

HSBC Bank Australia Limited

A.B.N. 48 006 434 162

Annual Report 2025

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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 2025 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

Gail Pemberton, Non-executive Director

Antony Shaw, Executive Director and Chief Executive Officer (resigned 31 December 2025)

Steve Hughes, Executive Director and Chief Executive Officer (appointed 1 January 2026)

Geoff Wilson, Non-executive Director

Anne Loveridge, Non-executive Director (appointed 1 February 2025)

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 2025, the Consolidated entity reported a profit from its continuing operations before income tax of \$658.3m, up by \$56.8m from \$601.5m in 2024. Operating income before loan impairment charges increased by \$105.4m (7%) primarily driven by the increase in net interest income due to the increases in the interest income earned on financial investments primarily from the growth in amounts invested in these securities and growth in the average mortgage lending balances. Operating costs increased by \$40.1m (4%) primarily due to increased inter-company management fees reflecting ongoing investments in digital initiatives.

Total assets decreased by \$717.9m to \$64,602.4m, primarily attributable to reduced financial investments caused by a lower commercial surplus. This decrease was partially offset by the growth in the mortgage portfolio driven by stronger settlement volume in 2025 due to growth in broker lending.

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. On 16 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. In 2025 the proceedings followed the usual litigation process and remain ongoing into 2026 towards a trial scheduled for June 2026. The Board continues to monitor these proceedings.

Significant changes in the state of affairs

Following the HSBC Group's organisational announcement in October 2024, effective from 1 January 2025, HSBC Bank Australia Limited's ('HBAU') reporting segments comprise of two businesses – Corporate and Institutional Banking ('CIB'), International Wealth and Premier Banking ('IWPB') along with Corporate Centre. CIB is formed from the integration of our Commercial Banking business with our Global Banking and Markets business.

Earlier this year, HSBC Group commenced targeted strategic reviews of four retail businesses across Asia, including Australia. This review is currently in progress, and no final decisions have been reached at this stage.

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 except for those specific items detailed above.

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\$50m (\$0.073 per share) was declared and payable by the Company as dividends on ordinary shares. In addition, an amount of AUD\$10.8m was declared and payable by the Company as dividends on additional tier 1 capital instrument. 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.

Directors' report

Lead auditor's independence declaration

The lead auditor's independence declaration is set out on page 62 for the year ended 31 December 2025.

Non-audit services

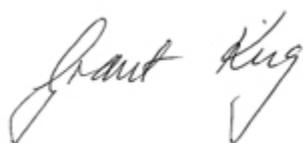
Amounts paid or payable to PricewaterhouseCoopers ('PwC') for audit, review, assurance and non-audit services provided during the year, are set out in Note 7.

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 report is made with a resolution of the Directors.



Grant King
Chairman



Steve Hughes
Director and Chief Executive Officer

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.

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.

Dated at Sydney this 27 March 2026

Financial statements

Income statements

for the year ended 31 December 2025

	Notes	Consolidated		Company	
		2025 \$m	2024 \$m	2025 \$m	2024 \$m
Interest income	4(i)	2,835.3	2,797.5	2,835.3	2,797.5
Interest expense	4(iii)	(1,628.2)	(1,670.5)	(1,628.2)	(1,670.5)
Net interest income		1,207.1	1,127.0	1,207.1	1,127.0
Fee and commission income	4(iv)	212.2	192.7	212.2	192.7
Fee and commission expense	4(v)	(95.2)	(90.6)	(95.2)	(90.6)
Net fee and commission income		117.0	102.1	117.0	102.1
Net trading income	4(vi)	148.3	172.7	148.3	172.7
Gains/losses arising from the derecognition of financial assets measured at amortised cost		5.4	—	5.4	—
Net gain/(loss) from disposal of financial investments		7.3	0.6	7.3	0.6
Other operating income	4(iii)	157.7	135.0	157.7	135.0
Net other operating income		318.7	308.3	318.7	308.3
Operating income before change in expected credit losses and other credit impairment charges		1,642.8	1,537.4	1,642.8	1,537.4
Net change in expected credit losses and other credit impairment charges	5	(7.1)	1.4	(7.1)	1.4
Net operating income		1,635.7	1,538.8	1,635.7	1,538.8
Operating expenses					
– employee compensation and benefits	6(i)	(401.5)	(398.0)	(401.5)	(398.0)
– premises and equipment	6(iii)	(60.8)	(65.2)	(60.8)	(65.2)
– general and administrative expenses	6(iii)	(130.3)	(133.4)	(130.3)	(133.4)
– other expenses	6(iv)	(384.8)	(340.7)	(384.8)	(340.7)
Total operating expenses		(977.4)	(937.3)	(977.4)	(937.3)
Profit before income tax		658.3	601.5	658.3	601.5
Income tax expense	8(a)	(198.4)	(180.6)	(198.4)	(180.6)
Profit for the year		459.9	420.9	459.9	420.9
Attributable to equity holders of the parent		459.9	420.9	459.9	420.9

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

Statements of comprehensive income

for the year ended 31 December 2025

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Profit for the year	459.9	420.9	459.9	420.9
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	(27.8)	(10.4)	(27.8)	(10.4)
– net amount transferred to Income statements	(7.3)	—	(7.3)	—
– deferred tax on items taken directly to or transferred from equity	10.9	2.7	10.9	2.7
– other movements	(0.7)	0.2	(0.7)	0.2
Cash flow hedges				
– net amount transferred to Income statement	—	—	—	—
– effective portion of changes in fair value	3.6	15.6	3.6	15.6
– deferred tax on items taken directly to or transferred from equity	(1.1)	(4.6)	(1.1)	(4.6)
Total other comprehensive income/(loss)	(22.4)	3.5	(22.4)	3.5
Total comprehensive income for the year	437.5	424.4	437.5	424.4
Attributable to equity holders of the parent	437.5	424.4	437.5	424.4

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

Financial statements

Statements of financial position at 31 December 2025

	Notes	Consolidated		Company	
		2025 \$m	2024 \$m	2025 \$m	2024 \$m
Assets					
Cash and balances at central banks		3,646.3	4,992.4	3,646.3	4,992.4
Items in the course of collection from other banks		0.1	0.1	0.1	0.1
Other financial assets mandatorily measured at fair value through profit or loss		10.6	11.7	10.6	11.7
Derivatives	9	140.5	427.3	140.5	427.3
Loans and advances to banks	26	16.1	84.5	16.1	84.5
Loans and advances to customers	26	41,829.5	39,638.7	41,829.5	39,638.7
Financial investments	10	15,748.7	16,007.5	15,748.7	16,007.5
Receivables from related entities	32	2,013.5	2,672.3	2,013.5	2,672.3
Other assets	14	836.2	1,090.3	831.4	1,087.8
Right-of-use assets	23	148.2	170.5	148.2	170.5
Property, plant and equipment	11	32.2	44.6	32.2	44.6
Net deferred tax assets	15	116.8	114.8	116.8	114.8
Intangible assets	13	63.7	65.6	63.7	65.6
Total assets		64,602.4	65,320.3	64,597.6	65,317.8
Liabilities					
Deposits by banks		773.2	524.5	773.2	524.5
Items in the course of transmission to other banks		29.3	31.5	29.3	31.5
Sale and repurchase agreements – non-trading		850.0	—	850.0	—
Derivatives	9	84.4	228.6	84.4	228.6
Customer accounts		51,060.5	51,351.0	51,060.5	51,351.0
Debt securities in issue	17	2,356.3	2,998.7	—	—
Provisions for liabilities and charges	16	29.9	19.7	29.9	19.7
Payables to related entities	32	5,488.5	6,257.2	7,847.8	9,261.5
Other liabilities	18	349.3	398.4	341.5	390.3
Lease liabilities	23	168.5	189.6	168.5	189.6
Employee benefits	19	117.6	112.8	117.6	112.8
Total liabilities		61,307.5	62,112.0	61,302.7	62,109.5
Net assets		3,294.9	3,208.3	3,294.9	3,208.3
Equity					
Share capital	20	811.0	811.0	811.0	811.0
Reserves		335.8	357.7	335.8	357.7
Retained earnings		2,148.1	2,039.6	2,148.1	2,039.6
Total equity		3,294.9	3,208.3	3,294.9	3,208.3

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

Financial statements

Statement of changes in equity – Consolidated

for the year ended 31 December 2025

	Share capital \$m	FVOCI reserve \$m	Cash flow hedging reserve \$m	Capital contribution reserve \$m	Other capital reserve \$m	Retained profits \$m	Total \$m
At 1 Jan 2025	811.0	(37.2)	(2.9)	(2.2)	400.0	2,039.6	3,208.3
Profit for the year						459.9	459.9
Other comprehensive income (net of income tax)							
Cash flow hedges							
– effective portion of changes in fair value	–	–	2.5	–	–	–	2.5
– net amount transferred to Income statement	–	–	–	–	–	–	–
Financial assets measured at fair value through other comprehensive income							
– net change in fair value	–	(27.8)	–	–	–	–	(27.8)
– net amount transferred to Statements of comprehensive income	–	2.9	–	–	–	–	2.9
Total other comprehensive income/(loss)	–	(24.9)	2.5	–	–	–	(22.4)
Total comprehensive income for year	–	(24.9)	2.5	–	–	459.9	437.5
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
– share based payments	–	–	–	0.5	–	(8.4)	(7.9)
– dividends to equity holders	–	–	–	–	–	(343.0)	(343.0)
Total contributions by and distributions to owners	–	–	–	0.5	–	(351.4)	(350.9)
At 31 Dec 2025	811.0	(62.1)	(0.4)	(1.7)	400.0	2,148.1	3,294.9
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

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

Financial statements

Statement of changes in equity – Company

for the year ended 31 December 2025

	Share capital \$m	FVOCI reserve \$m	Cash flow hedging reserve \$m	Capital contribution reserve \$m	Other capital reserve \$m	Retained profits \$m	Total \$m
At 1 Jan 2025	811.0	(37.2)	(2.9)	(2.2)	400.0	2,039.6	3,208.3
Profit for the year	—	—	—	—	—	459.9	459.9
Other comprehensive income (net of income tax)							
Cash flow hedges							
– effective portion of changes in fair value	—	—	2.5	—	—	—	2.5
– net amount transferred to Income statement	—	—	—	—	—	—	—
Financial assets measured at fair value through other comprehensive income							
– net change in fair value	—	(27.8)	—	—	—	—	(27.8)
– net amount transferred to Statements of comprehensive income	—	2.9	—	—	—	—	2.9
Total other comprehensive income/(loss)	—	(24.9)	2.5	—	—	—	(22.4)
Total comprehensive income for year	—	(24.9)	2.5	—	—	459.9	437.5
Transactions with owners, recorded directly in equity							
Contributions by and distributions to owners							
– share based payments	—	—	—	0.5	—	(8.4)	(7.9)
– dividends to equity holders	—	—	—	—	—	(343.0)	(343.0)
Total contributions by and distributions to owners	—	—	—	0.5	—	(351.4)	(350.9)
At 31 Dec 2025	811.0	(62.1)	(0.4)	(1.7)	400.0	2,148.1	3,294.9
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

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

Financial statements

Statements of cash flows

for the year ended 31 December 2025

	Notes	Consolidated		Company	
		2025 \$m	2024 \$m	2025 \$m	2024 \$m
Cash flows from operating activities					
Interest received		2,670.6	2,650.1	2,670.6	2,650.1
Interest paid		(1,684.4)	(1,609.7)	(1,684.1)	(1,613.0)
Other income received		431.4	413.4	433.7	413.6
Other expenses paid		(905.0)	(835.8)	(905.0)	(835.8)
Loans and bills advanced		(1,412.0)	(1,313.5)	(1,412.0)	(1,313.5)
Net increase/(decrease) in deposits, repo and other borrowings		25.0	5,408.0	(620.0)	6,791.5
Net (increase)/decrease in trading assets		271.5	(385.0)	271.5	(385.0)
Net (increase)/decrease from movements in other assets/liabilities		234.3	(659.7)	234.3	(659.2)
Income tax paid		(201.6)	(190.7)	(201.6)	(190.7)
Net cash from/(used in) operating activities	28	(570.2)	3,477.1	(1,212.6)	4,858.0
Cash flows from investing activities					
Purchases of investment securities		(13,795.8)	(12,343.2)	(13,795.8)	(12,343.2)
Purchases of property, plant and equipment		(2.9)	(16.7)	(2.9)	(16.7)
Payments for intangible assets		(0.1)	(3.4)	(0.1)	(3.4)
Proceeds from sale and maturity of investments		14,088.6	7,159.7	14,088.6	7,159.7
Net cash from/(used in) investing activities		289.8	(5,203.6)	289.8	(5,203.6)
Cash flows from financing activities					
Issuance of debt securities		193.5	2,000.0	—	—
Redemption of debt securities		(835.9)	(819.1)	—	(200.0)
Dividends paid		(343.0)	(488.9)	(343.0)	(488.9)
Principal elements of finance lease payments		(24.5)	(25.5)	(24.5)	(25.5)
Net cash from/(used in) financing activities		(1,009.9)	666.5	(367.5)	(714.4)
Net increase in cash and cash equivalents held		(1,290.3)	(1,060.0)	(1,290.3)	(1,060.0)
Cash and cash equivalents at the beginning of the year		6,822.7	7,882.7	6,822.7	7,882.7
Cash and cash equivalents at the end of the year	28	5,532.4	6,822.7	5,532.4	6,822.7

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

Notes on the Consolidated financial statements

1 Reporting entity

HSBC Bank Australia Limited is a company domiciled in Australia. The consolidated financial report for the year ended 31 December 2025 comprises the 'Company' or the 'Bank' and its subsidiaries (together referred to as the 'Consolidated entity'). The entities that form part of the Consolidated entity are outlined in Note 12 Group entities. 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 ('IASB'). The Financial Report includes the consolidated and standalone financial statements of the Company and the Consolidated entity, respectively. Notes accompanying the financial statements, the Consolidated entity disclosure statement and the Directors' declaration form part of the Financial Report. The Directors have the power to amend and reissue the Financial Statements.

