

**The Hongkong and Shanghai Banking  
Corporation Limited - Mauritius Branch**

**ANNUAL REPORT**

**FOR THE YEAR ENDED 31 DECEMBER 2022**

# **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

## **Annual Report**

*for the year ended 31 December 2022*

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## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis**

The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch (the “Bank”) is registered in the Republic of Mauritius as a foreign company and holds a banking licence issued by the Bank of Mauritius (“BoM”). The Bank’s registered office is Icon Ebene, Level 5, Office 1 (West Wing), Rue de L’Institut, Ebene 72201, Mauritius. The Bank is primarily involved in corporate and retail banking.

The Management is pleased to present the Annual Report of the Bank for the year ended 31 December 2022.

The financial statements on pages 68 to 196 have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and in compliance with the requirements of the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and the regulations and guidelines issued by the Bank of Mauritius.

Management has authorised the issue of this annual report on 24 March 2023.

In addition, the financial statements contain forward-looking statements, and risks exist that they may not materialise. The user of the information should therefore not place undue reliance on these statements. The Bank has no plan to update any forward looking statements periodically.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis (continued)**

#### **Financial review for the year ended 31 December 2022**

For the year ended 31 December 2022, the Bank achieved a profit before tax of MUR18.6m. This was a significant decrease compared to last year (Dec 2021: MUR 350.1m) which had benefited from a material release in impairment on financial assets in the last quarter of 2021.

Excluding loan impairment releases, underlying operating results were 16% lower, as an increase in operating income was more than offset by an increase in expenses.

Notwithstanding the challenges of global inflation and interest rate raises seen globally and in Mauritius, the Bank was able to grow customer assets by 12%, driven by significant growth in its mortgage businesses. This underpinned the increase in operating income of 4% in 2022, as net interest income and net fee income grew 5% and 11% respectively, whilst FX trading revenue remained challenged as market shortages in foreign currencies persisted throughout 2022.

The impact of increase in MUR Key Repo Rate from 1.85% to 4.5%, has had a muted impact on net interest income in 2022, but this is likely to have a more significant impact in 2023 as the Bank of Mauritius rolled out, in January 2023, its New Monetary Framework including the issuance of new 7-Day Bills at the Key Rate.

In 2022, total operating costs rose 12%, driven by increases in personnel costs as well as increases in intercompany costs. Intercompany costs, payable in foreign currencies, have also increased from the general weakness seen throughout 2022 in the Mauritian Rupee versus the major foreign currencies.

In the face of these challenges, the Bank's capital and liquidity remains robust with a Capital Adequacy Ratio of 19.0% and LCR of 550%.



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

### Financial Review (continued)

### Performance against objectives

Objectives for 2022	Performance for 2022	Objectives for 2023
<b>1. Return on tangible equity (“ROTE”)</b>		
Deliver a positive ROTE.	A ROTE of 0.5% was achieved.	Deliver a positive ROTE.
<b>2. Revenue growth</b>		
Maintain revenue at or above 2021 levels.	Revenue has increased by 3.9% compared to prior year.	Grow revenue above 2022 levels.
<b>3. Expense growth</b>		
Achieve a positive Jaws in line with HSBC Group target.	The cost efficiency ratio of the Bank was 104.6% and the Bank recorded a negative Jaws of 7.8%	Achieve a positive Jaws in line with HSBC Group target.
<b>4. Portfolio quality</b>		
To maintain asset quality and minimise impairment charges through sound underwriting policies and robust portfolio monitoring processes.	The impairment allowance as a percentage of total loans and advances to customers was 0.5% (Dec 2021: 1.3%).	To maintain asset quality and minimise impairment charges through sound underwriting policies and robust portfolio monitoring processes.
<b>5. Capital and Liquidity risk</b>		
To maintain total capital ratio above the Bank of Mauritius (“BoM”) minimum regulatory requirement of 13.5%.	Total capital adequacy ratio was 19.0% and the Tier 1 ratio was 16.9%.	To maintain total capital ratio above the Bank of Mauritius (“BoM”) minimum regulatory requirement of 13.5%.
To exceed Bank of Mauritius’ liquidity risk management guideline of 100%.	Liquidity Coverage Ratio (“LCR”) stood at 550% which is above the regulatory limit of 100%.	As per 2022 objective.
<b>6. Return on average assets</b>		
Deliver a positive return on average assets.	A return on average assets of 0.04% was achieved.	Maintain a positive return on average assets.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis (continued)**

#### **Financial Review (continued)**

##### **Performance against objectives (continued)**

For the year 2022, the Bank achieved a profit before tax of MUR 18.6m, representing a significant decrease compared to last year (Dec 2021: MUR 350.1m). This performance was mainly driven by lower release in impairment on financial assets of MUR67.3m compared MUR322.8m last year.

The Bank benefitted from a rise of 5.3% in net interest income to reach MUR 512.4m in 2022 from MUR486.6m in 2021 primarily as a result of an increase in loans and advances to customers.

Net fee and commission income rose by 10.9% at MUR141.6m compared to last year (Dec 2021: MUR127.7m). This increase was primarily supported by a growth in commissions on credit cards and remittances.

Net trading income dropped to MUR208.8m from MUR216.2m in 2021 mainly on account of lower foreign exchange dealing profits compared to prior year.

Net impairment release on financial assets was MUR67.3m compared to a release of MUR322.8m in 2021. The Bank continues to monitor the prevailing economic conditions in Mauritius and reassess its impairment levels accordingly.

Operating expenses grew by MUR114.9m to MUR1,100.3m (Dec 2021: MUR985.4m) . The increase is mainly attributable to higher intercompany charges and personnel expenses.

