

The Hongkong and Shanghai Banking
Corporation Limited
Macau Branch

Disclosure of Financial Information
31 December 2024

Report of the Branch management

Principal place of business and activities

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

Branch’s activities in Macau

In 2024, HSBC Macau delivered a set of very positive results despite challenging market conditions.

Over the past year, by leveraging the Group’s extensive global network, we continued to support our customers’ international needs. HSBC Macau has remained focused on connecting our customers with growth opportunities across the Greater Bay Area and beyond. Through our unrivalled global transaction banking capabilities, we successfully maintained the highest market share in Global Trade Solutions in Macau, and was recognized for our leading Global Payment Solutions through accolades including "Macau SAR’s Best Cash Management Bank ", "Macau SAR’s Best Bank for Cash Management Products" and “Macau SAR’s Best Bank for Cash Management Technology" awarded by Euromoney.

HSBC Macau also reinforced our leading position in Sustainable Financing, actively supporting our customers on their net-zero journey through our products and services.

We remained committed towards serving the local community as well as develop next generation of talents for the benefit of Macau’s financial industry. HSBC Macau launched the “HSBC Business Case Competition” for the first time in Macau, offering an opportunity for local university students to showcase their business ideas and compete with university students around the world. The Bank and our employees actively supported local Non-Governmental Organisations and charities through volunteer workshops and partnerships.

Looking ahead, 2025 marks HSBC’s 160th anniversary, a milestone showcasing our rich history of connecting people, ideas and capital to drive development and growth. In Macau, we remain steadfast in serving our customers as well as strengthening our ties with the community.

Statement of financial position
as at 31 December 2024
(Expressed in thousands of Macau Patacas)

	31 Dec 2024 MOP'000	31 Dec 2023 MOP'000
Assets		
Cash and current balances with banks	694,067	993,561
Balances with Autoridade Monetária de Macau (“AMCM”)	446,056	460,603
Monetary bills issued by AMCM	3,234,691	3,696,736
Items in the course of collection from other banks	80,609	93,045
Loans and advances to banks	11,204,686	8,164,297
Loans and advances to customers	10,905,030	13,064,967
Equity securities	250	250
Property, plant and equipment	37,017	38,189
Other assets	365,052	516,084
	<u>26,967,458</u>	<u>27,027,732</u>
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Liabilities		
Deposits by banks	3,312,195	5,237,601
Customer accounts	22,245,445	20,255,934
Items in the course of transmission to other banks	81,876	129,534
Current taxation	27,278	42,785
Deferred tax liabilities	1,775	1,590
Other liabilities	589,574	730,974
	<u>26,258,143</u>	<u>26,398,418</u>
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Net assets	<u>709,315</u>	<u>629,314</u>
	=====	=====
Head office account and reserves		
Working capital	150,000	-
Head office account	405,793	441,966
Financial assets at FVOCI reserve	(342)	93
Share-based payment reserve	11,920	12,305
Property revaluation reserve	15,634	16,392
General regulatory reserve	126,310	158,558
Specific regulatory reserve	-	-
	<u>709,315</u>	<u>629,314</u>
	=====	=====

Statement of profit or loss
for the year ended 31 December 2024
(Expressed in thousands of Macau Patacas)

	2024 MOP'000	2023 MOP'000
Interest income	1,163,931	1,148,115
Interest expense	(762,267)	(675,383)
Net interest income	<u>401,664</u>	<u>472,732</u>
Fee and commission income	85,075	90,902
Fee and commission expense	(10,777)	(9,490)
Net fee and commission income	<u>74,298</u>	<u>81,412</u>
Net trading income	124,484	128,435
Other operating income	14,484	23,067
Operating expenses	(298,362)	(272,342)
Change in expected credit losses	(88,955)	(110,206)
Profit before taxation	<u>227,613</u>	<u>323,098</u>
Tax expense	(27,395)	(45,578)
Profit for the year	<u><u>200,218</u></u>	<u><u>277,520</u></u>

Statement of comprehensive income
for the year ended 31 December 2024
(Expressed in thousands of Macau Patacas)

	2024 MOP'000	2023 MOP'000
Profit for the year	200,218	277,520
Items that will not be reclassified subsequently to profit or loss:		
Fair value losses on property revaluation	(758)	(65,314)
Remeasurement of defined benefit plans	839	(277)
Changes in fair value of share-based payment liability to HSBC Holdings plc	(385)	(175)
Items that will be reclassified subsequently to profit or loss when specific conditions are met:		
Debt instruments at fair value through other comprehensive income ("FVOCI")		
- Fair value (losses)/gains on financial assets	(427)	5,120
- Expected credit losses recognized in the income statement	(8)	-
	(435)	5,120
Other comprehensive loss for the year	(739)	(60,646)
Total comprehensive income for the year	199,479	216,874

Statement of changes in equity
for the year ended 31 December 2024
(Expressed in thousands of Macau Patacas)