The financial report was authorised for issue by the Board of Directors on 27 March 2026.

(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 estimates and judgements about future conditions 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:

- Impairment of amortised cost and FVOCI financial assets – refer to Note 3(f) for details
- Valuation of financial instruments – refer to Note 3(i) for details
- Goodwill – refer to Note 3(m) for details
- Provisions, contingent liabilities and guarantees – 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

AASB S1 'General Requirements for Disclosure of Sustainability-related Financial Information' and AASB S2 'Climate-related Disclosures'

In September 2024, the Australian Accounting Standards Board ('AASB') published AASB S1 General Requirements for Disclosure of Sustainability-related Financial Information and AASB S2 Climate-related Disclosures. While the application of AASB S1 is voluntary, compliance with AASB S2 is mandatory and will require the Bank's parent company HSBC Australia Holdings Pty Limited to disclose information about the governance, strategy, risk management, metrics and targets relating to all material climate-related risks and opportunities that could reasonably be expected to affect the Company's cash flows, access to finance or cost of capital over the short, medium or long term. The implementation of the disclosure requirements under AASB S2 is effective from the reporting period commencing 1 January 2025. The parent company HSBC Australia Holdings Pty Limited prepares a consolidated sustainability report in accordance with the Corporations Act 2001 section 292A

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containing the mandatory climate-related disclosures for HSBC Australia Holdings Pty Limited. The Sustainability Report can be accessed through the ASIC register or the website www.hsbc.com.au under financial disclosures.

(g) Future accounting developments

Developments to accounting standards

The AASB has published a number of amendments to accounting standards that are effective from 1 January 2026.

AASB 9 'Financial Instruments' and AASB 7 'Financial Instruments: Disclosures'

In August 2024, the AASB issued amendments to AASB 9 'Financial Instruments' and AASB 7 'Financial Instruments: Disclosures', effective for annual reporting periods beginning on or after 1 January 2026. These amendments provide guidance on settling financial liabilities electronically and clarify the classification of financial assets with contractual terms affecting cash flows, including those with ESG-related contingencies and non-recourse features. The Banking group is assessing the potential impact.

AASB 18 'Presentation and Disclosure in Financial Statements'

In July 2024, the AASB issued AASB 18 'Presentation and Disclosure in Financial Statements', effective for annual reporting periods beginning on or after 1 January 2027. This new standard aims to enhance transparency and comparability in financial statements. It will replace AASB 101 'Presentation of Financial Statements' but retains many existing requirements. New requirements focus on the income statement structure, management-defined performance measures, and the aggregation and disaggregation of financial information. While AASB 18 does not alter recognition criteria or measurement bases, it may impact the presentation of financial statements, particularly the income statement and, to a lesser extent, the cash flow statement. The Company is currently assessing impacts and data readiness to develop a detailed implementation plan.

There are no other amendments to existing standards that are not yet effective which are expected to have a material impact on the Group's 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.

(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 income on financial assets in Stage 3 is recognised by applying the effective interest rate to the gross carrying amount net of provisions for impairment.

(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. Where fees are variable, such as certain fund management and performance fees, such 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.

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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, 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 comprises net trading activities, which includes all gains and losses from changes in the fair value of financial assets and financial liabilities held for trading and other financial instruments managed on a fair value basis, together with the related interest income, expense and dividends, excluding the effect of changes in the credit risk of liabilities managed on a fair value basis. 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.
- ‘Foreign exchange on other income’: Other income also includes the impact of foreign currency revaluations for foreign currency monetary assets and liabilities. These assets and liabilities are translated at the spot rate at the balance sheet date. Exchange differences arising upon settling or translating monetary items at different rates to those at which they were initially recognised or previously reported, are recognised in the Income Statement.
- ‘Changes in fair value of designated debt instruments and related derivatives’: Interest paid on debt instruments and interest cash flows on related derivatives is presented in interest expense where doing so reduces an accounting mismatch.
- ‘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 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 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 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.

The Bank may commit to underwriting loans on fixed contractual terms for specified period of time. When the loan arising from the lending commitment is expected to be sold shortly after origination, the commitment to lend is recorded as a derivative. When the Bank intends to hold the loan, the loan commitment is generally not recognised but is subjected to expected credit loss considerations.

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.

The Bank enters into these sales and repo agreements with both third parties and related entities. The repo and reverse repo transactions with third party are separately presented in the statement of financial position while repo and reverse repo transactions with related entities are presented within the payables to/receivables from related entities financial line items and disclosed in Note 32.

Debt securities in issue and subordinated liabilities

Other debt securities in issue and subordinated liabilities are initially measured at fair value and subsequently measured at amortised cost. Debt securities issued for trading purposes or designated at fair value are reported under the appropriate Statement of financial position captions.

Interest as well as premiums, discounts and associated transaction costs are recognised in the income statement using the effective interest rate method from the date of issue, to ensure the carrying value of securities equals their redemption value by maturity date.

(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, an allowance (or provision in the case of some loan commitments and financial guarantees) is required for ECL resulting from possible 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 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, and 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.

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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, or
- the loan is otherwise considered to be in default.

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

Fees, transaction costs and Issue costs integral to financial assets and liabilities are capitalised and included in the interest recognised over the expected life of the instrument. This includes establishment fees for providing a loan or a lease arrangement. Facility and line fees in relation to commitments made under credit facilities where drawdown is assessed as probable are considered an integral part of the effective interest rate and are recognised in net interest income. Interest income is recognised by applying the effective interest rate to the amortised cost, i.e. gross carrying amount less allowance for ECL.

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 the Bank modifies 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.

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, generally do not result in derecognition, but their stage allocation is determined considering all available and supportable information under the ECL impairment policy.

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, which are typically corporate and institutional banking ('CIB') customers, and included on a watch or worry list, are included in stage 2.

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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, a 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	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 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 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 therefore 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.

As additional data becomes available, the retail transfer criteria approach continues to be refined to utilise a more relative approach for certain portfolios. These enhancements take advantage of the increase in origination related data in the assessment of significant increases in credit risk by comparing remaining lifetime PD to the comparable remaining term lifetime PD at origination based on portfolio-specific origination segments.

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 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 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.

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The Bank makes use of the regulatory 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"> - 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 APRA). - 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 losses expected to be suffered during a severe but plausible economic downturn). - Regulatory floors may apply to mitigate risk of underestimating downturn LGD due to lack of historical data. - Discounted using 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 changes in 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.

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 estimates 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 Bank and the 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 Bank 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 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 losses. - 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' or within 'Other operating income' as 'Changes in fair value of designated debts and related derivatives' except for the effect of changes in the liabilities' credit risk, which is presented in 'Other comprehensive income' ('OCI'), 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: 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 managed within a business model that is achieved by both collecting and selling 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 FVOCI. These comprise primarily debt securities. They are generally recognised on the trade date when the Bank enters into contractual arrangements to purchase and are generally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value with changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) recognised in OCI until the assets are sold. Upon disposal, the cumulative gains or losses in OCI are recognised in the Income statement within 'Net other operating income' as 'Net gain/(loss) from disposal of financial investments'. 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 and 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 ('a day one gain or loss'). In all other cases, the entire day one 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. 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, 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 Consolidated entity 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.

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 OCI 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 income from financial instruments held for trading or managed on a fair value basis'. The accumulated gains and losses recognised in OCI are reclassified to the Income statement in the same periods in which the hedged item affects profit or loss. When a hedge relationship is discontinued, or partially discontinued, any cumulative gain or loss recognised in OCI remains in equity until the forecast transaction is recognised in the Income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss previously recognised in OCI is immediately reclassified to the Income statement.

(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) Impairment of goodwill and other non-financial assets

Goodwill

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 once a year, or whenever there is an indication of impairment, by comparing the recoverable amount of a CGU with the carrying amount.

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

Other non-financial assets

Software under development is tested for impairment at least annually. Other non-financial assets such as plant and equipment, intangible assets (excluding goodwill) and right-of-use assets are tested for impairment at the individual asset level when there is indication of impairment at that level, or at the CGU level for assets that do not have a recoverable amount at the individual asset level. In addition, impairment is also tested at the CGU level when there is indication of impairment at that level. For this purpose, CGUs are considered to be the principal operating legal entities and branches divided by business segments.

Impairment testing compares the carrying amount of the non-financial asset or CGU with its recoverable amount, which is the higher of the fair value less costs of disposal or the value in use. The carrying amount of a CGU comprises the carrying amount of its assets and liabilities, including non-financial assets that are directly attributable to it and non-financial assets that can be allocated to it on a reasonable and consistent basis. Non-financial assets that cannot be allocated to an individual CGU are tested for impairment at an appropriate grouping of CGUs. The recoverable amount of the CGU is the higher of the fair value less costs of disposal of the CGU or the value in use, which is calculated based on appropriate inputs.

When the recoverable amount of a CGU is less than its carrying amount, an impairment loss is recognised in the income statement to the extent that the impairment can be allocated on a pro-rata basis to the non-financial assets by reducing their carrying amounts to the higher of their respective individual recoverable amount or nil. Impairment is not allocated to the financial assets in a CGU.

Impairment losses recognised in prior periods for non-financial assets (excluding goodwill) are 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.

(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 Consolidated entity 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.

Notes on the Consolidated financial statements

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 Australian Taxation Office. 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 for present obligations (legal or constructive) arising from past events where a payment to settle the obligation is probable and can be reliably estimated.

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 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.

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, they are measured at the higher of the amount determined in accordance with AASB 9 for ECL and the amount initially recognised less, where appropriate, any cumulative income recognised in accordance with AASB 15.

(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 reserves

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. See Note 21(a) Reserves for information around other capital instruments and reserves.

Notes on the Consolidated financial statements

(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 lease 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	
		2025 \$m	2024 \$m	2025 \$m	2024 \$m
(i) Interest income					
Loans and advances to banks		161.8	144.9	161.8	144.9
Loans and advances to customers		1,987.7	2,013.2	1,987.7	2,013.2
Financial investments		623.6	516.5	623.6	516.5
Related entities	32	61.9	122.6	61.9	122.6
Key management personnel	33	0.3	0.3	0.3	0.3
		2,835.3	2,797.5	2,835.3	2,797.5
(ii) Interest expense					
Deposits by banks		22.8	26.0	22.8	26.0
Customer accounts		1,221.0	1,251.8	1,221.0	1,251.8
Repurchase agreements		21.4	0.6	21.4	0.6
Debt securities in issue		117.6	145.8	1.3	7.4
Related entities*	32	235.9	237.4	352.2	375.8
Lease liability	23	8.1	7.7	8.1	7.7
Other interest		1.4	1.2	1.5	1.2
		1,628.2	1,670.5	1,628.3	1,670.5
(iii) Other operating income					
Recharge to related entities		157.2	134.8	157.2	134.8
Other income/(loss)		0.5	0.2	0.5	0.2
		157.7	135.0	157.7	135.0
(iv) Fee and commission income					
Fees and commissions		198.0	180.4	198.0	180.4
Fee income on fiduciary activities		14.2	12.3	14.2	12.3
		212.2	192.7	212.2	192.7
(v) Fee and commission expense					
Fees and commissions		95.1	90.5	95.2	90.5
Fees on fiduciary activities		0.1	0.1	—	0.1
		95.2	90.6	95.2	90.6
(vi) Net trading income					
Exchange rates		139.9	165.6	139.9	165.6
Interest rates		7.1	7.1	7.1	7.1
		147.0	172.7	147.0	172.7
Gains/(losses) from hedging activities					
Fair value hedges					
Net gain on hedged items attributable to the hedged risk		(19.5)	8.5	(19.5)	8.5
Net (loss) on hedging instruments		20.8	(8.5)	20.8	(8.5)
Net gain on termination of hedges		—	—	—	—
		1.3	—	1.3	—
Net interest income on trading activities					
Interest income		—	—	—	—
Interest expense		—	—	—	—
Total net trading income		148.3	172.7	148.3	172.7

* Interest expense on 'related entities' include interest expense of \$19,696,184 (2024:\$15,050,706) relating to debt securities issued to related party.

