commitments	15,138.5	—	—	—	—	15,138.5
Financial guarantees and similar contracts	1,092.6	—	—	—	—	1,092.6
At 31 Dec 2024	61,040.3	4,582.6	8,634.7	3,225.0	1,255.5	78,738.1
Deposits by banks	3,168.0	795.2	940.7	1,057.8	—	5,961.7
Customer accounts	40,862.0	2,496.9	3,678.2	96.2	—	47,133.3
Repurchase agreements – non-trading	8.6	—	514.6	—	—	523.2
Derivatives	258.2	0.5	—	23.9	22.4	305.0
Debt securities in issue	34.8	67.5	481.2	932.6	403.1	1,919.2
Subordinated liabilities	—	—	—	371.8	—	371.8
Other financial liabilities	608.0	13.7	37.1	120.4	53.5	832.7
Statement of financial position	44,939.7	3,373.7	5,651.8	2,602.7	478.9	57,046.9
Loan and other credit-related commitments	14,407.5	—	—	—	—	14,407.5
Financial guarantees and similar contracts	967.4	—	—	—	—	967.4
At 31 Dec 2023	60,314.5	3,373.7	5,651.8	2,602.7	478.9	72,421.8

At 31 December 2023, the maturity profile for 'Deposits by banks' has been corrected to align with the current period approach which is presented based on residual contractual maturity. This resulted in a reduction in amounts categorised as 'On demand' and a corresponding increase in amounts due over the remaining maturity buckets, principally Due between 3 and 12 months. There was a \$nil impact to the total cashflows payable balance reported for 'Deposits by banks'.

Financial guarantees are recognised in the earliest period in which payment is due from the entity.

In the presentation above, certain financial statement line items include cash flows payable to related party entities (refer Note 32 for amounts payable to related party entities).

The balances in the above table will not agree directly to the balances in the consolidated Statement of financial position as the table incorporates all cash flows, on an undiscounted basis, related to both principal as well as those associated with all future coupon payments.

Cash flows payable in respect of customer accounts are primarily contractually repayable on demand or at short notice. In practice, however, short-term deposit balances remain stable as inflows and outflows broadly match and a significant portion of loan commitments and guarantee contracts expire without being drawn upon. The Bank's approach to managing liquidity risk is set out above.

Interest Rate Risk in the Banking Book

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 in order to hedge positions held with trading intent. Interest rate risk that can be economically hedged may be transferred to the Treasury unit. Hedging is generally executed through interest rate derivatives or fixed-rate government bonds.

The Bank uses a number of measures to monitor and control interest rate risk in the banking book, including Banking net interest income ('Banking NII') under varying interest rate scenarios on a one-year basis, where all other economic variables are held constant. Banking NII sensitivity figures represent the effect of pro forma movements in projected yield curves based on a static balance sheet size and structure. The exception to this is where the size of the balances or repricing is deemed interest rate sensitive. These sensitivity calculations do not incorporate actions that would be taken by the Treasury unit or in the business that originates the risk to mitigate the effect of interest rate movements.

Economic value of equity ('EVE') measures the present value of our banking book assets and liabilities excluding equity, based on a run-off balance sheet. Economic value of equity sensitivity measures the impact to EVE from a movement in interest rates, including the assumed term profile of non-maturing deposits having adjusted for stability and price sensitivity.

(d) Market risk disclosures

Market risk is the risk of an adverse financial impact on trading activities arising from changes in market parameters such as interest rates, foreign exchange rates, asset prices, volatilities, correlations and credit spreads. 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 manage and control market risk exposures while maintaining a market profile consistent with our risk appetite.

The market risk positions are separated into trading portfolios and non-trading portfolios for risk management purpose. Trading portfolios include positions arising from market-making in exchange rate and interest rate as well as in debt securities. Trading risks arise mainly from customer-related business and the inventory position management.

The Bank manages market risk principally by risk management policies and techniques developed by the Risk function and through approved risk limits in the business.

Risk limits are determined for each location and, within location, for each portfolio. Limits are set by product and risk type with granularity depending on the market liquidity of particular risk factors. 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. Similarly, option risks are controlled through full revaluation limits in conjunction with limits on the underlying variables that determine each option's value.

There were no material changes to our policies and practices for the management of market risk in 2024.

We continued to manage market risk prudently during 2024. Sensitivity exposures and VaR remained within appetite as the business pursued its core market-making activity in support of our customers. Market risk was managed using a complementary set of risk measures and limits, including stress and scenario analysis.