The Bank's Balance Sheet remains robust, with Total Assets standing at MUR30.1bn, albeit down 6.2% compared to December 2021 mainly due to a drop in investment securities of MUR2.9bn. Loans and advances to customers grew by MUR1.3bn to reach MUR12.1bn (Dec 2021: MUR10.8bn) as at end of December 2022.

On the liability side, the Bank's deposits base increased from MUR25.8bn as at end of December 2021 to MUR26.3bn by the end of December 2022, representing a growth of 2.0% mainly from current and savings accounts.

Deposit from banks decreased by MUR0.7bn mainly on account of a drop in current account balances from banks.

Other borrowed funds decreased by MUR0.6bn (Dec 2021: MUR1.1bn) mainly due to repayment of intercompany borrowings during the period.

The Bank's total Capital Adequacy Ratio stood at 19.0% against a regulatory limit of 13.5% as at December 2022, in comparison to 25.4% as at December 2021. The main driver for the reduction was the profit remittance of MUR281m to the Head Office during the year.

A Return on Tangible Equity of 0.5% (2021: 11.4%) was achieved.

As at 31 December 2022, the Liquidity Coverage Ratio increased to 550% (Dec 2021 – 518%) mainly on account of an increase the balance held central bank as a result of a change in deposit mix from corporate (financial and non-financial) to retail.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Financial Review (continued)

##### HSBC Global Businesses

The HSBC Group serves its customers through three Global Businesses: Wealth and Personal Banking (WPB), Commercial Banking (CMB) and Global Banking and Markets (GBM). The Global Businesses are responsible for developing, implementing and managing their business propositions consistently across the HSBC Group.

The Bank's activities involve WPB, CMB and GBM. In each Global Business, the Bank focuses on delivering growth in areas where the Bank has distinctive capabilities and has significant opportunities.

An overview of the performance for each of the Global Businesses as well as the Corporate Centre which consists mainly of stewardships activities, is as follows.

##### Wealth and Personal Banking ("WPB")

WPB offers a comprehensive range of banking products and services, including mortgages, credit cards and personal loans to retail customers.

	<b>2022</b>	2021	2020
	<b>MURm</b>	MURm	MURm
Total operating income	<b>440.5</b>	421.4	494.3
Total expenses	<b>(626.8)</b>	(534.5)	(524.1)
Net impairment release/(charge) on financial assets	<b>25.2</b>	26.6	(69.7)
(Loss)/ profit before tax	<b>(161.1)</b>	(86.5)	(99.5)

WPB recorded a loss before tax of MUR(161.1)m (2021: MUR(86.5)m) mainly attributed to the increase in operating expenses.

##### Commercial Banking ("CMB")

The Bank, through its CMB business, aims to be the international bank of choice for Global Business Companies and large local corporates in Mauritius. It offers a full range of banking products and solutions. It also provides access to an international network to its customers.

	<b>2022</b>	2021	2020
	<b>MURm</b>	MURm	MURm
Total operating income	<b>397.2</b>	365.7	419.3
Total expenses	<b>(317.7)</b>	(312.9)	(309.2)
Net impairment release/(charge) on financial assets	<b>43.8</b>	292.6	(542.7)
Profit/(loss) before tax	<b>123.3</b>	345.4	(432.6)

CMB recorded a profit before tax of MUR123.3m compared to 2021 MUR345.4m mainly due to a one-off release in impairment charges in 2021.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Financial Review (continued)

#### HSBC Global Businesses (continued)

#### Global Banking and Markets (“GBM”)

	<b>2022</b>	2021	2020
	<b>MURm</b>	MURm	MURm
Total operating income	<b>215.2</b>	182.9	156.0
Total expenses	<b>(106.9)</b>	(107.8)	(108.1)
Net impairment release on financial assets	<b>0.7</b>	-	-
Profit before tax	<b>109.0</b>	75.1	47.9

The Bank arranges its GBM business into two distinct sub-businesses, namely Financial Institutions Group (“FIG”) and Institutional Clients Group (“ICG”), and Global Markets (“GM”). FIG and ICG focus on provision of services such as deposit taking, payments and cash management, credit and lending and trade finance to multinational companies and financial institutions. On the other hand, GM provides clients with access to HSBC’s worldwide treasury network and provides a range of foreign exchange and treasury products. Global Markets manages all of the Bank’s foreign exchange and other market risks.

Overall GBM’s profit before tax increased to MUR109.0 (Dec 2021 - MUR75.1m) due to foreign exchange (“FX”) revenue generated from large corporates repatriation and import flows.

#### Corporate Centre (“CC”)

Corporate Centre comprises mainly of stewardship activities.

	<b>2022</b>	2021	2020
	<b>MURm</b>	MURm	MURm
Total operating income	<b>(1.2)</b>	43.6	(29.2)
Total expenses	<b>(42.7)</b>	(60.4)	12.4
Net impairment release/(charge) on financial assets	<b>(8.6)</b>	-	-
(Loss)/profit before tax	<b>(52.5)</b>	(16.8)	(16.8)

Corporate centre loss before tax amounted to MUR(52.5)m compared to a loss before tax of MUR(16.8)m last year mainly due to lower operating income generated during the year.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Financial Review (continued)

##### Key Ratios

	2022 %	2021 %	2020 %
Net interest margin	1.6	1.5	1.8
Return on average assets	0.0	1.1	(1.6)
Cost / Income ratio	104.6	97.3	89.6

	2022 MUR'm	2021 MUR'm	2020 MUR'm
<b>Assets</b>			
Cash and cash equivalents	7,068.9	6,643.4	6,443.2
Loan and advances to banks	200.4	378.6	264.1
Loan and advances to customers	12,123.6	10,808.1	14,333.9
Investment securities at FVOCI	6,537.6	10,600.5	8,313.0
Investment securities at amortised cost	1,309.1	148.2	-