Notes on the Consolidated financial statements

5 Net change in expected credit losses and other credit impairment charges

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Loans and advances to banks and customers				
New allowances net of allowance releases	(2.2)	(1.2)	(2.2)	(1.2)
Recoveries of amounts previously written off	2.1	3.0	2.1	3.0
Loan commitments and guarantees and other financial assets	(7.7)	—	(7.7)	—
Financial investments	0.7	(0.4)	0.7	(0.4)
Net change in expected credit losses and other credit impairment charges	(7.1)	1.4	(7.1)	1.4

6 Operating expenses

	Notes	Consolidated		Company	
		2025 \$m	2024 \$m	2025 \$m	2024 \$m
(i) Employee compensation and benefits					
Wages and salaries		257.7	257.0	257.7	257.0
Bonuses		63.1	68.4	63.1	68.4
Retirement and termination benefits		38.1	30.8	38.1	30.8
Share-based payment transactions	19	6.7	7.3	6.7	7.3
Other		35.9	34.5	35.9	34.5
		401.5	398.0	401.5	398.0
(ii) Premises and equipment					
Property rental		8.2	6.2	8.2	6.2
Equipment and other premises expense		11.7	11.2	11.7	11.2
Depreciation		40.9	47.8	40.9	47.8
		60.8	65.2	60.8	65.2
(iii) General and administrative expenses					
Marketing and communication		25.2	27.8	25.2	27.8
Legal and professional expenses		39.0	22.1	39.0	22.1
Printing and communication costs		10.1	8.3	10.1	8.3
Travel and entertainment		3.5	3.6	3.5	3.6
Auditor's remuneration	7	3.7	3.4	3.7	3.4
Fraud and operational losses		8.4	17.3	8.4	17.3
Contracted services		15.3	21.3	15.3	21.3
Other		25.1	29.6	25.1	29.6
		130.3	133.4	130.3	133.4
(iv) Other expenses					
Intercompany management fees	32	382.8	330.3	382.8	330.3
Amortisation of intangibles		2.0	4.7	2.0	4.7
Impairment of intangibles		—	5.7	—	5.7
		384.8	340.7	384.8	340.7

7 Auditor's remuneration

	Consolidated		Company	
	2025 \$	2024 \$	2025 \$	2024 \$
Audit services				
Audit and review of financial reports	2,016,209	1,945,469	2,016,209	1,945,469
Other assurance services				
Regulatory and other assurance services	1,633,792	1,486,968	1,633,792	1,486,968
	3,650,001	3,432,437	3,650,001	3,432,437

Amounts in the Note are in whole units.

8 Income tax expense

	Notes	Consolidated		Company	
		2025 \$m	2024 \$m	2025 \$m	2024 \$m
Recognised in the Income statement					
(a) Current tax expense					
Current year		(190.5)	(181.6)	(190.5)	(181.6)
Adjustments for prior years		(0.2)	9.3	(0.2)	9.3
		(190.7)	(172.3)	(190.7)	(172.3)
Deferred tax expense					
Origination and reversal of temporary differences		(7.6)	0.9	(7.6)	0.9
Adjustments for prior years		(0.1)	(9.2)	(0.1)	(9.2)
	15	(7.7)	(8.3)	(7.7)	(8.3)
Total income tax expense in Income statement					
Attributable to continuing operations		(198.4)	(180.6)	(198.4)	(180.6)
Numerical reconciliation between income tax expense and profit before income tax					
Profit before income tax					
		658.3	601.5	658.3	601.5
Income tax using the corporation tax rate of 30%		(197.5)	(180.4)	(197.5)	(180.4)
Increase in income tax expense due to:					
- non-deductible expenses		(0.7)	(0.3)	(0.7)	(0.3)
- other		—	—	—	—
		(198.2)	(180.7)	(198.2)	(180.7)
(Under)/Over provided in prior years		(0.2)	0.1	(0.2)	0.1
Income tax expense					
		(198.4)	(180.6)	(198.4)	(180.6)
(b) Deferred tax recognised directly in equity					
Relating to capital contribution reserve		(0.1)	1.1	(0.1)	1.1
Relating to financial assets measured at FVOCI and cash flow hedging reserves		9.8	(1.9)	9.8	(1.9)
	15	9.7	(0.8)	9.7	(0.8)

In July 2023, legislation was enacted in the UK, the jurisdiction of the Company'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')'s Inclusive Framework on Base Erosion and Profit Shifting ('BEPS'). The rules took effect from 1 January 2024. During 2025, Qualified Domestic Minimum top-up tax ('QDMTT') was enacted in a number of jurisdictions in which the group operates under the same framework but with reference to local tax authorities.

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 the Company's ultimate parent, to the UK tax authority.

During December 2024, the government of Australia has 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.

The Consolidated entity has applied the exception to recognising and disclosing information about deferred tax assets and liabilities related to Pillar Two taxes, as provided in the amendments to AASB 112.

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						Amounts not subject to enforceable netting arrangements	Total
	Gross amounts	Amounts offset	Net amounts in the balance sheet	Amounts not offset in the balance sheet				
				Financial instruments, including non-cash collateral	Cash collateral	Net amount		
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	
Financial assets								
Derivatives	105.0	—	105.0	—	(43.3)	61.7	35.5	140.5
Reverse repos, stock borrowing and similar agreements	1,763.7	—	1,763.7	(1,763.7)	—	—	—	1,763.7
At 31 Dec 2025	1,868.7	—	1,868.7	(1,763.7)	(43.3)	61.7	35.5	1,904.2
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
Financial liabilities								
Derivatives	59.4	—	59.4	—	—	59.4	24.9	84.3
Repos, stock lending and similar agreements	1,315.4	—	1,315.4	(1,315.4)	—	—	—	1,315.4
At 31 Dec 2025	1,374.8	—	1,374.8	(1,315.4)	—	59.4	24.9	1,399.7
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

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	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Assets				
Trading derivatives				
Third party				
– exchange rate	30.3	64.8	30.3	64.8
– interest rate	0.5	0.4	0.5	0.4
	30.8	65.2	30.8	65.2
Related entities				
– exchange rate	31.3	290.7	31.3	290.7
– interest rate	0.7	0.1	0.7	0.1
	32.0	290.8	32.0	290.8
Hedging derivatives				
Related entities				
– interest rate	77.7	71.3	77.7	71.3
	140.5	427.3	140.5	427.3
Liabilities				
Trading derivatives				
Third party				
– exchange rate	27.7	85.9	27.7	85.9
– interest rate	0.7	0.1	0.7	0.1
	28.4	86.0	28.4	86.0
Related entities				
– exchange rate	49.8	119.8	49.8	119.8
– interest rate	0.3	0.1	0.3	0.1
	50.1	119.9	50.1	119.9
Hedging derivatives				
Related entities				
– interest rate	5.9	22.7	5.9	22.7
	84.4	228.6	84.4	228.6

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 value of outstanding derivatives designated as fair value hedges at 31 December 2025 were assets of \$77.7m (2024: \$70.2m) and liabilities of \$5.6m (2024: \$17.0m).

The notional contract amount at 31 December 2025 was \$1,935.9m (31 December 2024: \$1,735.9m).

Gains or losses arising from fair value hedges

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Gains or losses arising from fair value hedges				
Gains/(losses)				
– on hedging instruments	20.8	(8.5)	20.8	(8.5)
– on hedged items attributable to the hedged risk	(19.5)	8.5	(19.5)	8.5
	1.3	—	1.3	—

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 2025, the fair values of outstanding derivatives designated as cash flow hedges were assets of Nil (2024: \$1.1m) and liabilities of \$0.2m (2024: \$5.7m).

The notional contract amount at 31 December 2025 was \$500m (31 December 2024: \$1,296.0m).

Notes on the Consolidated financial statements

10 Financial investments

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Analysis of financial assets measured at FVOCI by security type				
– debt securities	13,356.5	8,701.9	13,356.5	8,701.9
– equities	6.7	5.1	6.7	5.1
– treasury and other eligible bills	2,385.5	3,754.6	2,385.5	3,754.6
	15,748.7	12,461.6	15,748.7	12,461.6
Analysis of financial assets measured at FVOCI by security issuer				
– government securities and Australian Government agencies	15,219.3	11,482.6	15,219.3	11,482.6
– banks and building societies	529.4	979.0	529.4	979.0
	15,748.7	12,461.6	15,748.7	12,461.6
Analysis of financial assets measured at amortised cost by security type				
– debt securities	—	3,545.9	—	3,545.9
– treasury and other eligible bills	—	—	—	—
	—	3,545.9	—	3,545.9
Analysis of financial assets measured at amortised cost by security issuer				
– government securities and Australian Government agencies	—	3,545.9	—	3,545.9
Total financial investments	15,748.7	16,007.5	15,748.7	16,007.5

11 Property, plant and equipment

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Leasehold improvements at cost				
Balance at 1 Jan	82.9	79.8	82.9	79.8
Assets acquired	2.0	5.4	2.0	5.4
Assets disposed	(2.4)	(2.3)	(2.4)	(2.3)
Balance at 31 Dec	82.5	82.9	82.5	82.9
Furniture, fittings, office equipment at cost				
Balance at 1 Jan	22.0	22.6	22.0	22.6
Assets acquired	0.3	1.7	0.3	1.7
Assets disposed	(2.8)	(2.3)	(2.8)	(2.3)
Balance at 31 Dec	19.5	22.0	19.5	22.0
Leasehold improvements accumulated depreciation				
Balance at 1 Jan	(46.4)	(36.6)	(46.4)	(36.6)
Depreciation charge for the year	(12.0)	(12.0)	(12.0)	(12.0)
Disposals	2.4	2.2	2.4	2.2
Balance at 31 Dec	(56.0)	(46.4)	(56.0)	(46.4)
Furniture, fittings, office equipment accumulated depreciation				
Balance at 1 Jan	(13.9)	(13.4)	(13.9)	(13.4)
Depreciation charge for the year	(2.8)	(2.8)	(2.8)	(2.8)
Disposals	2.9	2.3	2.9	2.3
Balance at 31 Dec	(13.8)	(13.9)	(13.8)	(13.9)
Carrying amounts				
At 1 Jan	44.6	52.4	44.6	52.4
At 31 Dec	32.2	44.6	32.2	44.6

12 Group entities

	Footnote	2025 %	2024 %	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 as an internal securitisation vehicle holding self-securitised residential mortgage backed securities ('IRMBS') which is a type of collateral for eligible transactions with the Reserve Bank Australia ('RBA'). As such, the Bank retains all notes issued. The RBA accepts IRMBS in rare circumstances as potential collateral for exceptional liquidity assistance. The Bank 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	
	2025 \$m	2024 \$m	2025 \$m	2024 \$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	55.0	52.8	55.0	52.8
(Disposal)/addition	—	2.2	—	2.2
Balance at 31 Dec	55.0	55.0	55.0	55.0
Accumulated amortisation				
Balance at 1 Jan	(48.1)	(38.9)	(48.1)	(38.9)
Amortisation charge for the year	(1.9)	(3.5)	(1.9)	(3.5)
Impairment charges for the year	—	(5.7)	—	(5.7)
Balance at 31 Dec	(50.0)	(48.1)	(50.0)	(48.1)
Carrying amounts				
At 1 Jan	6.9	13.9	6.9	13.9
At 31 Dec	5.0	6.9	5.0	6.9
Total intangible assets	63.7	65.6	63.7	65.6

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 2025 is disclosed for each segment of business.

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
International Wealth and Premier Banking	57.4	57.4	57.4	57.4
Corporate and Institutional Banking	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 ('IWPB'), and Corporate and Institutional Banking ('CIB'). 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.

IWPB

Goodwill allocated to IWPB arose from the Company's acquisition in 2001 of NRMA Building Society Group Limited. The IWPB 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 2.37% (2024: 2.32%) reflects nominal GDP and inflation and is based on a 20-year forecast or historical inflation data (whichever is lower).

The discount rate of 14.5% (2024: 14.8%) 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.

CIB

Goodwill allocated to CIB 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 IWPB unit.

There was no indication of impairment required based on annual impairment testing performed in 2025.