	Working capital	Head Office account	Financial assets at FVOCI reserve	Share-based payment reserve	Property revaluation reserve	General regulatory reserve	Specific regulatory reserve	Total
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
At 1 January 2024	-	441,966	93	12,305	16,392	158,558	-	629,314
Profit for the year	-	200,218	-	-	-	-	-	200,218
Profit remitted to head office	-	(119,447)	-	-	-	-	-	(119,447)
Transfer to working capital	150,000	(150,000)	-	-	-	-	-	-
Financial assets at fair value through other comprehensive income	-	-	(435)	-	-	-	-	(435)
Actuarial gains on defined benefits plans	-	839	-	-	-	-	-	839
Changes in fair value of share-based payment liability to HSBC Holding plc	-	-	-	(385)	-	-	-	(385)
Transfer of revaluation surplus upon disposal of assets held for sale	-	-	-	-	-	-	-	-
Deferred tax impact transferred from profit and loss related to the disposal of assets held for sale	-	-	-	-	-	-	-	-
Property revaluation	-	-	-	-	(758)	-	-	(758)
Change in regulatory reserve	-	32,248	-	-	-	(32,248)	-	-
Other	-	(31)	-	-	-	-	-	(31)
At 31 December 2024	150,000	405,793	(342)	11,920	15,634	126,310	-	709,315

Statement of changes in equity (continued)
for the year ended 31 December 2024
(Expressed in thousands of Macau Patacas)

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

Statement of cash flows
for the year ended 31 December 2024
(Expressed in thousands of Macau Patacas)

	2024 MOP'000	2023 MOP'000
Operating activities		
Profit before taxation	227,613	323,098
Adjustments for:		
Depreciation	6,777	7,041
Gain on disposal of assets held for sale	-	(10,810)
Loss on disposal of property, plant and equipment	-	124
Change in expected credit losses	88,955	110,206
Interest income	(1,163,931)	(1,148,115)
Interest expense	762,267	675,383
Interest received	1,074,044	1,114,306
Interest paid	(721,498)	(586,907)
Other non-cash items included in profit before tax	(31)	-
Operating cash flows before changes in working capital	274,196	484,326
Change in balances with AMCM for the purpose of fulfilling minimum liquidity requirement	(5,925)	(56,513)
Change in monetary bills with original maturity of more than three months	179,436	(431,451)
Change in loans and advances to banks with original maturity of more than three months	487,734	(1,809,100)
Change in gross loans and advances to customers	2,011,925	1,869,628
Change in items in the course of collection from other banks	-	(42,957)
Change in other assets	309,856	418,236
Change in deposits by banks	(1,925,406)	(2,438,657)
Change in customer accounts	1,989,511	3,520,277
Change in items in the course of transmission to other banks	-	(18,116)
Change in other liabilities	(312,083)	(537,048)
Cash generated from operations	3,009,244	958,625
Taxation paid	(42,674)	(47,526)
Net cash generated from operating activities	2,966,570	911,099

Statement of cash flows (continued)
for the year ended 31 December 2024
(Expressed in thousands of Macau Patacas)

	2024 MOP'000	2023 MOP'000
Investing activities		
Purchases of property, plant and equipment	(6,411)	(8,803)
Proceeds from disposals of property, plant and equipment	-	2,952
Proceeds from disposals of assets held for sale	-	85,710
Net cash (used in)/generated from investing activities	<u>(6,411)</u>	<u>79,859</u>
Financing activity		
Profit remitted to head office	(119,447)	(242,043)
Net cash used in financing activity	<u>(119,477)</u>	<u>(242,043)</u>
Net increase in cash and cash equivalents	2,840,712	748,915
Cash and cash equivalents as at 1 January	7,385,268	6,636,353
Cash and cash equivalents as at 31 December	<u>10,225,980</u>	<u>7,385,268</u>
Analysis of balances of cash and cash equivalents		
	2024 MOP'000	2023 MOP'000
Cash and current balances with banks	694,067	993,561
Balances with AMCM	446,056	460,603
Monetary bills issued by AMCM	3,234,691	3,696,736
Loans and advances to banks	11,204,686	8,164,297
Others	(1,267)	-
Amount shown in the balance sheet	<u>15,578,233</u>	<u>13,315,197</u>
Less:		
- Balance with AMCM for the purpose of fulfilling minimum liquidity requirement	(359,007)	(353,082)
- Monetary bills issued by AMCM with original maturity over three months	(939,455)	(1,119,326)
- Loans and advances to banks with original maturity over three months	(4,053,791)	(4,457,521)
Cash and cash equivalents in the cash flow statement	<u>10,225,980</u>	<u>7,385,268</u>

Off-balance-sheet exposures
as at 31 December 2024
(Expressed in thousands of Macau Patacas)