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 trading positions regardless of how we capitalise them. Where there is not an approved internal model, the appropriate local rules to capitalise exposures are used. The Bank's models are based predominantly on historical simulation. VaR is calculated at 99% confidence level for a one-day and ten days holding periods for Trading and Non-Trading portfolios respectively. Although a valuable guide to risk, VaR should always be viewed in the context of its limitations. For example:

- the use of historical data as a proxy for estimating future events may not encompass all potential events, particularly those which are extreme in nature;
- the use of a holding period assumes that all positions can be liquidated or the risk offset during that period. This may not fully reflect the market risk arising at times of severe illiquidity, when the holding period may be insufficient to liquidate or hedge all positions fully;
- the use of a 99% confidence level, by definition, 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; and
- VaR is unlikely to reflect loss potential on exposures that only arise under significant market movements.

The Bank recognises these limitations by augmenting the VaR limits with other position and sensitivity limit structures, as well as with stress testing, both on individual portfolios and on a consolidated basis. The Bank's stress testing regime provides senior management with an assessment of the impact of extreme events on the market risk exposures of the Bank.

Trading and Non-Trading VaR for the consolidated entity

	Trading VaR		Non-Trading VaR	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Average	0.8	1.2	39.8	76.6
Maximum	1.4	1.9	64.5	123.8
Minimum	0.2	0.6	30.5	49.2
At 31 Dec	0.2	0.6	31.3	54.9

Total Trading VaR over a 1 day holding period at 31 December 2024 was \$0.2m (2023: \$0.6m). The Bank holds an immaterial trading book risk position arising from short dated cross currency swaps for funding and liquidity risk management.

Total Non-Trading VaR over a 10 days holding period at 31 December 2024 was \$31.3m, AUD\$23.6m lower than 2023. Non-trading VaR is driven by banking book risk position held in the Hold to Collect and Sale ('HTC&S') and Hold to Collect ('HTC') books. The HTC&S and HTC books mainly consist of Australian Semi-government bonds for structural interest rate risk management.

Derivative assets and liabilities

As described in Note [9] the Bank undertakes derivative activity for three primary purposes; to create risk management solutions for clients, to manage the portfolio risks arising from client business and to manage and hedge the Bank's own risks. Most of the Bank's derivative exposures arise from sales and trading activities and are treated as traded risk for market risk management purposes. Within derivative assets and liabilities there are portfolios of derivatives which are not risk managed on a trading intent basis and are treated as non-traded risk for VaR measurement purposes. These arise when the derivative was entered into in order to manage risk arising from non-traded exposures. These include non-qualifying hedging derivatives, and derivatives qualifying for fair value and cash flow hedge accounting. The use of non-qualifying hedges whose primary risks relate to interest rate and foreign exchange exposure is described in Note [3(j)]. Details of derivatives in fair value and cash flow hedge accounting relationships are given in Note [9] to the Financial Statements. The Bank's primary risks in respect of these instruments relate to interest rate and foreign exchange risks.

Loans and advances to customers

The primary risk on assets within loans and advances to customers is the credit risk of the borrower. The risk of these assets is treated as non-trading risk for market risk management purposes.

Financial assets measured at FVOCI

Note 2(h) sets out the accounting policy for financial assets measured at FVOCI. An analysis of the Bank's holdings of these securities by accounting classification and issuer type is shown in Note [10]. The positions which are originated in order to manage structural interest rate and liquidity risk are treated as non-trading risk for the purposes of market risk management.

Trading

The Bank's control of market risk is based on restricting individual operations to trading within a list of permitted instruments authorised for each site by Traded Risk Management, and enforcing rigorous new product due diligence procedures. In particular, trading in the more complex derivative products is concentrated in offices with appropriate levels of product expertise and robust control systems.

Notes on the Consolidated financial statements

In addition, at both portfolio and position levels, market risk in trading portfolios is monitored and controlled using a complementary set of techniques such as VaR and present value of a basis point, together with stress and sensitivity testing and concentration limits.

Non-trading portfolios

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 embedded optionality within certain investment product areas, such as the incidence of mortgage prepayments, and from behavioural assumptions regarding the economic duration of liabilities which are contractually repayable on demand such as current accounts, and the repricing behaviour of managed rate products.

In order to manage this risk optimally, market risk in non-trading portfolios is transferred to the Treasury unit or to separate books managed under the supervision of the Bank ALCO. The transfer of market risk to books managed by the Treasury unit or supervised by the Bank's ALCO is usually achieved by a series of internal transactions 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. Bank 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 market risk has been consolidated in the Treasury unit or ALCO-managed books, the net exposure is typically managed through the use of interest rate swaps within agreed limits.

The Bank also monitors the sensitivity of projected net interest income under varying interest rate scenarios. The Bank aims, through its management of market risk in non-trading portfolios, to mitigate the impact of prospective interest rate movements which could reduce future net interest income, while balancing the cost of such hedging activities on the current net revenue stream.