<b>Liabilities</b>			
Deposits from customers	26,335.8	25,814.9	22,778.4
Deposits from banks	451.2	1,177.3	747.8
Other borrowed funds	444.5	1,083.5	5,218.6

##### Net Interest Income analysis

	2022 MUR'm	2021 MUR'm	2020 MUR'm
<b>Interest income</b>			
Cash and cash equivalents	17.3	6.5	16.9
Loans and advances to banks	1.2	0.3	3.4
Loans and advances to customers	439.2	376.3	501.0
Investment securities	160.6	171.6	229.8
Other	7.0	1.4	0.4
<b>Total</b>	<b>625.3</b>	<b>556.1</b>	<b>751.5</b>

<b>Interest expense</b>			
Deposits from customers	(91.2)	(59.9)	(105.2)
Deposits from banks	(1.4)	(1.6)	(2.2)
Other borrowed funds	(19.3)	(8.0)	(67.9)
Other	(1.0)	-	(1.7)
<b>Total</b>	<b>(112.9)</b>	<b>(69.5)</b>	<b>(177.0)</b>

<b>Net interest income</b>	<b>512.4</b>	<b>486.6</b>	<b>574.5</b>
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The increase of 12.4% in interest income for the Bank is mainly the result of higher interest income on loans and advances to customers by MUR62.9m. Interest expense increased by 62.5% to MUR112.9m mainly on account of higher interest expense on deposits from customers to MUR91.2m (2021: MUR59.9m) and other borrowed funds to MUR19.3m (2021: MUR8.0m).

As a result, net interest income for the Bank increased by 5.3% compared to the prior year.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Financial Review (continued)

##### Non-interest income

	<b>2022</b>	2021	2020
	<b>MUR'm</b>	MUR'm	MUR'm
Net fee and commission income	<b>141.6</b>	127.7	132.4
Net trading income	<b>208.8</b>	216.2	147.4
Other operating income	<b>188.9</b>	182.1	186.2
<b>Total</b>	<b>539.3</b>	526.0	466.0

Non-interest income increased by 2.5% to MUR539.3m (2021: MUR526.0m) mainly on account of higher net fee and commission income.

##### Net impairment release/(loss) on financial assets

	<b>2022</b>	2021	2020
	<b>MUR'm</b>	MUR'm	MUR'm
Net impairment release/(loss) on financial assets	<b>67.3</b>	322.8	(609.5)

Net impairment release of MUR67.3m compared to a release of MUR322.8m in 2021 is mainly due to a one-off release on account of a large corporate customer last year.

##### Operating expense

	<b>2022</b>	2021	2020
	<b>MUR'm</b>	MUR'm	MUR'm
Personnel expenses	<b>(467.5)</b>	(446.1)	(402.6)
Operating lease expenses	<b>(4.3)</b>	(3.6)	(6.1)
Depreciation	<b>(45.4)</b>	(43.8)	(40.7)
Other expenses	<b>(583.1)</b>	(491.8)	(482.5)
<b>Total</b>	<b>(1,100.3)</b>	(985.3)	(931.9)

Operating expense increased by 11.7% to MUR1,100.3m (2021: MUR985.3m) mainly due to higher intercompany charges and personnel expenses.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis (continued)**

#### **Credit exposure and quality**

##### **General**

The Bank manages its credit risks by establishing policies and control procedures for maintaining and developing risk assets, and off-balance sheet exposure of sound quality and distribution, over appropriate economic sectors. Such policies and control procedures are set out in the Bank's instructions manuals, which are in compliance with regulatory requirements.

The Bank's lending guidelines further give an indication of the local management's current view of the business development priorities. The lending guidelines also set out terms and conditions which are likely to lead to the approval of credit applications taking into account changes in the economic outlook, competitive environment and the evolution of the asset book. The lending guidelines are reviewed on an annual basis.

In accordance with the Bank of Mauritius *Guideline on Credit Concentration Risk*, the Bank is subject to an aggregate large credit exposure limit in respect of its Mauritian denominated exposures as follows:

- Aggregate credit exposure to any single customer shall not exceed 25 per cent of the Bank's Tier 1
- Aggregate credit exposure to any group of closely-related customers shall not exceed 40 per cent of the Bank's Tier 1 capital; and
- Aggregate large credit exposures to all customers and groups of connected counterparties shall not exceed 800 per cent of the Bank's Tier 1 capital.

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Management discussion and analysis (continued)

### Credit exposure and quality (continued)

#### Gross customer advances by industry sector

	2022 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	47	0.0%	47	0.0%	-	-
Manufacturing	2,546,850	20.9%	2,546,850	21.0%	-	-
Tourism	196,411	1.6%	196,411	1.6%	-	-
Construction	6,428	0.1%	6,428	0.1%	-	-
Financial and business services	547,012	4.5%	547,012	4.5%	-	-
Traders	924,685	7.6%	924,685	7.6%	-	-
Households	6,153,706	50.5%	6,097,877	50.3%	55,829	100%
Global business license holders	1,578,967	13.0%	1,578,967	13.0%	-	-
Public non-financial corporations	80,000	0.6%	80,000	0.6%	-	-
Others (including infrastructure)	152,563	1.2%	152,563	1.2%	-	-
Total gross customer advances	12,186,669	100.0%	12,130,840	99.9%	55,829	100.0%