(a) *Contingent liabilities and commitments*

	<i>Contractual amounts At 31 Dec 2024 MOP'000</i>	<i>Contractual amounts At 31 Dec 2023 MOP'000</i>
Financial guarantees	3,859	11,994
Performance guarantees	2,909,142	2,925,014
Documentary credits and trade related contingencies	716,182	1,348,440
Other commitments		
- With an original maturity over 1 year	67,029	-
- Which are unconditionally cancellable	13,085,056	11,205,058
	13,152,085	11,205,058

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

Off-balance-sheet exposures (continued) as at 31 December 2024 (Expressed in thousands of Macau Patacas)

(b) Derivatives

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

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

	<i>At 31 Dec 2024</i> MOP'000	<i>At 31 Dec 2023</i> MOP'000
Exchange rate contracts	2,280,468	3,488,075

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

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

	<i>At 31 Dec 2024</i> MOP'000	<i>At 31 Dec 2023</i> MOP'000
Fair value		
- Exchange rate contracts		
Assets	40,563	21,348
Liabilities	22,996	20,420

	<i>At 31 Dec 2024</i> MOP'000	<i>At 31 Dec 2023</i> MOP'000
Credit risk weighted amounts		
- Exchange rate contracts	12,127	9,340

Accounting policies

(a) *Statement of compliance*

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

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

(b) *Basis of preparation of the financial statements*

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

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

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

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

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

Accounting policies (continued)

(c) *New standards and interpretations issued but is not effective or adopted*

Effective from 1 January 2026, the Financial Reporting Standards issued by the Directive of Secretaria para a Economia e Financas No. 44/2020 on 17 March 2020 (“MFRS”) will be replaced by the Financial Reporting Standards issued by the Professional Committee of Accountants of the Government of the Macao Special Administrative Region Notice No. 2/2024/CPC on 19 December 2024 (“New MFRS”). The New MFRS is mandatory for adoption from the annual period beginning 1 January 2028.

Below shows the amendments that may potentially impact to the Branch’s financial statements:

IFRS 16 ‘Leases’

IFRS 16 ‘Leases’ results in lessess accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 ‘Leases’. Lessees will recognize a right of use (‘ROU’) asset and a corresponding financial liability on the balance sheet. The asset will be amortised over the length of the lease, and the financial liability measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17.

The management is assessing the impact of New MFRS to the Branch’s financial statements.

(d) *Financial instruments*

(i) Classification of financial instruments

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

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

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

(ii) Recognition and derecognition of financial instruments

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

Accounting policies (continued)

(d) *Financial instruments (continued)*

(iii) Valuation of financial instruments

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

(iv) Financial instruments measured at amortised cost

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

(v) Financial assets measured at fair value through other comprehensive income (“FVOCI”)

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

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

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

Accounting policies (continued)

(d) *Financial instruments (continued)*

(vii) Derivatives

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

(viii) Impairment of amortised cost and FVOCI financial assets

Expected credit losses (“ECL”) are recognised for loans and advances to banks and customers, other financial assets held at amortised cost and debt instruments measured at FVOCI, and certain loan commitments and financial guarantee contracts. At initial recognition, an allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from default events that are possible within the next 12 months (or less, where the remaining life is less than 12 months) (“12-month ECL”). In the event of a significant increase in credit risk, an allowance (or provision) is required for ECL resulting from all possible default events over the expected life of the financial instrument (“lifetime ECL”). Financial assets where 12-month ECL is recognised are considered to be ‘stage 1’; financial assets that are considered to have experienced a significant increase in credit risk are in ‘stage 2’; and financial assets for which there is objective evidence of impairment so are considered to be in default or otherwise credit-impaired are in ‘stage 3’.

Write-off

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

Credit-impaired (stage 3)

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

Accounting policies (continued)

(d) *Financial instruments (continued)*

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

Credit-impaired (stage 3) (continued)

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

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

Forbearance

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

Performing forborne loans are initially stage 2 and remain classified as forborne until they meet applicable cure criteria (for example, they continue to not be in default and no other indicators of default are present for a period of at least 24 months). At this point, the loan is either stage 1 or stage 2 as determined by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms).

A forborne loan is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms, or if the terms of an existing agreement are modified such that the forborne loan is a substantially different financial instrument. Any new loans that arise following derecognition events in these circumstances would generally be classified as POCI and will continue to be disclosed as forborne.

Accounting policies (continued)

(d) *Financial instruments (continued)*

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

Significant increase in credit risk (stage 2)

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

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

However, 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 and are transferred from stage 1 to stage 2. In addition, wholesale loans that are individually assessed, which are typically corporate and commercial customers, and included on a watch or worry list, are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime probability of default (“PD”), which encompasses a wide range of information including the obligor’s customer risk rating (“CRR”), macroeconomic condition forecasts and credit transition probabilities.