A large part of the Bank's exposure to changes in net interest income arising from movements in interest rates relates to its core deposit franchise. The Bank's core deposit franchise is exposed to changes in the value of the deposits raised and spreads against wholesale funds. The value of core deposits increases as interest rates rise and decreases as interest rates fall. This risk is, however, asymmetrical in a very low interest rate environment as there is limited room to lower deposit pricing in the event of interest rate reductions.

27 Fair values of financial instruments carried at fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Financial instruments measured at fair value on an ongoing basis include derivatives, financial investments classified as financial assets measured at FVOCI (including treasury and other eligible bills, debt securities and equity securities), and financial instruments mandatorily measured at fair value through profit or loss.

Control framework

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

Where fair values are determined by reference to externally quoted prices or observable pricing inputs to models, independent price determination or validation is utilised. For inactive markets, the Bank sources alternative market information, with greater weight given to information that is considered to be more relevant and reliable. Examples of the factors considered are price observability, instrument comparability, consistency of data sources, underlying data accuracy and timing of prices.

For fair values determined using valuation models, the control framework includes development or validation by independent support functions of the model logic, inputs, model outputs and adjustments. Valuation models are subject to a process of due diligence before becoming operational and are calibrated against external market data on an on-going basis.

Changes in fair value are generally subject to a profit and loss analysis process and are disaggregated into high-level categories including portfolio changes, market movements and other fair value adjustments.

The HSBC Group's fair value governance structure comprises its Finance function and Valuation Committees. The Finance function is responsible for establishing procedures governing valuation and ensuring fair values are in compliance with accounting standards. The fair values are reviewed by the Bank's relevant Valuation Committees, which consist of independent support functions and consider all material subjective valuations.

Determination of fair value of financial instruments carried at fair value

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

- Level 1 – Valuation technique using quoted market price. These are financial instruments with quoted prices for identical instruments in active markets that the Bank can access at the measurement date;
- Level 2 – Valuation technique using observable inputs. These are 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; and
- Level 3 – Valuation technique with significant unobservable inputs. These are financial instruments valued using valuation techniques where one or more significant inputs are unobservable.

The judgement as to whether a market is active may include, but is not restricted to, the consideration of factors such as the magnitude and frequency of trading activity, the availability of prices and the size of bid/offer spreads. The bid/offer spread represents the difference in prices at which a market participant would be willing to buy compared with the price at which they would be willing to sell. In inactive markets, obtaining assurance that the transaction price provides evidence of fair value or determining the adjustments to transaction prices that are necessary to measure the fair value of the instrument requires additional work during the valuation process.

The valuation models used where quoted market prices are not available incorporate certain assumptions that the HSBC Group anticipates would be used by a market participant to establish fair value. Where the HSBC Group anticipates that there are additional considerations not included within the valuation model, adjustments may be adopted outside the model. Examples of such adjustments are:

- credit risk adjustment: an adjustment to reflect the creditworthiness of the over-the-counter derivatives counterparties; and
- market data/model uncertainty: an adjustment to reflect uncertainties in fair values based on uncertain market data inputs (e.g. as a result of illiquidity) or in areas where the choice of valuation model is particularly subjective.

Transaction costs are not included in the fair value calculation. Trade origination costs such as brokerage, fee expenses and post-trade costs are included in operating expenses. The future cost of administering the over-the-counter derivative portfolio is also not included in fair value, but is expensed as incurred.

A description of the valuation techniques applied to instruments of particular interest follows:

- debt securities, treasury and eligible bills (level 1, level 2): These instruments are valued based on quoted market prices from an exchange, dealer, broker, industry group or pricing service, where available. When they are unavailable, the fair value is determined by reference to quoted market prices for similar instruments, adjusted as appropriate for the specific circumstances of the instruments; and
- derivatives (level 2): over-the-counter (i.e. non-exchange traded) derivatives are valued using valuation models. Valuation models calculate the present value of expected future cash flows, based upon 'no-arbitrage' principles. For many vanilla derivatives products, such as interest rate swap and European options, the modelling approaches used are standard across the industry. Examples of inputs that are generally observable include foreign exchange spot and forward rates, benchmark interest rate curves and volatility surfaces for commonly traded option products. Examples of inputs that may be unobservable include volatility surfaces, in whole or in part, for less commonly traded option products, and correlations between market factors.
- financial assets valued using level 3 techniques include a minority equity stake mandatorily measured at fair value through profit or loss and a minority equity stake measured at FVOCI. There has been no change in the population of level 3 exposures and the total quantum is considered immaterial for further detailed disclosures.