14 Other assets

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Acceptances and endorsements	25.8	15.2	25.8	15.2
Prepayments and accrued income	213.5	235.8	208.7	233.3
Margins with exchange	567.7	832.5	567.7	832.5
Other assets	25.6	5.0	25.6	5.0
Assets held for resale	3.6	1.8	3.6	1.8
Total	836.2	1,090.3	831.4	1,087.8

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 asset/(liability) 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

	Consolidated and Company					
	Deferred tax assets		Deferred tax liabilities		Net deferred tax assets	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Consolidated and Company						
Impairment allowances	14.3	19.7	—	—	14.3	19.7
Property, plant and equipment	16.5	16.7	—	—	16.5	16.7
Prepayments and accrued income	—	—	(0.4)	(0.4)	(0.4)	(0.4)
Other assets	10.0	9.9	—	—	10.0	9.9
Other liabilities/accrued expenses	6.7	8.0	(5.1)	(5.3)	1.6	2.7
Accruals and deferred income	44.8	45.1	—	—	44.8	45.1
Provision for liabilities and charges	2.3	3.1	—	—	2.3	3.1
Capital contribution reserve	2.3	2.4	—	—	2.3	2.4
Cash flow hedging reserve	0.1	1.3	—	—	0.1	1.3
Financial assets measured at FVOCI	25.3	14.3	—	—	25.3	14.3
Total tax assets/(liabilities)	122.3	120.5	(5.5)	(5.7)	116.8	114.8

Movement in deferred tax

	1 Jan 2025	Recognised in income	Recognised in equity	31 Dec 2025	1 Jan 2024	Recognised in income	Recognised in equity	31 Dec 2024
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Consolidated and Company								
Impairment allowances	19.7	(5.4)	—	14.3	26.6	(6.9)	—	19.7
Property, plant and equipment	16.7	(0.2)	—	16.5	22.7	(6.0)	—	16.7
Prepayments and accrued income	(0.4)	—	—	(0.4)	(0.3)	(0.1)	—	(0.4)
Other assets	9.9	0.1	—	10.0	7.7	2.2	—	9.9
Other liabilities/accrued expenses	2.7	(1.1)	—	1.6	2.8	(0.1)	—	2.7
Accruals and deferred income	45.1	(0.3)	—	44.8	41.9	3.2	—	45.1
Provision for liabilities and charges	3.1	(0.8)	—	2.3	3.7	(0.6)	—	3.1
Capital contribution reserve	2.4	—	(0.1)	2.3	1.3	—	1.1	2.4
Cash flow hedging reserve	1.3	—	(1.2)	0.1	5.9	—	(4.6)	1.3
Financial assets measured at FVOCI	14.3	—	11.0	25.3	11.6	—	2.7	14.3
	114.8	(7.7)	9.7	116.8	123.9	(8.3)	(0.8)	114.8

16 Provisions for liabilities and charges

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
At 1 Jan	19.7	12.5	19.7	12.5
New provisions	25.2	19.9	25.2	19.9
Release of provision	(5.2)	(2.8)	(5.2)	(2.8)
Provisions utilised	(9.8)	(9.9)	(9.8)	(9.9)
Other movements	—	—	—	—
At 31 Dec	29.9	19.7	29.9	19.7

Provisions contain the ECL provision for off balance sheet items of \$5.9m (2024: \$4.0m) (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.

17 Debt securities in issue

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Bonds and medium-term notes				
Securitised issuance	2,356.3	2,998.7	—	—
	2,356.3	2,998.7	—	—

The securitised issuance includes a related party component of \$345,333,271 (2024: \$463,334,514).

18 Other liabilities

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Acceptances and endorsements	25.8	15.2	25.8	15.2
Accruals and deferred income	50.4	57.3	48.9	55.9
Accrued interest Payable	158.9	215.1	152.7	208.6
Settlement balances	27.0	34.6	27.0	34.6
Other liabilities	87.2	76.2	87.1	76.0
	349.3	398.4	341.5	390.3

19 Employee benefits

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Liability for annual leave	12.0	10.4	12.0	10.4
Bonus payable	71.8	69.7	71.8	69.7
Liability for long service leave	33.8	32.7	33.8	32.7
	117.6	112.8	117.6	112.8

Defined contribution plans

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

The amount recognised as an expense was \$28.7m for the year ended 31 December 2025 (2024: \$28.0m).

Share-based payments

The Consolidated entity's key management personnel and employees participate in both discretionary and voluntary HSBC Holdings plc share 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 2025, \$6.7m (2024: \$7.3m) 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	
	2025 \$m	2024 \$m	2025 \$m	2024 \$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. Amounts are reclassified to the Income Statement when the hedged items impact profit or loss.

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

	Consolidated and Company			
	2025		2024	
	Per share \$	Total \$m	Per share \$	Total \$m
Ordinary shares				
Dividend 1	0.098	67.0	0.090	62.0
Dividend 2	0.117	80.0	0.117	80.0
Dividend 3	0.117	80.0	0.219	150.0
Dividend 4	0.117	80.0	0.117	80.0
Dividend 5			0.117	80.0
		307.0		452.0
Tier 1 instruments				
Dividend 1		11.9		11.7
Dividend 2		6.8		6.8
Dividend 3		11.3		11.7
Dividend 4		6.0		6.7
		36.0		36.9
		343.0		488.9

In the interval between the end of the financial year and the date of this report, an amount of AUD\$50m (\$0.073 per share) was declared and payable by the Company as dividends on ordinary shares. In addition, an amount of AUD\$10.8m was declared and payable by the Company as dividends on additional tier 1 capital instrument. No liability has been recorded in these financial statements as a result of these dividends declared after year end.

Notes on the Consolidated financial statements

22 Commitments

	Consolidated		Company	
	2025	2024	2025	2024
	\$m	\$m	\$m	\$m
Documentary credits and trade related transactions	200.7	130.5	200.7	130.5
Undrawn lending facilities	15,302.9	15,008.0	15,302.9	15,008.0
	15,503.6	15,138.5	15,503.6	15,138.5

Total commitments includes a related party component of \$10,600,000 (2024: \$2,800,000).

23 Right-of-use assets and lease liabilities

	Consolidated		Company	
	2025	2024	2025	2024
	\$m	\$m	\$m	\$m
Right-of-use assets				
Balance at 1 Jan	321.8	280.6	321.8	280.6
New lease agreements	30.0	97.8	30.0	97.8
Decreases/amendments to leases	(40.0)	(56.6)	(40.0)	(56.6)
Balance at 31 Dec	311.8	321.8	311.8	321.8
Leasehold office buildings accumulated depreciation				
Balance at 1 Jan	(151.4)	(136.2)	(151.4)	(136.2)
Depreciation charge for the year	(26.1)	(33.1)	(26.1)	(33.1)
Impairment during the year	—	—	—	—
Decreases/amendments to leases	13.9	17.9	13.9	17.9
Balance at 31 Dec	(163.6)	(151.4)	(163.6)	(151.4)
Carrying amounts				
At 1 Jan	170.4	144.4	170.4	144.4
At 31 Dec	148.2	170.4	148.2	170.4

The expense related to short-term leases which have been directly expensed is nil (2024: nil) and the expense related to variable leases is \$8.2m (2024: \$6.2m).

Lease liabilities

	Consolidated and Company	
	2025	2024
	\$m	\$m
Current	27.7	29.1
Non-current	140.8	160.5
	168.5	189.6

The interest expense on the lease liabilities is \$8.1m (2024: \$7.7m) and is disclosed within the interest expense Note 4(ii). The total cash outflow for lease liabilities is \$24.5m (2024: \$25.5m).

24 Contingent liabilities

	Consolidated		Company	
	2025	2024	2025	2024
	\$m	\$m	\$m	\$m
Contingent liabilities in respect of guarantees given	1,119.7	1,109.8	1,119.7	1,109.8
Letters of credit and other contingencies	1,838.9	1,652.1	1,838.9	1,652.1
	2,958.6	2,761.9	2,958.6	2,761.9

Total contingent liabilities includes a related party component of \$158,300,000 (2024: \$147,600,000).

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 2025 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. 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.

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	
	2025 \$m	2024 \$m
Funds under custody	641,752.7	555,927.8

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

26 Additional financial instrument disclosures

Our approach to risk

The Consolidated entity recognises that the primary role of risk management is to help 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.

In addition, the Consolidated entity recognises the importance of a strong culture, which refers to our shared attitudes, beliefs, values and standards that shape behaviours including those related to risk awareness, risk taking and risk management. All our people are responsible for the management of risk.

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

(a) Our risk management framework

The Consolidated entity aims 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 Risk Management Framework ('RMF') sets out in a consistent way how we identify, assess and manage the risks that matter the most with respect to our ability to operate, grow, and meet external commitments. It translates our strategy, values and commitments into practical actions and risk-aware decisions.

Our Group Risk and Compliance function is responsible for the HSBC Group's risk management framework. Independent from the business segments, including our sales and trading functions, it provides challenge, oversight and appropriate balance in risk/return decisions. Their responsibility includes establishing global policy, monitoring risk profiles, and identifying and managing forward-looking risk.

Responsibility for minimising both financial and non-financial risk, including regulatory compliance and financial crime, lies with our people. They are required to manage the risks of the business and operational activities for which they are responsible. The Bank maintains adequate oversight of our risks through our various specialist risk stewards and the collective accountability held by the Bank's Chief risk and compliance officer.

Notes on the Consolidated financial statements

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. It sets the 'tone from the top' and is advised by the Board Risk Committee ('RC').
	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 Risk and Compliance 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 and to anticipate, prevent, respond to, and recover from, significant operational disruptions.
	Enterprise-wide risk management tools	
	Active risk management: identification/assessment, monitoring, management and reporting	
	Operational resilience	
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.

Our risk appetite

Our risk appetite defines the level and types of risk that the Consolidated entity is willing to take to achieve our strategic objectives, while informing the financial planning process and guiding strategic decision making.

Performance against the Risk Appetite Statement ('RAS') is reported to the HSBC Group Risk Management Meeting ('RMM') to support targeted insight and discussion on breaches of risk appetite and any associated mitigating actions. This reporting allows risks to be promptly identified and mitigated and informs risk-adjusted remuneration to drive a strong risk culture.

The Bank is covered by a RAS, and their alignment with the HSBC Group's RAS is monitored.

Our risk governance

The 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 the liquidity management strategy. The executive Risk Management Meeting ('RMM') exercises management 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 Operating Committee ('OC') and RMM are supported by a dedicated risk function headed by the Chief Risk and Compliance Officer, who is a member of both the OC and RMM and at an entity level reports to the Chief Executive Officer.

Our responsibilities

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.

Three lines of defence

To create a robust control environment to manage risks, the Consolidated entity uses an activity-based three lines of defence model. This model delineates management accountabilities and responsibilities for risk management and the control environment.

The model underpins our approach to risk management by clarifying responsibility and encouraging collaboration, as well as enabling efficient coordination of risk and control activities.

The three lines of defence are summarised below:

- The first line of defence owns the risks and is responsible for identifying, recording, reporting and managing them in line with risk appetite, and ensuring that the right controls and assessments are in place to mitigate them.
- The second line of defence challenges the first line of defence on effective risk management, and provides advice, guidance and assurance of the first line of defence to ensure it is managing risk effectively.
- 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.

Notes on the Consolidated financial statements

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 and transactional 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 risk appetite and more granular limits, set to provide an early warning of increasing risk, minimum ratios of relevant regulatory metrics, and metrics to monitor the key risk drivers impacting treasury resources; – monitored and projected against appetites and by using operating plans based on strategic objectives together with 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>Market risk arises from both trading portfolios and non-trading portfolios. Trading portfolios comprise positions held for client servicing and market-making, with the intention of short-term resale and/or to hedge risks resulting from such positions.</p>	<p>Market risk is:</p> <ul style="list-style-type: none"> – measured using sensitivities, value at risk ('VAR') 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 VAR, stress testing and other measures; and – managed using risk limits approved by the Board for the HSBC 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 can materialise through:</p> <ul style="list-style-type: none"> – physical risk, which arises from the increased frequency and severity of extreme weather events, such as hurricanes and floods, or chronic gradual shifts in weather patterns or rises in the sea level; – transition risk, which arises from the process of moving to a net zero economy, including changes in government policy and legislation, technology, market demand, and reputational implications triggered by a change in stakeholder expectations, action or inaction; 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. <p>► Further information is contained in the HSBC Australia Holdings Pty Limited Sustainability Report which can be accessed through the ASIC register or the website www.hsbc.com.au under financial disclosures.</p>
<p>Resilience risk</p> <p>Resilience risk is the risk of sustained and significant business disruption 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 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.

Notes on the Consolidated financial statements

Description of risks (continued)

Risks	Arising from	Measurement, monitoring and management of risk
<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 (including unauthorised trading) 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 – 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, and the results of the monitoring and control assurance activities of the second line of defence functions; 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 and regulatory feedback, 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; 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

Overview

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

Credit risk management

There were no material changes to the policies and practices for the management of credit risk in 2025. The Consolidated entity continued to apply the requirements of AASB 9 'Financial Instruments' within the Credit Risk sub-function.

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

Governance and structure

The Consolidated entity has established credit risk management and related AASB 9 processes. The Consolidated entity continues to assess the impact of economic developments in the market on specific customers, customer segments or portfolios. As credit conditions change, the Consolidated entity takes mitigating actions, including the revision of risk appetites or limits and tenors, as appropriate. In addition, the Consolidated entity continues to evaluate the terms under which the Consolidated entity provides credit facilities within the context of individual customer requirements, the quality of the relationship, local regulatory requirements, market practices and our local market position.

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 while fostering a culture of responsible lending.

Notes on the Consolidated financial statements

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.

Wholesale lending

The CRR 10-grade scale summarises a more granular underlying 23- grade scale of obligor probability of default ('PD'). All corporate customers are rated using the 10 or 23-grade scale, depending on the degree of sophistication of the Basel approach adopted for the exposure.

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

Retail lending

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

Credit quality classification

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 %
Strong	BBB and above	A- and above	CRR1 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
Credit 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 and/or low probability of default or low levels of expected loss.
- 'Good' exposures require closer monitoring and 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

In the context of AASB 9, write-off should occur when there is no reasonable expectation of recovering further cash flows from the financial assets.

The principle does not prohibit early write-off which is defined in local policies to ensure effectiveness in the management of customers in the collections process.

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, it 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.