	2021 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	9,463	0.1%	9,463	0.1%	-	-
Manufacturing	2,275,657	20.8%	2,275,657	20.9%	-	-
Tourism	366,740	3.3%	366,740	3.4%	-	-
Construction	28,066	0.3%	28,066	0.3%	-	-
Financial and business services	323,186	3.0%	323,186	3.0%	-	-
Traders	751,701	6.9%	751,701	6.9%	-	-
Households	5,173,474	47.3%	5,109,389	46.9%	64,085	100.0%
Global business license holders	1,754,026	16.0%	1,754,026	16.1%	-	-
Public non-financial corporations	4,615	0.0%	4,615	0.0%	-	-
Others (including infrastructure)	261,607	2.3%	261,607	2.4%	-	-
Total gross customer advances	10,948,535	100.0%	10,884,450	100.0%	64,085	100.0%

	2020 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	9,273	0.1%	9,273	0.1%	-	-
Manufacturing	2,414,969	16.1%	2,342,450	20.4%	72,519	2.1%
Tourism	355,661	2.4%	355,661	3.1%	-	-
Construction	13,791	0.1%	13,791	0.1%	-	-
Financial and business services	3,736,033	25.0%	385,758	3.4%	3,350,275	95.9%
Traders	911,012	6.1%	911,012	7.9%	-	-
Households	5,215,287	34.8%	5,145,527	44.8%	69,760	2.0%
Global business license holders	1,344,682	9.0%	1,344,682	11.7%	-	-
Public non-financial corporations	802,146	5.4%	802,146	7.0%	-	-
Others (including infrastructure)	164,974	1.0%	164,974	1.5%	-	-
Total gross customer advances	14,967,828	100.0%	11,475,274	100.0%	3,492,554	100.0%



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

### Credit exposure and quality (continued)

### Off-balance sheet foreign exchange trading contracts by industry sector

	31-Dec-22		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Banks - HSBC Group	825,267	73.1%	-	-	825,267	99.2%
Banks - Non HSBC Group	6,318	0.6%	-	-	6,318	0.8%
Corporate	297,116	26.3%	297,116	100.0%	-	-
Total	1,128,701	100.0%	297,116	100.0%	831,585	100.0%

	31-Dec-21		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Banks - HSBC Group	1,498,675	93.4%	-	-	1,498,675	100.0%
Banks - Non HSBC Group	-	-	-	-	-	-
Manufacturing	106,667	6.6%	106,667	100.0%	-	-
Total	1,605,342	100.0%	106,667	100.0%	1,498,675	100.0%

	31-Dec-20		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Banks - HSBC Group	170,025	46.7%	-	-	170,025	100.0%
Banks - Non HSBC Group	-	-	-	-	-	-
Manufacturing	194,081	53.3%	194,081	100.0%	-	-
Total	364,106	100.0%	194,081	100.0%	170,025	100.0%

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Credit Quality

A breakdown of the loan portfolio for the 2022,2021 and 2020 year ends is provided below:

MURm	Agriculture & fishing	Manufacturing	Tourism	Construction	Financial & business services	Traders	Households	Global business license holders	Public non-financial corporations	Other (including infrastructure)	TOTAL
<b>2022</b>											
Total advances	0	2,547	196	6	547	925	6,154	1,579	80	153	12,187
Non performing advances	-	-	70	-	-	-	68	-	-	-	138
As a % of total advances	-	-	35.6	-	-	-	1.1	-	-	-	1.1
Stage 3 provisions	-	-	24	-	-	-	13	-	-	-	37
Stage 1 & 2 provisions	-	-	-	-	1	-	24	-	-	-	25
As a % of Total Advances	-	-	-	-	0.2	-	0.4	-	-	-	0.2
Stage 3 as a % of NPA's	-	-	35	-	-	-	19	-	-	-	27
<b>2021</b>											
Total advances	9	2,276	367	28	323	752	5,173	1,754	5	262	10,949
Non performing advances	-	-	119	-	-	-	78	-	-	-	197
As a % of total advances	-	-	32.6	-	-	-	1.5	-	98.4	-	1.8
Stage 3 provisions	-	-	73	-	-	-	20	-	-	-	94
Stage 1 & 2 provisions	-	-	-	-	-	-	47	-	-	-	47
As a % of Total Advances	-	-	-	-	-	-	0.9	-	-	-	0.4
Stage 3 as a % of NPA's	-	-	61	-	-	-	26	-	-	-	47
<b>2020</b>											
Total advances	10	2,415	356	14	3,736	911	5,215	1,345	802	164	14,968
Non performing advances	-	-	131	-	-	-	91	-	789	-	1,011
As a % of total advances	-	-	36.80	-	-	-	1.7	-	98.4	-	6.8
Stage 3 provisions	-	-	49	-	-	-	20	-	482	1	552
Stage 1 & 2 provisions	-	1	-	-	1	-	79	-	-	-	81
As a % of Total Advances	-	0.0	-	-	0.0	-	1.5	-	-	-	0.5
Stage 3 as a % of NPA's	-	-	37.4	-	-	-	22.0	-	61.1	-	54.6

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Credit Quality (continued)

A general banking reserve of MUR132.8m (2021: MUR91.9m) has been set aside as an appropriation of retained earnings to cater for future potential losses in the loan portfolio in line with the provisions laid down in the Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition*.

IFRS 9 Stage 1 & 2 provisions stood at MUR25.6m at 31 December 2022 on loans and advances to customers (2021: MUR46.9m).

#### *Credit-impaired (Stage 3)*

The Bank determines that a financial instrument is credit-impaired and in stage 3 by considering relevant objective evidence, primarily whether:

- contractual payments of either principal or interest are past due for more than 90 days;
- there are other indications that the borrower is unlikely to pay such as that a concession has been granted to the borrower for economic or legal reasons relating to the borrower's financial condition; and
- the loan is otherwise considered to be in default.

If such unlikeliness 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.

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

An analysis of individually assessed credit impairment provisions (Stage 3) for the year by product is given in the table below.