Financial instruments carried at fair value (Consolidated)

	Valuation Techniques				Amount with HSBC*	Total
	Level 1 \$m	Level 2 \$m	Level 3 \$m	Total Third Party \$m		
At 31 Dec 2024						
Assets						
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	7.7	4.0	11.7	—	11.7
Derivatives	—	65.1	—	65.1	362.2	427.3
Financial assets measured at FVOCI	8,881.6	3,574.9	5.1	12,461.6	—	12,461.6
Liabilities						
Derivatives	0.5	85.5	—	86.0	142.6	228.6
At 31 Dec 2023						
Assets						
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	8.0	4.0	12.0	—	12.0
Derivatives	—	63.9	—	63.9	164.0	227.9
Financial assets measured at FVOCI	4,436.5	2,113.2	6.7	6,556.4	—	6,556.4
Liabilities						
Derivatives	—	66.2	—	66.2	230.6	296.8

* As described below the risk associated instruments with significant unobservable inputs are all backed out to other HSBC entities and all reside within level 2.

The movement from level 1 to level 2 was \$1,043.6m (2023: \$1,017.2m) and \$609.1m (2023: \$1,044.5m) from level 2 to level 1.

Notes on the Consolidated financial statements

Fair values of financial instruments not carried at fair value (Consolidated)

	Fair Value Hierarchy				Total AUD'm
	Carrying amount AUD'm	Quoted market price Level 1 AUD'm	Observable inputs Level 2 AUD'm	Significant unobservable inputs Level 3 AUD'm	
At 31 Dec 2024					
Assets					
Loans and advances to banks	390.6	—	390.6	—	390.6
Loans and advances to customers	39,638.7	—	—	39,589.2	39,589.2
Reverse repurchase agreements – non-trading	2,357.6	—	2,357.4	—	2,357.4
Financial investments - debt securities	3,545.9	3,513.9	—	—	3,513.9
Liabilities					
Deposits by banks	5,429.6	—	5,429.6	—	5,429.6
Customer accounts	51,351.0	—	51,359.4	—	51,359.4
Repurchase agreements – non-trading	—	—	—	—	—
Debt securities in issue	2,998.7	—	2,998.7	—	2,998.7
Subordinated liabilities	350.0	—	355.3	—	355.3
At 31 Dec 2023					
Assets					
Loans and advances to banks	167.1	—	167.1	—	167.1
Loans and advances to customers	37,833.6	—	—	37,591.1	37,591.1
Reverse repurchase agreements – non-trading	4,128.0	—	4,127.9	—	4,127.9
Financial investments - debt securities	4,018.7	3,987.2	—	—	3,987.2
Liabilities					
Deposits by banks	4,867.3	—	4,867.3	—	4,867.3
Customer accounts	46,695.5	—	46,702.5	—	46,702.5
Repurchase agreements – non-trading	521.7	—	532.0	—	532.0
Debt securities in issue	1,817.8	—	1,817.5	—	1,817.5
Subordinated liabilities	350.0	—	357.0	—	357.0

In the table above, certain financial statement line items include amounts receivable from or payable to related party entities (refer Note 32).

Other financial instruments not carried at fair value are typically short term in nature or re-priced to current market rates frequently. Accordingly, their carrying amount is a reasonable approximation of fair value.

28 Notes to the Statements of cash flows

Reconciliation of profit for the year to net cash from/(used in) operating activities

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Profit for the year	420.9	409.8	420.9	409.8
Depreciation, amortisation and related impairment	58.2	49.3	58.2	49.3
Other non-cash items included in profit before tax	(100.5)	30.8	(100.5)	30.8
(Increase)/decrease in interest receivable	(21.7)	(47.9)	(21.7)	(47.9)
Increase/(decrease) in interest payable	60.8	89.3	57.5	87.4
Loan impairment charges	1.6	22.5	1.6	22.5
(Profit)/loss on the sale of investments	(0.6)	(2.7)	(0.6)	(2.7)
(Profit)/loss on the sale of property, plant and equipment	—	0.7	—	0.7
Increase/(decrease) in provisions	(10.3)	(4.1)	(10.3)	(4.1)
Increases/(decrease) in related party payable account	18.3	(28.4)	18.3	(28.4)
(Increase)/decrease in accruals and prepayments	0.6	(3.9)	0.8	(3.8)
Changes in operating assets and liabilities				
Net (increase)/decrease in trading securities and derivatives	(385.0)	47.1	(385.0)	47.1
Cash inflows/(outflows) from movements in other assets/liabilities	(659.7)	168.9	(659.2)	168.7
Net (increase)/decrease in loans and bills advanced	(1,313.5)	(2,549.7)	(1,313.5)	(2,549.5)
Net increase in deposits and other borrowings	5,408.0	2,326.2	6,791.5	2,862.1
Net cash from/(used in) operating activities	3,477.1	507.9	4,858.0	1,042.0

Reconciliation of cash and cash equivalents

	Consolidated		Company	
	2024 \$m	2023 \$m	2024 \$m	2023 \$m
Cash and balances at central banks	4,992.4	4,882.4	4,992.4	4,882.4
Items in the course of collection from other banks	0.1	5.4	0.1	5.4
Placings with banks with remaining maturity 1 months or less	390.7	167.2	390.7	167.2
Cash collateral provided with remaining maturity 1 months or less	—	102.1	—	102.1
Securities purchased from related entities under agreements to resell	1,471.0	2,757.4	1,471.0	2,757.4
Items in the course of transmission to other banks	(31.5)	(31.8)	(31.5)	(31.8)
Total cash and cash equivalents	6,822.7	7,882.7	6,822.7	7,882.7

Financing facilities

At 31 December 2024 and 31 December 2023 there are no committed facilities.