Any unsecured exposures that are not written off at 180 days past due, and any secured exposures that are in 'default' status for 60 months or greater but are not written off, are subject to additional monitoring via the appropriate governance forums.

Notes on the Consolidated financial statements

Credit-impaired loans

The Consolidated entity 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 when 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 unlikelyness 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.

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

	2025		2024	
	Gross carrying/ nominal amount \$m	Allowance for ECL \$m	Gross carrying/ nominal amount \$m	Allowance for ECL \$m
At 31 Dec				
Loans and advances to customers at amortised cost	41,864.3	(34.8)	39,703.3	(64.7)
Loans and advances to banks	16.1	—	84.0	—
Other financial assets measured at amortised cost	4,456.2	—	9,611.7	(1.0)
– cash and balances at central banks	3,646.3	—	4,992.4	—
– assets held for sale	3.6	—	1.8	—
– financial investments	—	—	3,546.6	(0.7)
– prepayments, accrued income and other assets	806.3	—	1,070.9	(0.3)
Total gross carrying amount on balance sheet	46,336.6	(34.8)	49,399.0	(65.7)
Loans and other credit related commitments	11,645.0	(4.0)	11,663.3	(2.0)
Financial guarantee	974.1	(1.9)	945.0	(2.0)
Total nominal amount off balance sheet	12,619.1	(5.9)	12,608.3	(4.0)
	58,955.7	(40.7)	62,007.3	(69.7)
At 31 Dec				
Debt instruments measured at Fair Value through Other Comprehensive Income ('FVOCI')	15,742.1	(0.3)	12,457.0	(1.0)

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: These financial assets are 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 on these financial assets since initial recognition for which a lifetime ECL is recognised.
- Stage 3: There is objective evidence of impairment and the financial assets 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	39,408.3	1,906.0	550.0	41,864.3	(6.9)	(8.9)	(19.0)	(34.8)	—	(0.5)	(3.5)	(0.1)
– personal	36,612.3	1,755.0	531.0	38,898.3	(4.9)	(7.9)	(11.0)	(23.8)	—	(0.5)	(2.1)	(0.1)
– corporate and commercial	2,632.0	151.0	19.0	2,802.0	(2.0)	(1.0)	(8.0)	(11.0)	(0.1)	(0.7)	(42.1)	(0.4)
– non-bank financial institutions	164.0	—	—	164.0	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	16.1	—	—	16.1	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	4,439.9	8.0	8.3	4,456.2	—	—	—	—	—	—	(0.2)	—
Loans and other credit-related commitments	11,487.0	147.0	11.0	11,645.0	(3.0)	(1.0)	—	(4.0)	—	(0.7)	—	—
– personal	9,375.0	40.0	9.0	9,424.0	—	—	—	—	—	—	—	—
– corporate and commercial	1,705.0	89.0	2.0	1,796.0	(3.0)	(1.0)	—	(4.0)	(0.2)	(1.1)	—	(0.2)
– financial	407.0	18.0	—	425.0	—	—	—	—	—	—	—	—
Financial guarantee and similar contracts	951.1	18.0	5.0	974.1	—	—	(1.9)	(1.9)	—	—	(38.0)	(0.2)
– personal	2.0	—	—	2.0	—	—	—	—	—	—	—	—
– corporate and commercial	787.0	18.0	5.0	810.0	—	—	(1.9)	(1.9)	—	—	(38.0)	(0.2)
– financial	162.1	—	—	162.1	—	—	—	—	—	—	—	—
At 31 Dec 2025	56,302.4	2,079.0	574.3	58,955.7	(9.9)	(9.9)	(20.9)	(40.7)	—	(0.5)	(3.6)	(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	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)

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 by those 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: No past Due	of which: 1 to 29 DPD	of which: 30 and > DPD	Stage 2	of which: No past Due	of which: 1 to 29 DPD	of which: 30 and > DPD	Stage 2	of which: No past Due	of which: 1 to 29 DPD	of which: 30 and > DPD
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	%	%	%	%
Loans and advances to customers at amortised cost	1,906.0	1,643.0	237.0	26.0	(8.9)	(7.9)	(1.0)	—	(0.5)	(0.5)	(0.4)	—
– personal	1,755.0	1,492.0	237.0	26.0	(7.9)	(6.9)	(1.0)	—	(0.5)	(0.5)	(0.4)	—
– corporate and commercial	151.0	151.0	—	—	(1.0)	(1.0)	—	—	(0.7)	(0.7)	—	—
– non-bank financial institutions	—	—	—	—	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	—	—	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	8.0	8.0	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2025	1,914.0	1,651.0	237.0	26.0	(8.9)	(7.9)	(1.0)	—	(0.5)	(0.5)	(0.4)	—
Loans and advances to customers at amortised cost	1,361.0	1,102.0	224.0	35.0	(7.9)	(6.9)	(1.0)	—	(0.6)	(0.6)	(0.4)	—
– personal	1,245.0	987.0	223.0	35.0	(6.9)	(5.9)	(1.0)	—	(0.6)	(0.6)	(0.4)	—
– corporate and commercial	116.0	115.0	1.0	—	(1.0)	(1.0)	—	—	(0.9)	(0.9)	—	—
– non-bank financial institutions	—	—	—	—	—	—	—	—	—	—	—	—
Loans and advances to banks at amortised cost	—	—	—	—	—	—	—	—	—	—	—	—
Other financial assets measured at amortised cost	10.9	10.9	—	—	—	—	—	—	—	—	—	—
At 31 Dec 2024	1,371.9	1,112.9	224.0	35.0	(7.9)	(6.9)	(1.0)	—	(0.6)	(0.6)	(0.4)	—

Credit exposure

Maximum exposure to credit risk

This section provides information on balance sheet items and their offsets as well as loan and other credit-related commitments. Commentary on consolidated balance sheet movements in 2025.

'Maximum exposure to credit risk' table

The following table presents our maximum exposure to credit risk before taking account of any collateral held or other credit enhancements (unless such enhancements meet accounting offsetting requirements). The table excludes financial instruments whose carrying amount best represents the net exposure to credit risk, and it excludes equity securities as they are not subject to credit risk. For financial assets recognised on the balance sheet, maximum exposure to credit risk equals their carrying amount and is net of allowance for ECL. For financial guarantees and other guarantees granted, it is the maximum amount that the Consolidated entity would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments, it is generally the full amount of the committed facilities.

Other credit risk mitigants

There are arrangements in place that reduce our maximum exposure to credit risk. These include a charge over collateral on borrowers' specific assets, such as residential properties, collateral held in the form of financial instruments that are not held on the balance sheet and short positions in securities. In addition, for financial assets held as part of linked insurance/investment contracts the risk is predominantly borne by the policyholder.

Collateral available to mitigate credit risk is disclosed in the Collateral section on pages 45-46.

Maximum exposure to credit risk

	2025 \$m	2024 \$m
Loans and advances to customers at amortised cost	41,817.0	39,621.0
– personal	38,862.0	36,347.0
– corporate and commercial	2,791.0	3,142.0
– non-bank financial institutions	164.0	132.0
Loans and advances to banks at amortised cost	16.1	84.0
Other financial assets held at amortised cost	4,456.2	9,611.7
– cash and balances at central banks	3,646.0	4,992.4
– reverse repurchase agreements – non-trading	–	–
– financial investments	–	3,546.6
– assets held for sale	4.0	1.8
– prepayments, accrued income and other assets	806.2	1,070.9
Derivatives	31.4	64.9
Total on-balance sheet exposure to credit risk	46,320.7	49,381.6
Total off-balance sheet	18,445.0	18,179.0
– financial guarantees and other similar contracts	2,945.0	2,754.0
– loan and other credit-related exposure	15,500.0	15,425.0
At 31 Dec	64,765.7	67,560.6

Total exposure to credit risk remained broadly unchanged in 2025 with loans and advances continuing to be the largest element.

Credit deterioration of financial instruments

A summary of our current policies and practices regarding the identification, treatment and measurement of stage 1, stage 2, stage and 3 (credit impaired) financial instruments can be found in Note 3(f) on the consolidated financial statements.

Measurement uncertainty and sensitivity analysis of ECL

The recognition and measurement of ECL involves the use of significant judgement and estimation. The Bank forms multiple scenarios based on economic forecasts and distributional estimates and apply these to credit risk models to estimate future credit losses. The results are then probability-weighted to determine an unbiased ECL estimate.

Management assessed the current economic environment, reviewed the latest economic forecasts and discussed key risks before selecting economic scenarios and their weightings. Management judgemental adjustments are used where modelled allowance for ECL does not fully reflect the identified risks and related uncertainty, or to capture significant late breaking events.

HSBC Group's Central scenario, constructed from a consensus of external forecasts, assumes that the effects of announced climate measures, carbon pricing and green levies are incorporated into economic forecasts where their short-term effects are known from enacted legislation, or may be reasonably projected from current trends and statutory targets.

Variable paths and projections aligned with long-term climate outcomes, but which are dependent on additional policy adjustments, carry greater uncertainty. These are not reflected in our Central forecasts and are examined through thematic scenarios, as disclosed in the HSBC Australia Holdings Pty Limited Sustainability Report, which can be accessed on the ASIC register or the website www.hsbc.com.au under financial disclosures.

Methodology

At 31 December 2025, four economic scenarios were used to capture the latest economic expectations and to articulate management's view of the range of risks and potential outcomes. Scenarios are created using the latest economic forecasts and distributional estimates, each quarter.

Three scenarios, the Upside, Central and Downside are drawn from external consensus forecasts, market data and distributional estimates of the entire range of economic outcomes. Consensus and market estimates are then used as conditioning assumptions in a modelled expansion of other variables. The fourth scenario, Downside 2, represents management's view of severe downside risks.

The consensus Central scenario is deemed the 'most likely' scenario, and usually attracts the largest probability weighting. The consensus outer scenario represent short-term cyclical deviations from the Central scenario, where variable paths converge back to long-term trend expectations. They are calibrated to a 10% probability.

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The Downside 2 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. It is calibrated to a 5% probability.

In most circumstances, the alignment of weightings with the calibrated probability of scenarios is deemed appropriate for the unbiased estimation of ECL. 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.

Description of economic scenarios

The economic assumptions presented in this section are formed by HSBC with reference to external forecasts and estimates for the purpose of calculating ECL.

Forecasts may change and remain subject to uncertainty. Outer scenarios are designed to capture potential crystallisation of key economic and financial risks and alternative paths for economic variables. The scenarios used to calculate ECL are described below.

The consensus Central scenario

HSBC's Central scenario incorporates lower growth forecasts for 2026 relative to the fourth quarter of 2024.

Australia GDP is expected to grow by 2.2% in 2026 in the central scenario and the average rate of GDP growth is 2.4% over the five-year forecast period.

The key features of our Central scenario are:

- Economic forecasts indicate that GDP growth has weakened since the fourth quarter of 2024. Projections suggest this downward trend will persist, with a further deceleration anticipated in 2026 compared to 2025.
- Housing prices have experienced robust growth, supported by rate reductions, government incentives, and limited supply. However, as the rate cutting cycle concludes and rate increases are anticipated in 2026, we expect price growth to moderate to 4-7% for the year, compared to the previous forecast of 4-9%.
- Unemployment is forecast to rise moderately in 2026 in line with slower economic activity and subdued hiring. It will remain low by historical standards.
- Core inflation has increased and now tracking above the Reserve Bank of Australia's 2-3% target range. Prices could face upward push in the near term from the strengthening consumer spending.

The Central scenario was created with forecasts available in late November 2025, and subsequently kept under review until the end of December 2025.

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

Central scenario 2026-2030 (as at Q425)

	2025	2024
	%	%
GDP growth rate (annual average rate)	2.4	2.3
Unemployment rate (annual average rate)	4.4	4.4
House price growth (annual average rate)	5.2	5.0
Inflation rate (annual average rate)	2.5	2.5

The consensus Upside scenario

Compared with the Central scenario, the consensus Upside scenario features stronger economic activity in the near term, before converging to long-run trend expectations. It also incorporates lower unemployment and higher asset prices than incorporated in the Central scenario, inflation accelerates modestly, driven by increased investment and higher consumption spending.

The scenario is consistent with a number of key upside risk themes. These include a partial rollback of tariff measures, deregulation, an improvement in the US-China relationship, and a de-escalation in geopolitical tensions.

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

Consensus Upside scenario 2026-2030 (as at Q425)

	2025	2024
	%	%
GDP growth rate (annual average rate) (max)	5.5	4.2
Unemployment rate (annual average rate) (min)	3.1	3.5
House price growth (annual average rate) (max)	10.3	8.6
Inflation rate (annual average rate) (min)	2.4	1.7

The consensus Downside scenario

In the consensus Downside scenario, the effects of tariffs on the global economy are worse than expected, leading to weaker economic activity compared with the Central scenario.

In this scenario, GDP declines, unemployment rates rise, while asset prices and commodity prices fall. The scenario features an escalation in geopolitical tensions and an increase in tariffs over and above those assumed in the Central scenario. Existing and recently approved trade agreements are assumed to hold.