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

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

Accounting policies (continued)

(d) *Financial instruments (continued)*

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

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

For CRRs greater than 3.3 that are not impaired, a significant increase in credit risk is considered to have occurred when the origination PD has doubled. The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates.

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. In the absence of this data, origination PD must be approximated assuming through-the-cycle (“TTC”) PDs and TTC migration probabilities, consistent with the instrument’s underlying modelling approach and the CRR at origination. For these loans, the quantitative comparison is supplemented with additional CRR deterioration-based thresholds as set out in the table below:

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

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

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

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

Accounting policies (continued)

(d) *Financial instruments (continued)*

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

Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. In the case of non-performing forbore loans, such financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment and meet the curing criteria as described above.

Measurement of ECL

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

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

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

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

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

Accounting policies (continued)

(d) Financial instruments (continued)

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

Measurement of ECL (continued)

Model	Regulatory capital	IFRS 9
PD	<ul style="list-style-type: none"> – Represents long-run average PD throughout a full economic cycle (for mortgage portfolios a hybrid approach, which sits between the extremes of point in time and through the cycle, is used for calculating long-run averages as required by the PRA) – Default backstop of 90+ days past due for all portfolios (includes unlikelihood to pay (UTP) criteria in line with internal policy) – May be subject to a sovereign cap 	<ul style="list-style-type: none"> – Represents current portfolio quality and performance, adjusted for the impact of multiple forward-looking macro-economic scenarios – Default backstop of 90+ days past due for all portfolios (includes UTP criteria in line with internal policy)
EAD	<ul style="list-style-type: none"> – Cannot be lower than current balance 	<ul style="list-style-type: none"> – Amortisation captured for term products – Future drawdown captured for revolving products
LGD	<ul style="list-style-type: none"> – Downturn LGD (consistent with losses we would expect to suffer during a severe but plausible economic downturn) – Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data – Discounted using appropriate index (minimum 9%) – All collection costs included 	<ul style="list-style-type: none"> – LGD based on recent portfolio performance data and includes the expected impact of future economic conditions such as change in the value of collateral – No floors applied, discounted using the original effective interest rate – Only costs associated with selling collateral and certain third party costs are 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 IRB 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.

Accounting policies (continued)

(d) *Financial instruments (continued)*

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

Measurement of ECL (continued)

The ECL for wholesale stage 3 is determined primarily on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the estimates as of 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 of collateral based on the estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral.

The cash flows are discounted at a reasonable approximation of the original effective interest rate. For significant cases, cash flows under up to four different scenarios are probability-weighted by reference to the status of the borrower, economic scenarios applied more generally by the Branch and judgement in relation to the likelihood of the work-out strategy succeeding or receivership being required. For less significant cases where an individual assessment is undertaken, the effect of different economic scenarios and work-out strategies results in an ECL calculation based on a most likely outcome which is adjusted to capture losses resulting from less likely but possible outcomes. For certain less significant cases, the Branch may use an LGD-based modelled approach to ECL assessment, which factors in a range of economic scenarios.

Period over which ECL is measured

ECL is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Branch is exposed to credit risk.

However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Branch's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered.

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

Accounting policies (continued)

(d) *Financial instruments (continued)*

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

Period over which ECL is measured (continued)

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

The recognition and measurement of ECL involves the use of significant judgement and estimation. We form multiple economic scenarios, apply these forecasts to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate.

At 31 December 2024, four scenarios “Central”, “Upside”, “Downside” and “Downside 2” were used to capture the latest economic expectations and to articulate management’s view of the range of risks and potential outcomes. Each scenario is updated with the latest economic forecasts and distributional estimates every quarter.

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

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

Accounting policies (continued)

(d) *Financial instruments (continued)*

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

Forward-looking economic inputs (continued)

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

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

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

(e) *Property, plant and equipment*

(i) Land and buildings

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

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

Accounting policies (continued)

(e) Property, plant and equipment (continued)

(i) Land and buildings (continued)

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

(ii) Other equipment

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

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

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

(f) Impairment of non-financial assets

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

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

(g) Cash and cash equivalents

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

Accounting policies (continued)

(h) Operating leases

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

(i) Employee compensation and benefits

(i) Short term employee benefits

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

(ii) Post-employment benefit plans

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

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

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

Accounting policies (continued)

(j) Tax

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

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

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

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

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

(k) Provisions and contingent liabilities

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

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

Accounting policies (continued)

(l) Assets held for sale

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

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

(m) Revenue recognition

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

(i) Interest income and expense

Interest income and expense for all financial instruments are recognised in 'Interest income' and 'Interest expense' in the income statement using the effective interest method. Interest on credit impaired financial assets is recognised by applying the effective interest rate to the amortised cost (i.e. gross carrying amount of the asset less allowance for expected credit losses ('ECL')).

(ii) Non-interest income and expense

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

The Branch recognises fees earned on transaction-based arrangements at a point in time when it has fully provided the service to the customer. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement.