29 Assets pledged as security for liabilities and collateral accepted as security for assets

	Consolidated and Company	
	2024 \$m	2023 \$m
Financial assets pledged as collateral	3,837.0	2,927.0
Fair value of the collateral permitted to sell or repledge in the absence of default	2,380.0	4,180.0
Fair value of collateral actually sold or repledged	—	—

The amount of assets pledged to secure liabilities may be greater than the book value of assets utilised as collateral. For example, in the case of securitisations, the amount of liabilities issued plus mandatory over-collateralisation is less than the book value of the pool of assets available for use as collateral. This is also the case where assets are placed with a custodian or a settlement agent which has a floating charge over all the assets placed to secure any liabilities under settlement accounts.

These transactions are conducted under terms that are usual and customary to collateralised transactions including, where relevant, standard securities lending and borrowing, repurchase agreements and derivative margining. The Company places both cash and non-cash collateral in relation to derivative transactions.

30 Securitisations and other structured transactions

The Company enters into transactions from time to time by which it transfers recognised financial assets directly to third parties or to special purpose entities. These transfers may give rise to the full or partial derecognition of the financial assets concerned.

Full derecognition occurs when the Company transfers its contractual right to receive cash flows from the financial assets, or retains the right but assumes an obligation to pass on the cash flows from the assets, and transfers substantially all the risks and rewards of ownership. The risks include credit, interest rate, currency, prepayment and other price risks.

Partial derecognition occurs when the Company sells or otherwise transfers financial assets in such a way that some but not substantially all of the risks and rewards of ownership are transferred but control is retained. These financial assets are recognised in the Statement of financial position to the extent of the Company's continuing involvement.

Transferred financial assets not qualifying for full derecognition and associated financial liabilities

	Notes	Consolidated		Company	
		2024 \$m	2023 \$m	2024 \$m	2023 \$m
Carrying amount of asset					
Loans and advances to customers	*	2,999.0	2,646.0	2,999.0	2,646.0
Total		2,999.0	2,646.0	2,999.0	2,646.0
Carrying amount of related liability					
Sale and repurchase agreement		—	513.1	—	513.1
Related party liability		—	—	2,998.7	1,617.8
Debt securities in issue		2,998.7	1,617.8	—	—
Total		2,998.7	2,130.9	2,998.7	2,130.9

* The Company has performed mortgage loan securitisations, whereby it has sold mortgage loans to the Lion Series 2009-1 and Lion Series 2020-1, Lion Series 2022-1, Lion Series 2023-1 and Lion Series 2024-1 Trusts which have funded purchases through the issue of securities to the Company and external investors respectively. The Company provides swaps and services (including servicing and trust management) to the Trusts on an arm's length basis in accordance with the APRA Prudential Guidelines (APS120 'Securitisations') and is entitled to the residual income from the notes. In addition the Bank provides a liquidity facility to the Lion Series 2009-1 Trust. The carrying amount of Loans and advances to customers includes \$56.8m (31 December 2023: \$37.9m) of amounts already collected and to be distributed to note holders.

31 Maturity analysis of assets, liabilities and off-balance sheet commitments

In the presentation below, certain financial statement line items include amounts receivable from or payable to related party entities (refer Note 32).