	<b>Total MUR'000</b>	Personal MUR'000	Mortgages MUR'000	Corporate MUR'000
Opening Balance - 1 January 2022	<b>93,539</b>	5,343	14,976	73,220
IFRS 9 - impairment (release)/charge	<b>(56,074)</b>	(2,208)	(5,020)	(48,846)
Closing balance - 31 December 2021	<b>37,465</b>	3,135	9,956	24,374

#### *Restructured Credits*

Stage 3 ECLs held on non-performing and restructured loans amounted to MUR37.5m as at 31 December 2022 (2021: MUR93.5m). There were no significant non-performing loans which were restructured during the year.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Risk management policies and controls

The nature of the Bank's risks and the approach to manage those risks differ fundamentally between the trading and the non-trading portfolio. Those risks are reviewed on a monthly basis by the Asset and Liability Committee ("ALCO") and the Risk Management Meeting ("RMM"). Risk management information relating to the trading activities and non-trading activities, are set out below and the Bank's risks profile is analysed in note 35 of the financial statements.

Risks	Arising from	Measurement, monitoring and management of risk
<b>Credit risk</b>		
Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	<ul style="list-style-type: none"> <li>▪ Credit risk arises principally through trading, lending and investing activities and in cases where the Bank acts as an intermediary on behalf of customers or other third parties or issues guarantees.</li> </ul>	<p>Credit risk is:</p> <ul style="list-style-type: none"> <li>▪ measured as the amount which could be lost if a customer or counterparty fails to make repayments;</li> <li>▪ monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and</li> <li>▪ managed by dealing with counterparties of good credit standing and when appropriate, obtain collateral.</li> </ul>
<b>Liquidity and funding risk</b>		
Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	<ul style="list-style-type: none"> <li>▪ Liquidity risk arises from mismatches in the timing of cash flows.</li> <li>▪ Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.</li> </ul>	<p>Liquidity and funding risk is:</p> <ul style="list-style-type: none"> <li>▪ measured using a range of metrics including liquidity coverage ratio and net stable funding ratio;</li> <li>▪ assessed through the internal liquidity adequacy assessment process; and</li> <li>▪ monitored against the Bank's liquidity and BoM's Liquidity Risk Management framework which is in line with Basel III.</li> </ul>
<b>Market risk</b>		
Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the income or the value of the Bank's portfolios.	<p>Exposure to market risk is separated into two portfolios:</p> <ul style="list-style-type: none"> <li>▪ Trading portfolios</li> <li>▪ Non-trading portfolios</li> </ul>	<p>Market risk is:</p> <ul style="list-style-type: none"> <li>▪ measured in terms of value at risk ("VaR"), which measures the potential losses on risk positions over a specified time horizon for a given level of confidence, and assessed using stress testing;</li> <li>▪ monitored using VaR, stress testing and other measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and</li> <li>▪ managed using risk limits approved by the RMM for the Bank and the various global businesses.</li> </ul>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
<b>Interest rate risk</b>		
Interest rate risk is the risk that arises from fluctuating interest rates.	<ul style="list-style-type: none"> <li>Interest rate risk arises from interest earning assets (including investments) and interest-bearing liabilities that are matured or are re-priced at different times or in different amounts.</li> <li>In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices and different types of interest.</li> </ul>	Risk management activities are aimed at optimising net interest income consistent with the Bank's business strategies.
<b>Currency risk</b>		
Currency risk arises from the change in price of one currency in relation to another.	<p>The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's main operations in foreign currencies are in US Dollar, Pound Sterling and Euro. As the currency in which the Bank presents its financial statements is the Mauritian Rupee, the Bank's financial statements are affected by movements in the exchange rates between these currencies and the Mauritian Rupee. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the functional currency of the Bank. However, most of the Bank's transactions are in Mauritian Rupees and for the balance the Bank finances its monetary assets in foreign currencies with borrowings in the same currencies to mitigate its currency risk.</p>	<p>The Bank monitors the foreign exchange position against the foreign exchange limits imposed by the Bank of Mauritius on a daily basis, in line with the Bank of Mauritius and Euro. As the currency in which the <i>Guideline on Management of Market Risk</i>. A daily net open foreign exchange position is reported to the Bank of Mauritius where the position of the main currencies are verified against limit set as per the Regulator.</p>

# The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch

## Management discussion and analysis (continued)

### Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
<b>Operational risk &amp; Resilience risk</b>		
Operational risk is the risk to achieving the Bank's strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.	<ul style="list-style-type: none"> <li>Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of the Bank's business.</li> <li>Regulatory compliance risk and financial crime risk are discussed below.</li> </ul>	<p>Operational risk is:</p> <ul style="list-style-type: none"> <li>measured using the risk and control assessment process, which assesses the level of risk and effectiveness of controls;</li> <li>monitored using key indicators and other internal control activities; and</li> <li>managed primarily by establishing policies and control procedures as set out in the Bank's Group manuals which are periodically reviewed and updated and are in compliance with regulatory requirements.</li> </ul> <p>The RMM oversees the operational risk management framework of the Bank and amongst others, is mandated to:</p> <ul style="list-style-type: none"> <li>set the Bank's risk appetite for operational risk;</li> <li>review appropriate Key Performance Indicators, including operational loss and near miss figures, as well as specific operational risk incidents;</li> <li>consider any action required from the ongoing review of operational incidents across the Bank; and</li> <li>identify any unfavourable trend and escalate as required to Bank of Mauritius and the Board.</li> </ul> <p>Resilience Risk provides oversight, advice, guidance and challenge to our businesses and functions to strengthen our ability to prevent, adapt, and learn from resilience-related threats. It is viewed through six risk lenses: strategic change and emerging threats; third-party risk; information and data resilience; payments and processing resilience; systems and cyber resilience; and protective security risk.</p> <p>Mauritius has established a new Target Operating Model for coverage of both operational risk and resilience risk as a combined sub-function within Global Risk, namely Operational and Resilience Risk (ORR).</p> <p>ORR will establish, embed and manage the framework for Operational Risk Management within the Risk Management structure, ensuring robust challenge and actionable guidance across all Non-Financial Risk (NFR) risks.</p>
<b>Regulatory compliance risk</b>		
Regulatory compliance risk is the risk that the Bank fails to observe the letter and spirit of all relevant laws, codes, rules, and regulations and standards of good market practice, and incur fines and penalties and suffer damage to its business as a consequence.	<ul style="list-style-type: none"> <li>Regulatory compliance risk is part of operational risk, and arises from the risks associated with the Bank's inappropriate market conduct and breaching other regulatory requirements.</li> </ul>	<p>Regulatory compliance risk is:</p> <ul style="list-style-type: none"> <li>measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of our regulatory compliance teams;</li> <li>monitored against the first line of defense risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and</li> <li>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.</li> </ul>