Accounting policies (continued)

(n) Foreign currencies

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

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

(o) Related parties

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

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

Significant related party transactions

(Expressed in thousands of Macau Patacas)

The Branch entered into the following significant related party transactions.

(a) Transactions with group companies

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

The amount of related-party transactions during the year and outstanding balances at 31 December 2024 and 31 December 2023 are set out below:

	<i>Associates, other branches, subsidiaries and fellow subsidiaries</i>		<i>The Hongkong and Shanghai Banking Corporation, Hong Kong Branch</i>	
	<i>2024</i>	<i>2023</i>	<i>2024</i>	<i>2023</i>
	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>	<i>MOP'000</i>
Interest income	5,102	7,188	277,834	195,003
Interest expense	(793)	(733)	(197,627)	(286,651)
Fee and commission income	6,585	6,104	623	704
Fee and commission expense	(855)	(1,062)	(669)	(378)
Other operating income	14,412	11,449	-	1,555
Operating expenses	(44,933)	(42,709)	(77,711)	(58,655)
For the year ended 31 December	(20,482)	(19,763)	2,450	(148,422)
Cash and current balances with banks	132,250	142,260	50,733	138,889
Loans and advances to banks	784,289	483,012	8,019,722	5,656,353
Other assets	2,583	4,547	17,212	55,050
As at 31 December	919,122	629,819	8,087,667	5,850,292
Deposits by banks	9,434	22,885	3,298,051	5,210,841
Customer accounts	62,812	56,148	-	-
Other liabilities	3,376	4,723	100,848	53,089
As at 31 December	75,622	83,756	3,398,899	5,263,930

Significant related party transactions (continued)

(Expressed in thousands of Macau Patacas)

(a) Transactions with group companies (continued)

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

(b) Key management personnel

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

	2024 MOP'000	2023 MOP'000
Executive officers	4,504	4,125

Credit risk management

(Expressed in thousands of Macau Patacas)

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

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

At the balance sheet date, the Branch's greatest concentration of credit risk on one market sector was 47.5% (2023: 43.1%) of total loans and advances to customers.

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

(a) *Geographical distribution of credit risk exposures*

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

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

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

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

As at 31 December 2024

	Banks MOP'000	Governments MOP'000	Public sector entities MOP'000	Others MOP'000	Total exposures MOP'000	Stage 1 ECL MOP'000	Stage 2 ECL MOP'000	Stage 3 ECL MOP'000	Total ECL MOP'000
Loans and advances to customers									
- Macau	-	-	-	10,366,378	10,366,378	3,009	2,370	507,309	512,688
- Hong Kong	-	-	-	493,233	493,233	175	326	-	501
- British Virgin Islands	-	-	-	541,199	541,199	463	18	-	481
- Others	-	-	-	17,892	17,892	2	-	-	2
	-	-	-	11,418,702	11,418,702	3,649	2,714	507,309	513,672
Contingent liabilities and commitments									
- Macau	-	-	-	16,781,268	16,781,268	98	155	384	637
- Hong Kong	-	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-	-
	-	-	-	16,781,268	16,781,268	98	155	384	637
Loans and advances to banks									
- Macau	2,400,836	-	-	-	2,400,836	110	-	-	110
- Hong Kong	8,019,721	-	-	-	8,019,721	51	-	-	51
- Others	784,290	-	-	-	784,290	-	-	-	-
	11,204,847	-	-	-	11,204,847	161	-	-	161

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

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

As at 31 December 2023

	Banks MOP'000	Governments MOP'000	Public sector entities MOP'000	Others MOP'000	Total exposures MOP'000	Stage 1 ECL MOP'000	Stage 2 ECL MOP'000	Stage 3 ECL MOP'000	Total ECL MOP'000
Loans and advances to customers									
- Macau	-	-	-	12,531,35	12,531,350	3,106	3,241	363,944	370,291
- Hong Kong	-	-	-	283,486	283,486	146	44	164	354
- British Virgin Islands	-	-	-	597,257	597,257	291	51	-	342
- Others	-	-	-	23,872	23,872	3	8	-	11
	-	-	-	13,435,96	13,435,965	3,546	3,344	364,108	370,998
Contingent liabilities and commitments									
- Macau	-	-	-	15,490,50	15,490,506	102	107	-	209
- Hong Kong	-	-	-	-	-	-	-	-	-
- Others	-	-	-	-	-	-	-	-	-
	-	-	-	15,490,50	15,490,506	102	107	-	209
Loans and advances to banks									
- Macau	2,463,286	-	-	-	2,463,286	142	-	-	142
- Hong Kong	5,701,208	-	-	-	5,701,208	55	-	-	55
- Others	-	-	-	-	-	-	-	-	-
	8,164,494	-	-	-	8,164,494	197	-	-	197