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The following table describes key macroeconomic variables in the consensus Downside scenario:

Consensus Downside scenario 2026-2030 (as at Q425)

	2025	2024
	%	%
GDP growth rate (annual average rate) (min)	(1.3)	0.1
Unemployment rate (annual average rate) (max)	5.8	5.4
House price growth (annual average rate) (min)	(4.1)	1.1
Inflation rate (annual average rate) (min)	0.5	1.6
Inflation rate (annual average rate) (max)	2.4	4.3

Downside 2 scenario

The Downside 2 scenario reflects management's view of the tail of the economic distribution. It incorporates the simultaneous crystallisation of a number of risks that lead to a deep global recession. The subsequent drop in demand leads to a steep fall in commodity prices, and a rapid increase in unemployment.

Then narrative features an escalation in tariff actions, resulting in a global trade war, and further intensification of geopolitical crises. The scenario is consistent with the US tariff rate, measured as an effective trade-weighted average, rising to 25% in 2026, and remaining at that level in 2027.

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

Downside 2 scenario 2026-2030 (as at Q425)

	2025	2024
	%	%
GDP growth rate (annual average rate) (min)	(2.5)	(3.3)
Unemployment rate (annual average rate) (max)	8.7	8.8
House price growth (annual average rate) (min)	(17.9)	(8.1)
Inflation rate (annual average rate) (min)	(0.4)	1.0
Inflation rate (annual average rate) (max)	2.9	4.3

Scenario weighting

Scenario weightings are calibrated to probabilities that are determined with reference to consensus forecast probability distributions. Management may then choose to vary weights if they assess that the calibration lags more recent events, or does not reflect their view of the distribution of economic and geopolitical risk. Management's view of the scenarios and probability distribution takes into consideration the relationship of the consensus scenarios to both internal and external assessments of risk.

In the fourth quarter of 2025, forecast and distributional estimates were assessed to have incorporated available information around tariffs and policy uncertainties and no major events had occurred since scenario production that changed the outlook materially. Forecast dispersion, financial market volatility and other measures of uncertainty remained close to their long-term average.

Consequently, there was no variation in scenario weights and they were aligned to the calibrated probabilities of the scenarios. The consensus Central scenario was assigned a 75% probability weighting. The consensus Upside scenario was assigned a 10% weighting, and the consensus Downside scenario was given 10%. The Downside 2 was assigned a 5% weighting.

How economic scenarios are reflected in ECL calculations

Models are used to reflect economic scenarios on ECL estimates. 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.

For wholesale portfolio, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). PDs use the correlation of forward economic guidance with default rates for a particular industry within a country, and LGDs use the correlation of forward economic guidance with 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, allowance for 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 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, using 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.

For unsecured retail portfolios historically observed recovery rates are leveraged to measure loss. For both mortgages and unsecured portfolios, a limited number of portfolios utilise a stressed LGD applied to the Downside 2 scenario.

Management judgemental adjustments

In the context of AASB 9, management judgemental adjustments are typically short-term increases or decreases to the modelled allowance for ECL at a customer, segment or portfolio level where management believes allowances do not sufficiently reflect the expected credit losses at the reporting date. These relate to risks or uncertainties that are not reflected in the models or to any late breaking events with significant uncertainty, subject to management review and challenge.

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Management judgement adjustments impacts are considered for both gross balances and allowances for ECL when determining whether a significant increase in credit risk has occurred and is allocated to an appropriate stage in accordance with the internal adjustments' framework.

Management judgement adjustments are reviewed under the governance process for AASB 9. Management's review and challenge focuses on the rationale and adjustment amounts and, where significant was subject to a further review by the second line of defence. The internal governance process regularly reviews management judgemental adjustments and, where possible, mitigates these through a model recalibration or redevelopment.

In addition, 'Other adjustments' are considered to address process limitations such as data or model deficiencies and can also include, where appropriate, the impact of new models where governance has sufficiently progressed to allow an accurate estimate of ECL allowance to be incorporated into the total reported ECL.

For the wholesale portfolio, management judgemental adjustments apply to the performing portfolio only as defaulted exposures are individually assessed.

At 31 December 2025, management judgemental adjustment of \$2.1m was made to retail mortgage portfolio (2024: \$2.5m 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 allowance for ECL under each scenario described above for selected portfolios, applying a 100% weighting to each scenario in turn. The weighting is reflected in both the determination of a significant increase in credit risk and the measurement of the resulting allowances.

The allowance for ECL calculated for the Upside and Downside scenarios should not be taken to represent the lower and upper limits of possible ECL outcomes. The impact of defaults that might occur in the future under different economic scenarios is captured by recalculating allowance for loans at the balance sheet date.

There is a particularly high degree of estimation uncertainty in numbers representing tail risk scenarios when assigned a 100% weighting.

For wholesale credit risk exposures, the sensitivity analysis excludes allowance for ECL and financial instruments related to defaulted (Stage 3) obligors. 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 allowance 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 mortgage exposures, the sensitivity analysis includes allowance for ECL defaulted obligors of loans and advances. 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 2025

	IWPB \$m	CIB \$m	Total \$m
Central scenario	21.9	8.7	30.6
Upside scenario	20.0	5.0	25.0
Downside scenario	27.1	16.9	44.0
Downside 2 scenario	47.4	21.4	68.8

ECL sensitivity to future economic conditions at 31 Dec 2024

	IWPB \$m	CIB \$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

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.

Movements are calculated on a quarterly basis and therefore fully capture stage movements between quarters. If movements were calculated on a year-to-date basis they would only reflect the opening and closing position of the financial instrument.

The transfers of financial instruments 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.

Notes on the Consolidated financial statements

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		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 2025	43,888.3	(5.9)	1,269.0	(6.9)	647.0	(12.9)	45,804.3	(25.7)
Transfers of financial instruments:								
– transfers from Stage 1 to Stage 2	(2,249.1)	0.9	2,249.1	(0.9)	–	–	–	–
– transfers from Stage 2 to Stage 1	1,454.6	(6.2)	(1,454.6)	6.2	–	–	–	–
– transfers to Stage 3	(225.5)	–	(147.8)	4.1	373.3	(4.1)	–	–
– transfers from Stage 3	48.3	(0.5)	231.5	(3.5)	(279.8)	4.0	–	–
– net remeasurement of ECL arising from transfer of stage	–	3.0	–	(1.1)	–	–	–	1.9
New financial assets originated or purchased	11,373.1	(1.0)	–	–	–	–	11,373.1	(1.0)
Changes to risk (model inputs) parameters and changes to ECL model	(585.1)	4.2	33.3	(7.0)	6.2	(17.1)	(545.6)	(19.9)
Asset derecognised (including final repayments)	(7,715.3)	0.6	(385.5)	1.2	(196.3)	8.7	(8,297.1)	10.5
Assets written off	–	–	–	–	(10.4)	10.4	(10.4)	10.4
At 31 Dec 2025	45,989.3	(4.9)	1,795.0	(7.9)	540.0	(11.0)	48,324.3	(23.8)
ECL (release)/charge for the period	–	(6.1)	–	6.4	–	8.4	–	8.7
Recoveries	–	–	–	–	–	–	–	(1.6)
Other	–	(0.8)	–	0.3	–	–	–	(0.5)
Total ECL (release)/charge for the period	–	(6.9)	–	6.7	–	8.4	–	6.6

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		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 2025	6,267.3	(3.0)	167.0	(2.0)	73.0	(38.0)	6,507.3	(43.0)
Transfers of financial instruments:								
– transfers from Stage 1 to Stage 2	(459.9)	2.4	459.9	(2.4)	–	–	–	–
– transfers from Stage 2 to Stage 1	281.3	(0.8)	(281.3)	0.8	–	–	–	–
– transfers to Stage 3	–	–	(15.0)	2.0	15.0	(2.0)	–	–
– transfers from Stage 3	–	–	5.9	–	(5.9)	–	–	–
– net remeasurement of ECL arising from transfer of stage	–	0.2	–	(0.4)	–	–	–	(0.2)
New financial assets originated or purchased	2,742.1	(1.2)	–	–	–	–	2,742.1	(1.2)
Changes to risk (model inputs) parameters and changes to ECL model	(2,048.9)	(2.7)	34.2	–	(32.8)	7.8	(2,047.5)	5.1
Asset derecognised (including final repayments)	(924.8)	0.1	(94.7)	–	(0.6)	–	(1,020.1)	0.1
Assets written off	–	–	–	–	(21.1)	21.1	(21.1)	21.1
Other/foreign exchange	–	–	–	–	(1.6)	1.2	(1.6)	1.2
At 31 Dec 2025	5,857.1	(5.0)	276.0	(2.0)	26.0	(9.9)	6,159.1	(16.9)
ECL (release)/charge for the period	–	3.3	–	1.6	–	(8.2)	–	(3.3)
Recoveries	–	–	–	–	–	–	–	(0.5)
Other	–	0.4	–	–	–	(1.0)	–	(0.6)
Total ECL (release)/charge for the period	–	3.7	–	1.6	–	(9.2)	–	(4.4)

Notes on the Consolidated financial statements

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		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 (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 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)

Credit quality

Credit quality of financial instruments

The Consolidated entity assesses 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 for the majority of portfolios. Accordingly, for non-credit-impaired financial instruments, there is no direct relationship between the credit quality assessment and Stages 1 and 2, although typically the lower credit quality bands exhibit a higher proportion in Stage 2.

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The five credit quality classifications provided below each encompass a range of granular internal credit rating grades assigned to CIB and IWPB businesses and the external ratings attributed by external agencies to debt securities.

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	31,616.6	7,560.8	1,911.7	225.3	549.9	41,864.3	(34.8)	41,829.5
– Stage 1	31,604.8	6,691.6	1,075.0	36.9	–	39,408.3	(6.9)	39,401.4
– Stage 2	11.7	869.2	836.7	188.4	–	1,906.0	(8.9)	1,897.1
– Stage 3	–	–	–	–	550.0	550.0	(19.0)	531.0
Loans and advances to banks at amortised cost	13.1	–	3.0	–	–	16.1	–	16.1
– Stage 1	13.1	–	3.0	–	–	16.1	–	16.1
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
Other financial assets measured at amortised cost	4,308.9	136.0	3.0	–	8.3	4,456.2	–	4,456.2
– Stage 1	4,301.9	135.0	3.0	–	–	4,439.9	–	4,439.9
– Stage 2	7.0	1.0	–	–	–	8.0	–	8.0
– Stage 3	–	–	–	–	8.3	8.3	–	8.3
Loan and other credit-related commitments	8,961.0	2,223.0	439.0	11.0	11.0	11,645.0	(4.0)	11,641.0
– Stage 1	8,939.0	2,214.0	334.0	–	–	11,487.0	(3.0)	11,484.0
– Stage 2	22.0	9.0	105.0	11.0	–	147.0	(1.0)	146.0
– Stage 3	–	–	–	–	11.0	11.0	–	11.0
Financial guarantees and similar contracts	287.1	389.0	278.0	15.0	5.0	974.1	(1.9)	972.2
– Stage 1	287.1	389.0	270.0	5.0	–	951.1	–	951.1
– Stage 2	–	–	8.0	10.0	–	18.0	–	18.0
– Stage 3	–	–	–	–	5.0	5.0	(1.9)	3.1
Debt instruments at FVOCI	15,742.1	–	–	–	–	15,742.1	(0.3)	15,741.8
– Stage 1	15,742.1	–	–	–	–	15,742.1	(0.3)	15,741.8
– Stage 2	–	–	–	–	–	–	–	–
– Stage 3	–	–	–	–	–	–	–	–
At 31 Dec 2025	60,928.8	10,308.8	2,634.7	251.3	574.2	74,697.8	(41.0)	74,656.8
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
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	–	–	–	–	–	–	–	–
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
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
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
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	–	–	–	–	–	–	–	–
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

Notes on the Consolidated financial statements

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	36,181.4	1,738.2	518.7	38,438.3	(0.9)	(4.2)	(6.0)	(11.1)
Other personal lending	430.9	16.8	12.3	460.0	(4.0)	(3.7)	(5.0)	(12.7)
– other	27.4	0.1	–	27.5	(0.3)	(0.1)	–	(0.4)
– credit cards	403.5	16.7	12.3	432.5	(3.7)	(3.6)	(5.0)	(12.3)
At 31 Dec 2025	36,612.3	1,755.0	531.0	38,898.3	(4.9)	(7.9)	(11.0)	(23.8)
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)

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	2,632.0	151.0	19.0	2,802.0	(2.0)	(1.0)	(8.0)	(11.0)
– agriculture, forestry and fishing	2.4	–	–	2.4	–	–	–	–
– mining and quarrying	166.6	0.9	–	167.5	(0.2)	–	–	(0.2)
– manufacture	442.3	39.2	–	481.5	(0.1)	(0.1)	–	(0.2)
– electricity, gas, steam and air-conditioning supply	27.1	0.7	–	27.8	–	(0.1)	–	(0.1)
– water supply, sewerage, waste management and remediation	15.2	1.5	–	16.7	–	–	–	–
– real estate and construction	409.6	22.1	–	431.7	(0.3)	–	–	(0.3)
– wholesale and retail trade, repair of motor vehicles and motorcycles	1,064.3	37.8	5.6	1,107.7	(1.1)	(0.2)	(4.2)	(5.5)
– transportation and storage	77.6	30.1	–	107.7	(0.1)	(0.3)	–	(0.4)
– accommodation and food	0.6	–	–	0.6	–	–	–	–
– publishing, audiovisual and broadcasting	44.7	9.3	–	54.0	–	(0.3)	–	(0.3)
– professional, scientific and technical activities	182.5	7.2	–	189.7	(0.1)	–	–	(0.1)
– administrative and support services	39.2	1.7	–	40.9	–	–	–	–
– public administration and defence, compulsory social security	–	–	–	–	–	–	–	–
– education	1.2	0.2	–	1.4	–	–	–	–
– health and care	82.5	0.3	–	82.8	(0.1)	–	–	(0.1)
– arts, entertainment and recreation	–	–	–	–	–	–	–	–
– other services	1.4	–	13.4	14.8	–	–	(3.8)	(3.8)
– government	74.8	–	–	74.8	–	–	–	–
Non-bank financial institutions	164.0	–	–	164.0	–	–	–	–
Loans and advances to banks	16.1	–	–	16.1	–	–	–	–
At 31 Dec 2025	2,812.1	151.0	19.0	2,982.1	(2.0)	(1.0)	(8.0)	(11.0)
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)

Notes on the Consolidated financial statements

Forborne loans and advances

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

The Bank continues to class loans as forborne when the Bank modifies the contractual payment terms due to having 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	—	68.0	378.0	446.0
– credit card	—	—	4.0	4.0
Wholesale				
– corporate and commercial	—	—	—	—
– non-bank financial institutions	—	—	—	—
At 31 Dec 2025	—	68.0	382.0	450.0
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	—	—	—	—
– non-bank financial institutions	—	—	—	—
At 31 Dec 2025	—	(1.0)	(8.0)	(9.0)
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)

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.