Maturity analysis of assets, liabilities and off-balance sheet commitments

	Due not more than 1 month \$m	Due within 3 months \$m	Due between 3 and 12 months \$m	Due between 1 and 5 years \$m	Due after 5 years \$m	Total \$m
Financial assets						
Cash and balances at central banks	4,992.4	—	—	—	—	4,992.4
Items in the course of collection from other banks	0.1	—	—	—	—	0.1
Other financial assets mandatorily measured through profit or loss	7.7	—	—	—	4.0	11.7
Derivatives	356.0	—	3.4	1.3	66.6	427.3
Loans and advances to banks	84.5	—	—	—	—	84.5
Loans and advances to customers	1,979.1	1,008.3	1,178.8	3,200.3	32,272.2	39,638.7
Reverse repurchase agreements – non-trading	1,471.0	886.6	—	—	—	2,357.6
Financial assets measured through other comprehensive income	249.4	1,992.9	5,447.2	6,020.1	2,297.9	16,007.5
Accrued income and other financial assets	992.9	50.6	37.0	0.1	0.4	1,081.0
Total financial assets at 31 Dec 2024	10,133.1	3,938.4	6,666.4	9,221.8	34,641.1	64,600.8
Non-financial assets	—	—	—	—	719.5	719.5
Total assets at 31 Dec 2024	10,133.1	3,938.4	6,666.4	9,221.8	35,360.6	65,320.3
Financial liabilities						
Deposits by banks	1,088.6	821.6	2,312.8	1,206.6	—	5,429.6
Customer accounts	42,116.8	3,567.6	5,540.2	126.4	—	51,351.0
Repurchase agreements – non-trading	—	—	—	—	—	—
Items in the course of transmission to other banks	31.5	—	—	—	—	31.5
Derivatives	205.8	1.9	2.4	4.7	13.8	228.6
Debt securities in issue	46.3	90.5	374.1	1,398.5	1,089.3	2,998.7
Accruals and other financial liabilities	1,046.3	60.2	86.1	15.7	14.9	1,223.2
Lease liabilities	2.6	5.1	40.8	79.0	62.1	189.6
Subordinated liabilities	—	—	100.0	250.0	—	350.0
Total financial liabilities at 31 Dec 2024	44,537.9	4,546.9	8,456.4	3,080.9	1,180.1	61,802.2
Non-financial liabilities	—	—	—	—	309.8	309.8
Total liabilities at 31 Dec 2024	44,537.9	4,546.9	8,456.4	3,080.9	1,489.9	62,112.0
Off-balance sheet commitments given						
Loan and other credit-related commitments	15,138.5	—	—	—	—	15,138.5
Financial assets						
Cash and balances at central banks	4,882.4	—	—	—	—	4,882.4
Items in the course of collection from other banks	5.4	—	—	—	—	5.4
Other financial assets mandatorily measured through profit or loss	8.0	—	—	—	4.0	12.0
Derivatives	131.3	—	1.1	22.5	73.1	228.0
Loans and advances to banks	15.0	—	—	—	—	15.0
Loans and advances to customers	1,843.1	915.6	1,154.7	3,784.5	30,135.7	37,833.6
Reverse repurchase agreements – non-trading	2,757.4	1,370.6	—	—	—	4,128.0
Financial assets measured through other comprehensive income	319.2	1,245.4	2,046.8	4,823.3	2,140.3	10,575.1
Accrued income and other financial assets	559.3	43.3	21.0	0.5	0.5	624.6
Total financial assets at 31 Dec 2023	10,521.2	3,574.9	3,223.7	8,630.7	32,353.6	58,304.1
Non financial assets	—	—	—	—	563.0	563.0
Total assets at 31 Dec 2023	10,521.2	3,574.9	3,223.7	8,630.7	32,916.6	58,867.1
Financial liabilities						
Deposits by banks	2,091.9	792.3	933.1	1,050.0	—	4,867.3
Customer accounts	40,625.5	2,449.3	3,541.7	79.0	—	46,695.5
Repurchase agreements – non-trading	8.6	—	513.1	—	—	521.7
Items in the course of transmission to other banks	31.8	—	—	—	—	31.8
Derivatives	258.2	0.5	—	23.0	15.1	296.8
Debt securities in issue	32.9	63.9	456.8	882.9	381.3	1,817.8
Accruals and other financial liabilities	649.8	38.7	63.4	12.4	10.1	774.4
Lease liabilities	2.4	4.9	20.9	98.8	38.8	165.7
Subordinated liabilities	—	—	—	350.0	—	350.0
Total financial liabilities at 31 Dec 2023	43,701.1	3,349.6	5,529.0	2,496.1	445.3	55,521.0
Non financial liabilities	—	—	—	—	71.5	71.5
Total liabilities at 31 Dec 2023	43,701.1	3,349.6	5,529.0	2,496.1	516.8	55,592.5
Off-balance sheet commitments given						
Loan and other credit-related commitments	14,389.9	—	—	—	—	14,389.9

At 31 December 2023, the maturity profile for 'Deposits by banks' has been corrected to align with the current period approach which is presented based on residual contractual maturity. This resulted in a reduction in amounts categorised as 'Due not more than 1 month' and a corresponding increase in amounts due over the remaining maturity buckets, principally 'Due between 3 and 12 months'. There was a \$nil impact to the total balance reported for 'Deposits by banks'.

32 Related party disclosures

Controlling entities

The ultimate chief entity of the HSBC Group is HSBC Holdings plc, a company incorporated in England and Wales. The immediate parent entity in Australia is HSBC Australia Holdings Pty Limited.

Ownership interest in related parties

Interests held in related parties are set out in Note [12].