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

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

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

	<i>At 31 Dec 2024</i>	<i>At 31 Dec 2023</i>
	MOP'000	MOP'000
Macau		
Gross loans and advances to customers	10,366,378	12,531,350
Impaired loans	1,818,773	1,374,983
Expected credit loss for impaired loans	<u>507,309</u>	<u>363,943</u>

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

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

	<i>At 31 Dec 2024</i>				
	<i>Gross loans and advances to customers</i>	<i>Impaired</i>	<i>Stage 1 ECL</i>	<i>Stage 2 ECL</i>	<i>Stage 3 ECL</i>
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Agriculture and fisheries	-	-			
Mining industries	-	-	-	-	-
Manufacturing industries	-	-	-	-	-
Electricity, gas and water	101,195	-	-	-	-
Construction and public works	914,691	379,408	99	-	224,066
Wholesale and retail trade	3,269,329	880,494	389	361	196,840
Restaurants, hotels and similar	9,127	-	7	3	-
Transport, warehousing and communications	-	-	-	-	-
Non-monetary financial institutions	18,836	-	-	-	-
Gaming	-	-	-	-	-
Exhibition and conference	-	-	-	-	-
Education	-	-	-	-	-
Information technology	11,698	-	-	-	-
Other industries	1,671,273	442,946	707	270	81,217
Personal loans	5,422,553	115,925	2,447	2,080	5,186
	<u>11,418,702</u>	<u>1,818,773</u>	<u>3,649</u>	<u>2,714</u>	<u>507,309</u>

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

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

	<i>At 31 Dec 2023</i>				
	<i>Gross loans and advances to customers</i>	<i>Impaired</i>	<i>Stage 1 ECL</i>	<i>Stage 2 ECL</i>	<i>Stage 3 ECL</i>
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Agriculture and fisheries	-	-	-	-	-
Mining industries	-	-	-	-	-
Manufacturing industries	51,804	-	4	-	-
Electricity, gas and water	100,589	-	7	-	-
Construction and public works	1,748,165	341,960	117	3	193,690
Wholesale and retail trade	3,725,873	443,350	579	271	137,152
Restaurants, hotels and similar	9,808	-	4	1	-
Transport, warehousing and communications	-	-	-	-	-
Non-monetary financial institutions	4,854	-	-	-	-
Gaming	-	-	-	-	-
Exhibition and conference	-	-	-	-	-
Education	-	-	-	-	-
Information technology	10,059	-	-	-	-
Other industries	1,995,591	462,789	632	150	28,804
Personal loans	5,789,222	130,230	2,203	2,919	4,462
	<u>13,435,965</u>	<u>1,378,329</u>	<u>3,546</u>	<u>3,344</u>	<u>364,108</u>

Credit risk management (continued)

(Expressed in thousands of Macau Patacas)

(c) Ageing analysis on accounting past due exposures

Overdue loans and advances to banks

There were no overdue loans and advances to banks as at 31 December 2024 and 31 December 2023.

Overdue loans and advances to non-banks customers

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

At 31 December 2024

	Gross loans and advances to customers MOP'000	% of total loans and advances to customers MOP'000	Collateral Value MOP'000	Amount of expected credit loss MOP'000
Loans and advances to customers that are past due for periods of:				
– more than 3 months but less than 6 months	9,419	0.08%	23,999	246
– more than 6 months but less than 1 year	1,832	0.02%	3,193	48
– more than 1 year	1,319,172	11.55%	1,362,108	493,791
	<u>1,330,423</u>	<u>11.65%</u>	<u>1,389,300</u>	<u>494,085</u>

At 31 December 2023

	Gross loans and advances to customers MOP'000	% of total loans and advances to customers MOP'000	Collateral Value MOP'000	Amount of expected credit loss MOP'000
Loans and advances to customers that are past due for periods of:				
– more than 3 months but less than 6 months	4,793	0.04%	13,390	225
– more than 6 months but less than 1 year	615,451	4.58%	941,353	23,122
– more than 1 year	661,468	4.92%	563,076	338,364
	<u>1,281,712</u>	<u>9.54%</u>	<u>1,517,819</u>	<u>361,711</u>

As at 31 December 2024, there were no other assets that have been past due for bank and non-bank customers.

As at 31 December 2024, all the past due loans and advances to customers more than 3 months were considered to be impaired.

As at 31 December 2024, there was no management overlay of ECL on loans and advances to customers.