Mitigants may include taking security over a borrowers' specific assets, such as real estate or financial instruments to reduce credit risk. In addition, risk may be managed through the use of alternative forms of collateral and credit risk enhancements, such as second charges, other liens and unsupported guarantees. Guarantees are normally taken from corporates and export credit agencies. Corporates would normally provide guarantees as part of a parent/subsidiary relationship and span a number of credit grades. The export credit agencies will normally be investment grade.

Notes on the Consolidated financial statements

Collateral on loans and advances

Collateral held is analysed separately for commercial real estate and for other corporate, commercial and financial (non-bank) lending.

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

Other types of collateral such as unsupported guarantees and floating charges over the assets of a customer's business are not measured. 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, actual values realised are a function of market conditions. Impairment allowances are calculated on a different basis, by considering other cash flows and adjusting collateral values for costs of realising collateral.

Derivatives

The Consolidated entity participates in transactions exposing the Bank 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 counterparty risk from derivative transactions is taken into account when reporting the fair value of derivative positions. The adjustment to the fair value is known as the credit valuation adjustment ('CVA').

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, banks and other financial institutions 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

Concentration of credit risk occurs when multiple counterparties share similar economic traits or operate in the same sectors or geographies, making them collectively vulnerable to changes in economic or political conditions. The Bank has business segments with a broad range of products. To mitigate this risk the Bank uses various controls such as portfolio and counterparty limits, approval and review processes, and stress testing across industries and business segments.

(c) Treasury risk

Approach and policy

The objective in managing treasury risk is to maintain appropriate levels of capital, liquidity and funding to support business strategy, and to meet regulatory and stress testing-related requirements. Approach to treasury management is shaped by the organisational needs, taking into account the regulatory, economic and commercial landscape. The aim is to maintain a strong capital and liquidity base to manage inherent business risks and invest in accordance with the strategy, adhering to both the HSBC Group and local regulatory requirements at all times. The policy is underpinned by a comprehensive risk management framework. The risk management framework incorporates a number of measures aligned to our assessment of risks for both internal and regulatory purposes. These risks include credit, market, operational, structural and transactional foreign exchange risk, and interest rate risk in the banking book.

Treasury risk management

Capital risk

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 the Bank's 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 the Bank to manage our capital in a consistent manner.

Notes on the Consolidated financial statements

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 the Bank is 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.

Regulatory 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

Management oversight of the Bank's liquidity and funding risk is ensured through governance arrangements aligned with our risk management framework. Liquidity and funding risk within the HSBC Group is managed at the operating entity level to ensure that obligations can be met in the jurisdiction where they fall due, generally without reliance on other parts of the HSBC Group, while adhering to globally consistent policies, procedures and reporting standards.

To this end, the Bank 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.

Operating entities must consistently meet internal minimum and applicable regulatory requirements related to liquidity and funding risk management at all times. Our Internal Adequacy Assessment Process ('ILAAP'), ensures that operating entities have robust strategies, policies, processes and systems for the identification, measurement, management and monitoring of liquidity and funding risk across various time horizons, including intra-day. The ILAAP informs risk appetite setting and assesses the capability to manage liquidity and funding effectively. Liquidity and funding risk metrics are set and managed locally but are subject to global review and challenge to ensure consistency with the HSBC Group's policies and controls.

The Bank's Board is responsible for the sound and prudent management of liquidity risk, approving the liquidity risk tolerance and ensuring that there is an appropriate framework in place 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 elements (strategies, policies and procedures) 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 OC on a regular basis. Liquidity and funding risk management processes include:

- maintaining compliance with relevant regulatory requirements;
- projecting cash flows under various stress scenarios and considering the level of liquid assets necessary in relation thereto;
- 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 and maturity concentration in order to avoid undue reliance on large individual depositors and ensuring a satisfactory overall funding mix and maturity profile; and
- maintaining and testing 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 (and funding strategy) 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.

Notes on the Consolidated financial statements

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

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 1 year	Due over 1 year but not more than 5 years	Due over 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m
Deposits by banks	1,108.5	806.6	3,039.0	—	—	4,954.1
Customer accounts	42,362.4	3,826.8	5,056.0	215.4	—	51,460.6
Repurchase agreements – non-trading	164.3	1,155.4	—	—	—	1,319.7
Derivatives	78.5	—	1.7	0.2	3.9	84.3
Debt securities in issue	42.7	83.1	339.5	1,126.7	882.4	2,474.4
Subordinated liabilities	—	100.0	262.2	—	—	362.2
Other financial liabilities	875.7	18.8	24.0	115.5	74.0	1,108.0
Statement of financial position	44,632.1	5,990.7	8,722.4	1,457.8	960.3	61,763.3
Loan and other credit-related commitments	15,503.6	—	—	—	—	15,503.6
Financial guarantees and similar contracts	1,132.4	—	—	—	—	1,132.4
At 31 Dec 2025	61,268.1	5,990.7	8,722.4	1,457.8	960.3	78,399.3
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

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. EVE sensitivity assesses how changes in interest rate affect EVE, considering the term profile of non-maturing deposits adjusted for stability and price sensitivity.

(d) Market risk

Overview

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 management

There were no material changes to the Bank's policies and practices for the management of market risk in 2025.

Notes on the Consolidated financial statements

Governance and structure

The following diagram summarises the main business areas where trading market risks reside and the market risk measures used to monitor and limit exposures.

Risk types	Trading risk – Foreign exchange – Interest rates – Credit spreads
Risk measure	Value at risk Sensitivity Stress testing

The objective of the Bank's risk management policies and measurement techniques is to manage and control market risk exposures to optimise return on risk while maintaining a market profile consistent with our established risk appetite.

The Bank manages market risk principally by risk management policies and techniques developed by the Risk function and controlled through limits approval is delegated to management of HBAU. These limits are then allocated across business lines. There were no material changes to our policies and practices for the management of market risk in 2025.

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. Non-trading portfolios risk positions mainly arise from non-traded assets and liabilities, specifically loans, deposits and financial instruments that are not held for trading intent or that are held in order to hedge positions held with non-trading intent.

The Bank continued to manage market risk prudently during 2025. 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.

Key risk management processes

Monitoring and limiting market risk exposures

The Bank uses a range of tools to monitor and limit market risk exposures including sensitivity analysis, value at risk ('VaR') and stress testing.

Sensitivity analysis

Sensitivity analysis measures the impact of movements in individual market factor on specific instruments or portfolios, including interest rates and foreign exchange rates. The Bank uses sensitivity measures to monitor the market risk positions within each risk type. Granular sensitivity limits are set for trading desks with consideration of market liquidity, customer demand and capital constraints, among other factors.

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 the Bank capitalises 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.

VaR model limitations

Although a valuable guide to risk, VaR is used with awareness of its limitations. For example:

- the use of historical data as a proxy for estimating future market moves may not encompass all potential market events, particularly those that are extreme in nature. As the model is calibrated on the last 500 business days, it does not adjust instantaneously to a change in the market regime.
- the use of a one-day holding period for risk management purposes of trading books assumes that this short period is sufficient to hedge or liquidate all positions.
- 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 reflect intra-day exposures.

Trading and Non-Trading VaR for the Consolidated entity

	Trading VaR		Non-Trading VaR	
	2025	2024	2025	2024
	\$m	\$m	\$m	\$m
Average	0.1	0.8	30.5	39.8
Maximum	0.2	1.4	34.3	64.5
Minimum	0.1	0.2	25.5	30.5
At 31 Dec	0.1	0.2	28.6	31.3

Notes on the Consolidated financial statements

Total Trading VaR over a 1 day holding period at 31 December 2025 was \$0.1m (2024: \$0.2m). 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 2025 was \$28.6m, \$2.7m lower than 2024, while average Non-Trading VaR dropped by \$9.3m from the prior year. Non-Trading VaR is driven by banking book risk position held in the Hold to Collect and Sell ('HTC&S') book. The HTC&S book mainly consist of Australian Semi-government bonds for structural interest rate risk management.

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 interest rate 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, interest rate risk in non-trading portfolios that can be economically hedged is transferred to the Markets Treasury unit and under the supervision of the Bank ALCO. The transfer of interest rate risk to books managed by the Markets Treasury unit 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. Once market risk has been consolidated in the Markets Treasury unit, the net exposure is typically managed through the use of interest rate swaps and fixed rate high quality liquid bonds within agreed limits.

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.

Notes on the Consolidated financial statements

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			Total Third Party	Amount with Related Parties*	Total
	Level 1	Level 2	Level 3			
	\$m	\$m	\$m	\$m	\$m	\$m
At 31 Dec 2025						
Assets						
Financial assets designated and otherwise mandatorily measured at fair value through profit or loss	—	6.6	4.0	10.6	—	10.6
Derivatives	0.1	30.8	—	30.9	109.6	140.5
Financial assets measured at FVOCI	12,323.3	3,418.7	6.7	15,748.7	—	15,748.7
Liabilities						
Derivatives	—	28.5	—	28.5	55.9	84.4
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

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

The movement from level 1 to level 2 was \$1,394.8m (2024: \$1,043.6m) and \$1,131.3m (2024: \$609.1m) 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	Observable inputs	Significant unobservable inputs	Total	
		Level 1 AUD'm	Level 2 AUD'm	Level 3 AUD'm		
At 31 Dec 2025						
Assets						
Loans and advances to banks	151.6	—	151.6	—	151.6	
Loans and advances to customers	41,829.5	—	—	41,878.0	41,878.0	
Reverse repurchase agreements – non-trading	1,763.7	—	1,763.7	—	1,763.7	
Financial investments – debt securities	—	—	—	—	—	
Liabilities						
Deposits by banks	4,842.4	—	4,842.4	—	4,842.4	
Customer accounts	51,060.5	—	51,070.5	—	51,070.5	
Repurchase agreements – non-trading	1,315.4	—	1,315.4	—	1,315.4	
Debt securities in issue	2,356.3	—	2,380.0	—	2,380.0	
Subordinated liabilities	350.0	—	352.4	—	352.4	
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	

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	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Profit for the year	459.9	420.9	459.9	420.9
Depreciation, amortisation and related impairment	42.9	58.2	42.9	58.2
Other non-cash items included in profit before tax	(161.5)	(100.5)	(161.5)	(100.5)
(Increase)/decrease in interest receivable	21.6	(21.7)	21.6	(21.7)
Increase/(decrease) in interest payable	(56.2)	60.8	(55.9)	57.5
Loan impairment charges	9.3	1.6	9.3	1.6
(Profit)/loss on the sale of investments	(7.3)	(0.6)	(7.3)	(0.6)
(Profit)/loss on the sale of property, plant and equipment	0.1	—	0.1	—
Increase/(decrease) in provisions	(9.4)	(10.3)	(9.4)	(10.3)
Increases/(decrease) in related party payable account	10.9	18.3	10.9	18.3
(Increase)/decrease in accruals and prepayments	0.7	0.6	3.0	0.8
Changes in operating assets and liabilities				
Net (increase)/decrease in trading securities and derivatives	271.5	(385.0)	271.5	(385.0)
Cash inflows/(outflows) from movements in other assets/liabilities	234.3	(659.7)	234.3	(659.2)
Net (increase)/decrease in loans and bills advanced	(1,412.0)	(1,313.5)	(1,412.0)	(1,313.5)
Net increase in deposits and other borrowings	25.0	5,408.0	(620.0)	6,791.5
Net cash from/(used in) operating activities	(570.2)	3,477.1	(1,212.6)	4,858.0

Reconciliation of cash and cash equivalents

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Cash and balances at central banks	3,646.3	4,992.4	3,646.3	4,992.4
Items in the course of collection from other banks	0.1	0.1	0.1	0.1
Placings with banks with remaining maturity 1 months or less	151.6	390.7	151.6	390.7
Cash collateral provided with remaining maturity 1 months or less	—	—	—	—
Securities purchased from related entities under agreements to resell	1,763.7	1,471.0	1,763.7	1,471.0
Items in the course of transmission to other banks	(29.3)	(31.5)	(29.3)	(31.5)
Total cash and cash equivalents	5,532.4	6,822.7	5,532.4	6,822.7

Financing facilities

At 31 December 2025 and 31 December 2024 there are no committed facilities.