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Management discussion and analysis (continued)

### Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
<b>Financial crime risk</b>		
Financial crime risk is the risk that the Bank knowingly or unknowingly help parties to commit or to further potentially illegal activity through the HSBC Group.	Financial crime risk is part of operational risk and arises from day-to-day banking operations.	Financial crime risk is: <ul style="list-style-type: none"> <li>measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of the Bank's Financial Crime Risk teams;</li> <li>monitored against the Bank's financial crime risk appetite using key financial crime performance indicators (KPI), the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and</li> <li>managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.</li> </ul>
<b>Other material risks</b>		
<b>Reputational risk</b>		
Reputational risk is the risk of failure to meet stakeholders' expectations as a result of any event, action or inaction, either by HSBC itself, the associated parties that are not the Bank's employees or those with whom the Bank is associated, that might cause stakeholders to form a negative view of the Bank.	Primary reputational risks arise directly from an event, action or inaction by HSBC, its employees or the associated parties that are not the Bank's employees or those with whom the Bank is associated, that might cause stakeholders to form a negative view of the Bank. Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks.	Reputational risk is: <ul style="list-style-type: none"> <li>measured by reference to the Bank's reputation as indicated by its dealings with all relevant stakeholders, including media, regulators, customers and employees;</li> <li>monitored through a reputational risk management framework that is integrated into the Bank's broader risk management framework; and</li> <li>managed by every member of staff and is covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk.</li> </ul>
<b>Pension risk</b>		
Pension risk is the risk that the performance of assets held in pension plans is insufficient to cover existing pension liabilities resulting in an increase in obligation to support the plans.	Pension risk arises from investments delivering an inadequate return, adverse changes in interest rates or inflation, or members living longer than expected. Pension risk includes operational risks listed previously.	Pension risk is: <ul style="list-style-type: none"> <li>measured in terms of the schemes' ability to generate sufficient funds to meet the cost of their accrued benefits; and</li> <li>managed through the appropriate pension risk governance structure.</li> </ul>
<b>Sustainability risk</b>		
Sustainability risk is the risk that financial services provided to customers by the Bank indirectly result in unacceptable impacts on people or on the environment.	Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment.	Sustainability risk is: <ul style="list-style-type: none"> <li>measured assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high risk transactions; and</li> <li>monitored by the RMM.</li> </ul>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Concentration of risk policies

The Bank maintains a credit risk portfolio that is adequately diversified. Maximum exposure limits are set for individual counterparties, countries and sectors to maximise any potential diversification benefits while complying with Bank of Mauritius *Guideline on Credit Concentration Risk*.

The six most significant individual concentration cases in respect of one customer or group as at 31 December 2022 were as follows:

Customer Group	Total MUR'm	% of Total Corporate exposure*	% of CET1 Capital (Under Basel III)
Customer Group 1	548	14.9	30.2
Customer Group 2	442	12.0	24.4
Customer Group 3	440	12.0	24.3
Single Customer 1	350	9.5	19.3
Single Customer 2	350	9.5	19.3
Customer Group 4	341	9.3	18.8

\*"Large credit exposure" means the sum of all exposures to a customer or a group of connected counterparties in Mauritian Rupees or foreign currencies or both which is over 10% of the Bank's Tier 1 Capital.

The facilities extended to the above mentioned customers consist mostly of working capital, trade finance facilities and medium / long term loans.

The policies and practices on credit concentration are governed by the requirements of the Bank of Mauritius *Guideline on Credit Concentration Risk*.

As at 31 December 2022, the top 6 customer groups exposures accounted for 67.2% (2021 – 53.2%) of total large credit exposure extended to corporates.

As at 31 December 2022, the Bank is in compliance with the Bank of Mauritius *Guideline of Credit Concentration Risk*.



## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis (continued)**

#### **Related party transactions policies and practices**

In accordance with the Bank of Mauritius Guideline on *Related Party Transactions*, credit exposure to any single borrower/group of closely-related customers who are related parties to the Bank shall be subject to the following conditions:

- (a) the aggregate of credit exposures to and investments in equity shares of all related parties in Category 1 (further described below), other than investments in subsidiaries and associates, should not exceed 60 per cent of the Bank's Tier 1 capital;
- (b) the aggregate of credit exposures to and investments in equity shares of all related parties in Category 1 and Category 2 (further described below), other than investments in subsidiaries and associates, should not exceed 150 per cent of the Bank's Tier 1 capital.

For the purpose of determining the regulatory limits on exposures to related parties, the latter are classified into the following three categories:

#### ***Category 1***

This includes credit exposures to:

- (a) a person who has significant interest in the Bank;
- (b) a director of the Bank;
- (c) a director of a body corporate that controls the financial institution;
- (d) the spouse, child and parent of a natural person covered in (a) or (b) or (c) above;
- (e) any entity that is controlled by a person described in (a) or (b) or (c) or (d) above; and
- (f) any entity in which the Bank has significant interest, excluding a subsidiary of the Bank as mentioned in (e) above.