Credit risk management (continued)
 (Expressed in thousands of Macau Patacas)

(d) Credit quality analysis under regulatory asset classification

	<i>At 31 Dec 2024</i>					
	<i>Gross exposure MOP'000</i>	<i>Value of collateral MOP'000</i>	<i>Stage 1 ECL MOP'000</i>	<i>Stage 2 ECL MOP'000</i>	<i>Stage 3 ECL MOP'000</i>	<i>Net exposure MOP'000</i>
Balances with AMCM						
Pass	446,056	-	-	-	-	446,056
Loans and advances to banks						
Pass	11,204,847	-	161	-	-	11,204,686
Loans and advances to customers						
Pass	9,584,332	13,575,164	3,648	2,289	-	9,578,395
Special mention	15,597	22,173	-	231	-	15,366
Substandard	462,837	516,367	-	109	12,942	449,786
Doubtful	35,556	95,069	1	85	528	34,942
Loss	1,320,380	1,365,301	-	-	493,839	826,541
	<u>11,418,702</u>	<u>15,574,074</u>	<u>3,649</u>	<u>2,714</u>	<u>507,309</u>	<u>10,905,030</u>

Credit risk management (continued)
 (Expressed in thousands of Macau Patacas)

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

	<i>At 31 Dec 2023</i>					
	<i>Gross exposure MOP'000</i>	<i>Value of collateral MOP'000</i>	<i>Stage 1 ECL MOP'000</i>	<i>Stage 2 ECL MOP'000</i>	<i>Stage 3 ECL MOP'000</i>	<i>Net exposure MOP'000</i>
Balances with AMCM						
Pass	460,603	-	-	-	-	460,603
Loans and advances to banks						
Pass	8,164,494	-	197	-	-	8,164,297
Loans and advances to customers						
Pass	11,940,033	16,364,277	3,102	2,064	-	11,934,867
Special mention	116,075	159,531	43	297	-	115,735
Substandard	59,283	127,408	-	242	1,204	57,837
Doubtful	654,024	1,053,776	401	741	24,313	628,569
Loss	666,550	576,466	-	-	338,591	327,959
	<u>13,435,965</u>	<u>18,281,458</u>	<u>3,546</u>	<u>3,344</u>	<u>364,108</u>	<u>13,064,967</u>

Market risk management

Market risk

Market risk is the risk that movements in foreign exchange rates, interest rates, credit spreads, or equity and commodity prices will result in profits or losses to the Branch. Market risk arises on financial instruments which are measured at fair value and those which are measured at amortised cost. The objective of market risk management is to control market risk exposures to achieve an optimal return while maintaining risk at acceptable levels.

The Branch monitors market risk separately for trading portfolios and non-trading portfolios. Trading portfolios include positions arising from market-making in exchange rate, interest rate, credit and equity derivative instruments, as well as in debt and equity securities. Trading risks arise either from customer-related business or from proprietary position-taking.

Interest rate risk management

Interest rate risk

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

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

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

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

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

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

Operational risk management

Operational risk

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

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

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

- operational risk management responsibility is assigned to senior management within the business operation;
- information systems are used to record the identification and assessment of operational risks and to generate appropriate, regular management reporting;
- assessments are undertaken of the operational risks facing each business and the risks inherent in its processes, activities and products. Risk assessment incorporates a regular review of identified risks to monitor significant changes;
- operation loss data is collected and reported to senior management; and
- risk mitigation, including insurance, is considered where this is cost-effective.

Foreign exchange risk management

(Expressed in thousands of Macau Patacas)

Foreign currency risk

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

As most of the Branch’s financial instruments at 31 December 2024 and 2023 were denominated in either HKD or USD, management does not consider there to be any significant currency risk associated with them.

Analysis on total net position in currencies other than MOP:

In thousands of MOP equivalent	At 31 Dec 2024			Total
	United States Dollars	Hong Kong Dollars	Other foreign currencies	
Spot assets	8,114,497	10,431,209	2,486,243	21,031,949
Spot liabilities	(8,904,936)	(10,522,484)	(1,704,742)	(21,132,162)
Forward purchase	1,418,869	21,318	609,527	2,049,714
Forward sales	(623,135)	(243,033)	(1,392,575)	(2,258,743)
Net long/(short) non-structural position	5,295	(312,990)	(1,547)	(309,242)

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

Liquidity risk management

(Expressed in thousands of Macau Patacas)

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

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

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

	<i>Year ended 31 Dec 2024 MOP'000</i>	<i>Year ended 31 Dec 2023 MOP'000</i>
(a) The arithmetic mean of the minimum weekly amount of cash in hand that is required to be held	500,090	474,639
(b) The arithmetic mean of the average weekly amount of cash in hand	714,197	738,535
(c) The arithmetic mean of the specified liquid assets at the end of each month	13,014,169	11,969,033
(d) The average ratio of specified liquid assets to total basic liabilities at the end of the month	60.2%	61.5%
(e) The arithmetic mean of its one-month liquidity ratio in the last week of each month	111.8%	250.7%
(f) The arithmetic mean of its three-month liquidity ratio in the last week of each month	58.1%	127.3%

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

Liquidity risk management (continued)

(Expressed in thousands of Macau Patacas)