Amounts receivable from or payable to related party entities

	Consolidated		Company	
	2024	2023	2024	2023
	\$	\$	\$	\$
Aggregate amounts receivable				
Other assets	314,645,805	273,043,733	314,645,805	273,043,733
Reverse repurchase agreements – non-trading	2,357,602,195	4,128,039,267	2,357,602,195	4,128,039,267
	2,672,248,000	4,401,083,000	2,672,248,000	4,401,083,000
Aggregate amounts payable				
Owing to parent in respect of tax	20,781,244	39,124,908	20,781,244	39,124,908
Repurchase agreements - non-trading	—	8,587,700	—	8,587,700
Deposits by banks	4,905,051,000	3,928,010,000	4,905,051,000	3,928,010,000
Other liabilities	981,308,399	241,056,764	3,985,614,773	1,861,867,454
Subordinated liabilities	350,000,000	350,000,000	350,000,000	350,000,000
	6,257,140,643	4,566,779,372	9,261,447,017	6,187,590,062

Balances of related entities in respect of derivatives assets and liabilities have been disclosed in Note [9].

Amounts in this note are not rounded.

Transactions with related parties during the year

	Consolidated		Company	
	2024	2023	2024	2023
	\$	\$	\$	\$
Interest revenue				
Related party entities	122,641,461	153,131,235	122,641,461	153,131,235
Key management personnel	262,885	510,797	262,885	510,797
Interest expense				
Related party entities	237,437,563	215,121,499	375,826,483	288,214,123
Management fees paid				
Related party entities	330,265,761	248,354,967	330,265,761	248,354,967
Management fees received				
Related party entities	134,810,324	133,171,353	134,810,324	133,171,353
Fee income				
Related party entities	14,115,893	13,095,473	14,115,893	13,095,473
Fee expense				
Related party entities	23,055,874	21,592,618	23,055,874	21,592,618
Dividend paid				
Controlling entity	488,876,926	307,494,409	488,876,926	307,494,409

Amounts in the note are in whole units.

Share awards made in accordance with the HSBC Group's reward structures are disclosed in Note 19.

Transactions with related parties

All transactions with related parties during the financial year were conducted on normal commercial terms and conditions.

Various related entities were counterparties in respect of certain foreign exchange contracts, swap contracts and forward rate agreements undertaken by the consolidated entity. All such contracts are undertaken at arm's length under normal commercial terms and conditions.

Loans and advances to customers outstanding at 31 December 2024 included \$520,322,581 (2023: \$593,659,001), which were guaranteed by The Hongkong and Shanghai Banking Corporation Limited (a related party entity) under normal commercial terms and conditions.

Management accounting and administrative services were provided by the Company to certain related entities free of charge within the HSBC Group. Otherwise these services are charged on a time and cost basis.

33 Key management personnel disclosures

The following were key management personnel of the consolidated entity at any time during the reporting period and unless otherwise indicated were key management personnel for the entire period:

Executive Directors	
Antony Shaw	Chief Executive Officer
Non-executive Directors	
Grant King	Chairman
Philip Fellowes	
Karina Kwan	
Kenneth Ng	Resigned 25 October 2024
Gail Pemberton	
Geoff Wilson	
Executives	
Lettina Evans	Chief Financial Officer
Nick Wheeler	Head of Markets Securities Services
Steve Hughes	Country Head of Commercial Banking
Anita O'Brien	Head of Global Banking
Jessica Power	Head of Wealth & Personal Banking
Rani Mina	Chief Risk and Compliance Officer
Brenton Hush	Chief Operating Officer
Erica Carvouni	Head of Human Resources

The key management personnel compensation included in 'employee compensation and benefits' Note [6] are as follows.

Transactions with key management personnel

	Consolidated		Company	
	2024	2023	2024	2023
	\$	\$	\$	\$
Short-term employee benefits				
Cash salary, fees and short-term compensated absences	7,497,452.3	9,973,595.1	7,497,452.3	9,973,595.1
Short-term cash profit-sharing and other bonuses	2,361,143.2	2,853,431	2,361,143.2	2,853,431
Non-monetary benefits	108,785.7	141,064.1	108,785.7	141,064.1
Other short-term employee benefits	147,360.6	193,022.4	147,360.6	193,022.4
	10,114,741.8	13,161,112.6	10,114,741.8	13,161,112.6
Post-employment benefits				
Pension and superannuation benefits	385,983	570,128.3	385,983	570,128.3
Other post-employment benefits	—	—	—	—
	385,983.0	570,128.3	385,983.0	570,128.3
	10,500,724.7	13,731,240.9	10,500,724.7	13,731,240.9
Share based payments granted during the year	2,613,129.2	2,518,375	2,613,129.2	2,518,375

Amounts in the note are in whole units.

Other transactions with key management personnel

In addition to their salaries, the consolidated entity also provides non-cash benefits to its key management personnel, and contributes to a post-employment defined contribution plan on their behalf.

Executive officers are eligible to participate in the ultimate chief entity's employee share ownership programmes Note [19].