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

	Consolidated and Company	
	2025 \$m	2024 \$m
Financial assets pledged as collateral	4,254.1	3,837.0
Fair value of the collateral permitted to sell or repledge in the absence of default	1,758.0	2,380.0
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

	Consolidated		Company	
	2025 \$m	2024 \$m	2025 \$m	2024 \$m
Carrying amount of asset				
Loans and advances to customers	2,356.3	2,999.0	2,356.3	2,999.0
Total	2,356.3	2,999.0	2,356.3	2,999.0
Carrying amount of related liability				
Related party liability	—	—	2,356.3	2,998.7
Debt securities in issue	2,356.3	2,998.7	—	—
Total	2,356.3	2,998.7	2,356.3	2,998.7

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 'Securitisation') 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 \$50.8m (31 December 2024: \$56.8m) of amounts already collected and to be distributed to note holders.

Debt securities in issue includes a related party component of \$345,333,271 (2024: \$463,334,514).

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

The following tables provide an analysis of total assets and liabilities by residual contractual maturity at the balance sheet date.

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

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m
Financial assets									
Cash and balances at central banks	3,646.3	—	—	—	—	—	—	—	3,646.3
Items in the course of collection from other banks	0.1	—	—	—	—	—	—	—	0.1
Financial assets designated or otherwise mandatorily measured at fair value through profit or loss	6.6	—	—	—	—	—	—	4.0	10.6
Derivatives	62.8	—	—	—	—	0.2	15.0	62.5	140.5
Loans and advances to banks	16.1	—	—	—	—	—	—	—	16.1
Loans and advances to customers	1,715.4	872.2	371.7	278.8	299.8	1,041.3	2,716.7	34,533.7	41,829.6
Reverse repurchase agreements – non-trading	—	—	—	—	—	—	—	—	—
Financial investments	149.9	1,774.9	2,759.0	1,898.5	482.9	1,822.2	5,546.3	1,315.0	15,748.7
Accrued income and other financial assets	728.3	47.2	32.3	—	9.0	0.1	0.2	4.1	821.2
Receivables from related entities	2,013.5	—	—	—	—	—	—	—	2,013.5
Total financial assets at 31 Dec 2025	8,339.1	2,694.2	3,163.0	2,177.3	791.7	2,863.8	8,278.3	35,919.2	64,226.5
Non-financial assets	—	—	—	—	—	—	—	375.9	375.9
Total assets at 31 Dec 2025	8,339.1	2,694.2	3,163.0	2,177.3	791.7	2,863.8	8,278.3	36,295.1	64,602.4
Financial liabilities									
Deposits by banks	773.2	—	—	—	—	—	—	—	773.2
Customer accounts	42,197.5	3,768.1	2,915.9	1,477.6	512.1	50.0	139.3	—	51,060.5
Repurchase agreements – non-trading	850.0	—	—	—	—	—	—	—	850.0
Items in the course of transmission to other banks	29.3	—	—	—	—	—	—	—	29.3
Derivatives	78.5	—	0.4	1.3	0.1	0.1	0.1	3.9	84.4
Debt securities in issue	40.6	79.1	113.6	107.7	102.1	358.1	714.7	840.4	2,356.3
Accruals and other financial liabilities	275.1	53.1	49.6	25.5	9.1	30.7	75.8	63.4	582.3
Subordinated liabilities	—	—	—	—	—	—	—	—	—
Payables to related entities	1,101.9	1,201.5	785.0	1,250.0	1,150.0	—	—	—	5,488.5
Total financial liabilities at 31 Dec 2025	45,346.0	5,101.9	3,864.4	2,862.0	1,773.4	439.0	929.9	907.7	61,224.3
Non-financial liabilities	—	—	—	—	—	—	—	83.1	83.1
Total liabilities at 31 Dec 2025	45,346.0	5,101.9	3,864.4	2,862.0	1,773.4	439.0	929.9	990.8	61,307.5
Off balance sheet commitments given									
Loan and other credit-related commitments	15,503.6	—	—	—	—	—	—	—	15,503.6

The structure of the table above has been updated to align with Group reporting. The comparative table has also been modified accordingly to maintain alignment with these revisions.

Notes on the Consolidated financial statements

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

	Due not more than 1 month	Due over 1 month but not more than 3 months	Due over 3 months but not more than 6 months	Due over 6 months but not more than 9 months	Due over 9 months but not more than 1 year	Due over 1 year but not more than 2 years	Due over 2 years but not more than 5 years	Due over 5 years	Total
	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$m	\$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
Financial assets designated or otherwise mandatorily measured at fair value 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	467.8	369.4	341.6	923.5	2,276.9	32,272.2	39,638.7
Reverse repurchase agreements – non-trading	—	—	—	—	—	—	—	—	—
Financial investments	249.5	1,992.9	3,933.7	732.2	781.4	1,904.0	4,116.2	2,297.9	16,007.6
Accrued income and other financial assets	1,005.7	50.6	27.1	0.2	9.7	—	—	0.4	1,093.7
Receivables from related entities	1,785.7	886.6	—	—	—	—	—	—	2,672.3
Financial assets at 31 Dec 2024	10,460.5	3,938.3	4,428.6	1,101.7	1,136.1	2,827.5	6,394.3	34,641.1	64,928.2
Non-financial assets	—	—	—	—	—	—	—	392.1	392.1
Total assets at 31 Dec 2024	10,460.5	3,938.3	4,428.6	1,101.7	1,136.1	2,827.5	6,394.3	35,033.2	65,320.3
Financial liabilities									
Deposits by banks	524.5	—	—	—	—	—	—	—	524.5
Customer accounts	42,116.8	3,567.6	2,606.6	2,150.2	783.4	24.1	102.3	—	51,351.0
Repurchase agreements – non-trading	—	—	—	—	—	—	—	—	—
Items in the course of transmission to other banks	31.5	—	—	—	—	—	—	—	31.5
Derivatives	205.9	1.9	—	2.4	—	2.5	2.2	13.8	228.6
Debt securities in issue	38.5	75.1	108.4	103.4	98.7	351.6	839.5	920.3	2,535.3
Accruals and other financial liabilities	46.1	65.3	68.9	45.6	12.4	27.0	67.7	76.9	409.9
Subordinated liabilities	—	—	—	—	—	—	—	—	—
Payables to related entities	1,574.6	837.1	2,235.1	21.2	220.2	1,528.7	135.3	169.1	6,721.4
Total financial liabilities at 31 Dec 2024	44,537.9	4,546.9	5,019.0	2,322.7	1,114.7	1,933.9	1,147.0	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	5,019.0	2,322.7	1,114.7	1,933.9	1,147.0	1,489.9	62,112.0
Off balance sheet commitments given	—	—	—	—	—	—	—	—	—
Loan and other credit-related commitments	15,138.5	—	—	—	—	—	—	—	15,138.5

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	
	2025 \$	2024 \$	2025 \$	2024 \$
Aggregate amounts receivable				
Other assets	249,768,300	314,645,805	249,768,300	314,645,805
Reverse sales and repurchase agreements – non-trading	1,763,745,500	2,357,602,195	1,763,745,500	2,357,602,195
	2,013,513,800	2,672,248,000	2,013,513,800	2,672,248,000
Aggregate amounts payable				
Owing to parent in respect of tax	9,840,246	20,781,244	9,840,246	20,781,244
Sales and repurchase agreements – non-trading	465,401,147	—	465,401,147	—
Deposits by banks	4,069,185,000	4,905,051,000	4,069,185,000	4,905,051,000
Other liabilities	594,045,252	981,308,399	2,953,452,404	3,985,614,773
Subordinated liabilities	350,000,000	350,000,000	350,000,000	350,000,000
	5,488,471,645	6,257,140,643	7,847,878,797	9,261,447,017

The customer accounts include a related party component of \$3,509,819 (2024: \$3,163,707). Moreover, balances of related entities in respect of derivatives assets and liabilities and debt securities in issue have been disclosed in Note 9 and Note 17 respectively.

Amounts in this Note are not rounded.

Notes on the Consolidated financial statements

Transactions with related parties during the year

	Consolidated		Company	
	2025	2024	2025	2024
	\$	\$	\$	\$
Interest revenue				
Related party entities	61,925,497	122,641,461	61,925,497	122,641,461
Key management personnel	269,577	262,885	269,577	262,885
Interest expense				
Related party entities	235,924,759	237,437,563	352,282,181	375,826,483
Management fees paid				
Related party entities	382,794,714	330,265,761	382,794,714	330,265,761
Management fees received				
Related party entities	157,214,923	134,810,324	157,214,923	134,810,324
Fee income				
Related party entities	15,618,369	14,115,893	15,618,369	14,115,893
Fee expense				
Related party entities	23,254,436	23,055,874	23,254,436	23,055,874
Dividend paid				
Controlling entity	343,015,028	488,876,926	343,015,028	488,876,926

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.

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

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 2025 included \$500,067,517 (2024: \$520,322,581), 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	Resigned 31 December 2025
Non-executive Directors		
Grant King	Chairman	
Philip Fellowes		
Karina Kwan		
Anne Loveridge		Appointed 01 February 2025
Gail Pemberton		
Geoff Wilson		
Executives		
Lettina Evans	Chief Financial Officer	
Nick Wheeler	Head of Markets Securities Services	
Steve Hughes	Head of Banking, Australia & New Zealand	Appointed Chief Executive Officer effective 1 January 2026
Anita O'Brien	Head of Global Banking	Resigned 30 June 2025
Jessica Power	Head of International Wealth & Premier Banking	
Rani Mina	Chief Risk and Compliance Officer	
Brenton Hush	Chief Operating Officer	
Erica Carvouni	Head of Human Resources	
John Doman	Chief Information Officer, Australia & New Zealand	

Notes on the Consolidated financial statements

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

Transactions with key management personnel

	Consolidated		Company	
	2025	2024	2025	2024
	\$	\$	\$	\$
Short-term employee benefits				
Cash salary, fees and short-term compensated absences	7,171,932	7,497,452	7,171,932	7,497,452
Short-term cash profit-sharing and other bonuses	1,530,814	2,361,143	1,530,814	2,361,143
Non-monetary benefits	71,718	108,786	71,718	108,786
Other short-term employee benefits	24,494	147,361	24,494	147,361
	8,798,958	10,114,742	8,798,958	10,114,742
Post-employment benefits				
Pension and superannuation benefits	402,611	385,983	402,611	385,983
Other post-employment benefits	—	—	—	—
	402,611	385,983	402,611	385,983
	9,201,569	10,500,725	9,201,569	10,500,725
Share based payments granted during the year	2,701,733	2,613,129	2,701,733	2,613,129

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	
	2025	2024	2025	2024
	\$	\$	\$	\$
The aggregate amount of loans to key management personnel of any entity in the Consolidated entity	5,716,056	9,294,747	5,716,056	9,294,747
Loan repayments received	5,125,517	3,998,537	5,125,517	3,998,537

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\$50m (\$0.073 per share) was declared and payable by the Company as dividends on ordinary shares. In addition, an amount of AUD\$10.8m was declared and payable by the Company as dividends on additional tier 1 capital instrument. 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 2025 ¹	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 2025, 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 27 March 2026.

Signed in accordance with a resolution of the Directors:



Grant King
Chairman



Steve Hughes
Director and Chief Executive Officer



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 the Group's financial positions as at 31 December 2025 and of their financial performance for the year then ended; and
- a) 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 2025;
- the Consolidated and Company income statements for the year then ended;
- 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 notes to the financial statements, including material accounting policy information and other explanatory information;
- the consolidated entity disclosure statement as at 31 December 2025;
- the directors' declaration.

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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 of public interest entities in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Other information

The directors are responsible for the other information. The other information comprises the information included in the Annual Report and Accounts 2025 (the 'Annual Report') for the year ended 31 December 2025, 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/apzlwnoy/ar3_2024.pdf. This description forms part of our auditor's report.

A handwritten signature in black ink that reads 'PricewaterhouseCoopers'.

PricewaterhouseCoopers

A handwritten signature in black ink that reads 'Ashley Wood'.

A S Wood
Partner

Sydney
27 March 2026



Auditor's Independence Declaration

As lead auditor for the audit of HSBC Bank Australia Limited for the year ended 31 December 2025, 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 black ink that reads 'Ashley Wood'.

A S Wood
Partner
PricewaterhouseCoopers

Sydney
27 March 2026

HSBC Bank Australia Limited

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