Analysis on assets and liabilities by remaining maturity

	At 31 Dec 2024							Total
	on demand	within 1 month (except those repayable on demand)	within a period of more than 1 month but not more than 3 months	within a period of more than 3 months but not more than 1 year	within a period of more than 1 year but not more than 3 years	within a period of more than 3 years	within an indefinite period	
	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000	MOP'000
Assets								
Loans and advances to customers	396,121	1,763,163	808,937	2,272,985	1,075,710	4,588,114	-	10,905,030
Cash and balances with and loans and advances to banks	694,067	7,816,258	2,010,807	1,377,621	-	-	-	11,898,753
Monetary bills issued by AMCM	-	1,148,234	1,595,221	491,236	-	-	-	3,234,691
Other securities	-	-	-	-	-	-	250	250
Liabilities								
Deposits by banks	288,187	1,160,962	159,910	1,703,136	-	-	-	3,312,195
Deposits from holding and associated companies	-	-	-	-	-	-	-	-
Customer accounts	8,808,882	4,535,890	5,996,624	2,904,049	-	-	-	22,245,445
Other securities issued	-	-	-	-	-	-	-	-

Liquidity risk management (continued)

(Expressed in thousands of Macau Patacas)

Analysis on assets and liabilities by remaining maturity (continued)

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

Other information

(Expressed in thousands of Macau Patacas)

(a) Capital commitments

There were no capital commitments outstanding not provided for in the financial statements as at 31 December 2024 and 31 December 2023.

(b) Operating lease commitments

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

	<i>At 31 Dec 2024</i>	<i>At 31 Dec 2023</i>
	MOP'000	MOP'000
Within 1 year	16,906	15,978
After 1 year but within 5 years	40,220	6,729
	<u>57,126</u>	<u>22,707</u>

(c) Assets pledged as security

There were no assets that pledged as security for the liabilities of the Branch as at 31 December 2024 and 31 December 2023.

(d) Outstanding litigations

There were no outstanding litigations which may have a significant impact on the financial position of the Branch as at 31 December 2024 and 31 December 2023.

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

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

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

(a) Consolidated capital adequacy ratio

	<i>At 31 Dec 2024</i>	<i>At 31 Dec 2023</i>
	%	%
Capital adequacy ratio		
Tier 1 capital ratio	18.4	17.5
Total capital ratio	20.3	19.7

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

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

(Expressed in Hong Kong dollars)

(b) Capital and reserves

	<i>At 31 Dec 2024</i> HKD million	<i>At 31 Dec 2023</i> HKD million
Share capital	180,181	180,181
Other equity instruments	64,677	52,465
Other reserves	102,993	117,214
Retained earnings	471,198	462,866
	<hr/>	<hr/>
Total shareholders' equity	819,049	812,726
Non-controlling interests	58,959	59,860
	<hr/>	<hr/>
Total equity	878,008	872,586
	<hr/> <hr/>	<hr/> <hr/>

(c) Consolidated assets, liabilities and profits position

	<i>At 31 Dec 2024</i> HKD million	<i>At 31 Dec 2023</i> HKD million
Total assets	10,948,940	10,500,393
Total liabilities	10,070,932	9,627,807
Loans and advances to customers	3,494,298	3,557,076
Deposits by banks	183,612	182,146
Customer accounts	6,564,606	6,261,051
	<hr/>	<hr/>
	<i>Year ended</i> <i>31 Dec 2024</i> HKD million	<i>Year ended</i> <i>31 Dec 2023</i> HKD million
Profit before taxation	153,932	121,443
	<hr/> <hr/>	<hr/> <hr/>

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

(d) Shareholders with qualifying holdings

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

(e) Board of Directors

The Board of Directors of the Bank at 31 December 2024 comprises:

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

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

INDEPENDENT AUDITOR’S REPORT ON THE SUMMARY FINANCIAL STATEMENTS

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

The accompanying summary financial statements of The Hongkong and Shanghai Banking Corporation Limited, Macau Branch (the “Branch”) set out on pages 3 to 7, which comprise the summary balance sheet as at 31 December 2024, the summary income statement and summary of comprehensive income for the year then ended and related notes, are derived from the audited financial statements of the Branch for the year ended 31 December 2024. We expressed an unmodified audit opinion on those financial statements, from which the summary financial statements are derived, in our report dated 3 April 2025.

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

Management’s Responsibility for the Summary Financial Statements

Management is responsible for the preparation of the summary financial statements in accordance with Article 86 of the Financial System Act of Macao under Law no.13/2023, 14 August 2023 and AMCM Circular No.004/B/2024-DSB/AMCM.

Auditor’s Responsibility

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

Opinion

In our opinion, the summary financial statements derived from the audited financial statements of the Branch for the year ended 31 December 2024 are consistent, in all material respects, with the audited financial statements, in accordance with Article 86 of the Financial System Act of Macao under Law no.13/2023, 14 August 2023 and AMCM Circular No.004/B/2024-DSB/AMCM.

Li Ching Lap Bernard
Certified Public Accountant
PricewaterhouseCoopers

Macao, 3 April 2025