#### ***Category 2***

This includes credit exposures to:

- (a) senior officers, which are outside the terms and conditions of employment contracts;
- (b) the spouse, child and parent of senior officers;
- (c) senior officers of a body corporate that controls the financial institution;
- (d) any entity that is controlled by a person described in (a) or (b) or (c) above; and
- (e) a subsidiary of the financial institution with no shareholder (natural person) holding directly or indirectly more than a significant shareholding in the parent financial institution.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Related party transactions policies and practices (continued)

##### *Category 3*

This includes credit exposures to senior officers, which are within the terms and conditions of employment contracts.

The following credit exposures are however exempted from the regulatory limits:

- (a) a credit exposure to the extent to which it is collateralised by deposits with the Bank or Government securities or a loan to the extent to which it is guaranteed by Government;
- (b) a credit exposure to the extent to which it is collateralised by securities issued by another government or a loan to the extent to which it is guaranteed by another government provided that the exposure is
  - (i) denominated and funded in its national currency, and
  - (ii) approved by the Bank under paragraph 4 of the Guideline on Standardised Approach to Credit Risk for a zero per cent risk weight;
- (c) a credit exposure to parastatal bodies and to an entity in which the Government has more than 50 per cent shareholding;
- (d) inter-bank transactions as part of treasury operations;
- (e) credit exposures representing less than 2 per cent of the Bank's Tier 1 capital; and
- (f) category 3 type of related party exposures.

The Bank complies with the BoM *Guideline on Related Party Transactions* which sets out the manner in which these transactions are identified, monitored and reported on a quarterly basis. The Risk Management Meeting ("RMM") approves every related party transaction and ensures these transactions are at market rates.

In line with the above guideline, Management has adopted a policy which sets out the rules governing the identification of related parties, the terms and conditions applicable to transactions entered into with them, and reporting procedures to the RMM.

The table below sets out the six largest related party exposures and the respective percentages of the Bank's Tier 1 capital:

Related Party	Exposure MUR'm	% of Tier1 capital
1. The Hongkong and Shanghai Banking Corporation Limited	10,205	563.1
2. HSBC Bank (Mauritius) Limited	2,672	147.4
3. The Hongkong and Shanghai Banking Corporation Limited - Singapore Bran	2,220	122.5
4. HSBC Bank Plc Group Treasury, London	2,158	119.1
5. HSBC Bank (China) Company Limited	1,364	75.2
6. The Hongkong and Shanghai Banking Corporation Limited - Philippines Bra	267	14.7

All of the above exposures are exempted facilities under the BOM *Guideline Related Party Transactions*. None of the loans advanced to related parties were classified as non-performing as at 31 December 2022.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Basel III Disclosures

##### Scope of application

The Bank's credit, market and operational risks are measured under the Standardised Approach. The amount of credit risk capital is arrived at by applying the risk weights based on the external credit assessments for sovereign, central bank and bank exposures along with the standard Basel III risk weights as applicable under the Standardised Approach for corporate, retail, mortgage and past due exposures. The capital charge for market risk is based on the assessment of foreign exchange risk in the Bank's trading book. The computation of operational risk capital follows the Basel III measurement methodology whereby gross income is used as a proxy to calculate capital charge.

#### Capital Structure

The Hongkong and Shanghai Banking Corporation Limited-Mauritius Branch is a branch of The Hongkong and Shanghai Banking Corporation Ltd, a company registered in Hong Kong and regulated by the Hong Kong Monetary Authority.

The Capital Base under Basel III stood as follows:

MUR'000

	2022 Basel III	2021 Basel III	2020 Basel III
<b>Tier 1 Capital</b>			
<b>CET1 Capital</b>			
Assigned capital	794,150	794,150	794,150
Other disclosed reserves	225,231	378,640	306,835
Retained earnings*	896,274	1,172,631	707,398
<b>CET1 before regulatory adjustments</b>	<b>1,915,655</b>	<b>2,345,421</b>	<b>1,808,383</b>
Deferred tax	-	(56,239)	(105,548)
Pension assets	(103,270)	-	-
<b>Total regulatory adjustments to CET1</b>	<b>(103,270)</b>	<b>(56,239)</b>	<b>(105,548)</b>
<b>Tier 1 Capital (T1)</b>	<b>1,812,385</b>	<b>2,289,182</b>	<b>1,702,835</b>
<b>Tier 2 Capital</b>			
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	106,716	99,599	93,822
Provisions	114,114	103,045	102,273
<b>Tier 2 Capital (T2)</b>	<b>220,830</b>	<b>202,644</b>	<b>196,095</b>
<b>Total Capital (T1 + T2)</b>	<b>2,033,215</b>	<b>2,491,826</b>	<b>1,898,930</b>
<b>Total risk weighted assets</b>	<b>10,703,071</b>	<b>9,816,682</b>	<b>9,905,412</b>

\* including audited profits/(losses) for the year

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Basel III disclosures (continued)

##### Capital Adequacy

At least 10 times a year, the Asset and Liability Management Committee (“ALCO”) reviews the actual and projected capital adequacy ratios under the local regulatory capital requirement and ensures compliance with the regulatory requirement.

The Basel III Standardised Approach presents greater risk sensitivity in measuring credit risk in that it makes use of the credit ratings of External Credit Assessment Institutions (“ECAIs”) to define the weights used when calculating the risk-weighted assets.