Apart from the details disclosed in this note, no Director has entered into a material contract with the Company or the consolidated entity since the end of the previous financial year and there were no material contracts involving Directors' interests existing at year-end.

Loans to key management personnel and their related parties

	Consolidated		Company	
	2024	2023	2024	2023
	\$	\$	\$	\$
The aggregate amount of loans to key management personnel of any entity in the consolidated entity	9,294,747	7,723,154	9,294,747	7,723,154
Loan repayments received	3,998,537	8,484,784	3,998,537	8,484,784

Amounts in the note are in whole units.

34 Subsequent events

In the interval between the end of the financial year and the date of this report, an amount of AUD\$67m (\$0.098 per share) was declared and payable by the Company as dividends on ordinary shares. No other item, transaction or event of a material and unusual nature has arisen that is likely, in the opinion of the Directors of the Company, to affect significantly the operations of the Company and consolidated entity, the results of those operations, or the state of affairs of the consolidated entity, in current or future financial years.

Consolidated entity disclosure statement

The table below incorporates the disclosure required under the Corporations Act 2001 (s295 (3A)(a)) and includes information for each entity that was part of the consolidated entity as at the end of the financial year in accordance with AASB 10 Consolidated Financial Statements.

Entity Name	Body Corporate, Partnership or Trust	Place Incorporated / Formed	% of Share Capital Held Directly or Indirectly by the Company 2024¹	Australian or Foreign Tax Resident	Jurisdiction for Foreign Tax Resident
Controlling entity					
HSBC Bank Australia Limited	Body Corporate	Australia	-	Australian	N/A
Controlled entities					
HSBC Custody Nominees (Australia) Limited	Body Corporate	Australia	100%	Australian	N/A
Lion Series 2009-1 Trust	Trust	Australia	N/A	Australian	N/A
Lion Series 2020-1 Trust	Trust	Australia	N/A	Australian	N/A
Lion Series 2022-1 Trust	Trust	Australia	N/A	Australian	N/A
Lion Series 2023-1 Trust	Trust	Australia	N/A	Australian	N/A
Lion Series 2024-1 Trust	Trust	Australia	N/A	Australian	N/A

1 N/A – This field is applicable where the entity is a body corporate with share capital.

Directors' declaration

Directors' declaration

In the opinion of the Directors of HSBC Bank Australia Limited:

- the financial statements and notes set out on pages [4] to [57] are in accordance with the Corporations Act 2001, including:
 - giving a true and fair view of the financial position of the Company and the consolidated entity as at 31 December 2024, and of their performance, as represented by the results of their operations and their cash flows, for the year ended on that date; and
 - complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- the consolidated entity disclosure statement on page [57] is true and correct; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- the financial report also complies with International Financial Reporting Standards as disclosed in Note[2(a)].

Dated at Sydney this 26 February 2025.

Signed in accordance with a resolution of the Directors:



Grant King
Chairman



Antony Shaw
Director



Independent auditor's report

To the members of HSBC Bank Australia Limited

Our opinion

In our opinion:

The accompanying financial report of HSBC Bank Australia Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the Company's and Group's financial positions as at 31 December 2024 and of their financial performance for the year then ended
- (b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The financial report comprises:

- the Consolidated and Company statements of financial position as at 31 December 2024
- the Consolidated and Company statements of comprehensive income for the year then ended
- the Consolidated and Company statements of changes in equity for the year then ended
- the Consolidated and Company statements of cash flows for the year then ended
- the Consolidated and Company income statements for the year then ended
- the notes to the financial statements, including material accounting policy information and other explanatory information
- the consolidated entity disclosure statement as at 31 December 2024
- the directors' declaration.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* 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 Company and the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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Liability limited by a scheme approved under Professional Standards Legislation.



Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 2024 (the 'Annual Report') for the year ended 31 December 2024, but does not include the financial report and our auditor's report thereon.

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

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report 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 financial report

The directors of the Company are responsible for the preparation of the financial report in accordance with Australian Accounting Standards and the *Corporations Act 2001*, including giving a true and fair view, and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the ability of the Company and the Group 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 Company or the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is 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 the Australian Auditing Standards 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 report.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://auasb.gov.au/media/apzlwn0y/ar3_2024.pdf. This description forms part of our auditor's report.

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

PricewaterhouseCoopers

A handwritten signature in blue ink that reads 'A S Wood' in a cursive script.

A S Wood
Partner

Sydney
26 February 2025



Auditor's Independence Declaration

As lead auditor for the audit of HSBC Bank Australia Limited for the year ended 31 December 2024, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of HSBC Bank Australia Limited and the entities it controlled during the period.

A handwritten signature in blue ink that reads 'Ashley Wood' with a horizontal line underneath.

A S Wood
Partner
PricewaterhouseCoopers

Sydney
26 February 2025

HSBC Bank Australia Limited

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