Claims on corporate customers as well as claims on corporate public sector entities are assigned a standard risk weight of 100% when they are not rated by the recognised rating agencies as disclosed on page 26. A standard risk weight of 75% is applied to retail exposures which meet the criteria set in the Bank of Mauritius *Guideline on Standardised Approach to Credit Risk*; claims secured by residential property for purposes other than purchase/construction in Mauritius are allocated a risk weight of 35% subject to an exposure limit of MUR 5 million and a loan to-value not exceeding 80% as required by the above referred guideline.

Past due claims are assigned a risk weight, ranging from 50% to 150%, depending on the proportion of Stage 3/ specific provision to the outstanding amount of the exposure.

With on balance sheet total risk weighted assets (“RWA”) of MUR8.7bn (2021: MUR7.7bn), details of which are given in the Credit Risk Exposures section on page 27, minimum capital requirements for credit risk for portfolios subject to the Standardised Approach as at 31 December 2022 was MUR1.2bn (2021: MUR1.0n). Risk weighted assets of MUR419.5m (2021: MUR512.2m) for market and non-market related off balance sheet exposures and MUR83.3m (2021: MUR22.9m) for market risk foreign currency exposure, generated further capital requirement of MUR67.9m (2021: MUR68.9m).

Risk weighted assets for Operational Risk in accordance with the Basic Indicator Approach calculated based on the average gross income per annum for the last three years, amounted to MUR1.0bn (2021: MUR2.0bn), generated a capital charge for operational risk of MUR148.7m (2021: MUR153.2m).

Total risk weighted asset capital requirement therefore stood at MUR1.4bn (2021: MUR1.3bn) as compared to the Bank’s capital base of MUR2.0bn (2021: MUR2.5bn).

The regulatory limits applicable to the Bank were as follows:

	2022	2021	2020
	%	%	%
CET 1 capital adequacy ratio*			
<i>Regulatory Limit - Minimum CET 1 CAR</i>	<b>16.9</b>	23.3	17.2
	<b>10.0</b>	9.4	9.4
Tier 1 capital adequacy ratio			
<i>Regulatory Limit - Minimum Tier 1 CAR</i>	<b>16.9</b>	23.3	17.2
	<b>11.5</b>	10.9	10.9
Total capital adequacy ratio*			
<i>Regulatory Limit - Minimum Total CAR</i>	<b>19.0</b>	25.4	19.2
<i>* including audited profits for the year</i>	<b>13.5</b>	12.9	12.9

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis (continued)**

#### **Basel III disclosures (continued)**

##### **The Credit Risk Policy Framework**

Credit Risk is the risk that a counterparty of the Bank will be unable or unwilling to meet a commitment that it has entered into. Credit Risk may take various forms, including:

- Lending - that funds will not be repaid;
- Guarantees or bonds - that funds will not be forthcoming upon crystallisation of the liability;
- Treasury products - that the payment or series of payments due from the counterparty under the contract is not forthcoming or ceases;
- Trading businesses - that settlement will not be effected;
- Cross-border exposure - that the availability and free transfer of currency is restricted or ceases; and
- Holdings of assets in the form of debt securities - that the value of these falls e.g. after a downgrading of credit rating.

Credit Risk may be mitigated by the deployment of appropriate techniques of risk analysis for the management of individual facilities and of portfolios and for the early detection of risk deterioration, as well as by the completion of effective legal documentation and the taking of security.

The Bank has historically sought to maintain a conservative, yet constructive and competitive credit risk culture.

- The corporate values, principles and standards as set out in the HSBC Group Standards Manual;
- The organisational structure, governance arrangements, the assumption of authority/ responsibility, and the interaction of functions; and
- The risk rating systems and assessment techniques, controls, reporting and other processes that are employed to measure, evaluate, monitor and manage credit risk.

The Bank's credit risk policy is governed by the Group's Credit instructions manuals and lending guidelines. The

The Chief Risk Officer of the HSBC Group for the Asia Pacific region establishes the credit approval limit for the Chief Executive Officer and the Chief Risk Officer at the local office, who in turn, delegate their limits to their subordinates depending on their experience. Credit exposures in excess of the limits delegated to the Chief Executive Officer and the Chief Risk Officer are approved by Head Office. The Credit Risk team ensures that credit risk assessment standards remain in line with the group's credit policy.

The identification, understanding and management of our different risks are of increasing importance and as a result, a comprehensive Enterprise-wide Risk Management Framework is applied throughout the HSBC Group and across all risk types, including credit risk. Local risk governance is primarily exercised through the monthly RMM, with clear visibility and communication through the same forums held regionally in Hong Kong and at the Group level in London. This structure helps to ensure appropriate oversight and accountability of risk, and facilitates reporting and escalation as appropriate. The Bank's information system has also been designed such that unauthorised excesses, overdue loan repayments and pending documentation are tracked and addressed in a timely manner. In addition, regular reporting on credit risk is made to Head Office and to the Bank of Mauritius.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Basel III disclosures (continued)

##### Credit Risk Exposures

As per the BoM Guideline on *Segmental Reporting under a Single Banking License Regime*, for branches of foreign banks, the capital adequacy ratio applies only to the Segment A type of business (Refer to note 2(h)).

Total Segment A gross credit risk exposures as at 31 December 2022 stood as follows:

##### Fund based:

Items	31-Dec-22 MUR'000
Claims on cash items	251,940
Claims on sovereigns	2,802,585
Claims on central banks	10,179,744
Claims on banks	353,631
Claims on domestic PSEs ("Public sector entities")	80,150
Claims on corporates	4,664,650
Claims included in regulatory retail portfolio	756,546
Claims Secured by residential property	4,986,483
Claims Secured by commercial real estate	4,539
Past due claims	24,049
Claims on other assets	976,849
<b>Total</b>	<b>25,081,166</b>

##### Non fund based:

Items	31-Dec-22 MUR'000
Direct credit substitute	210,685
Transaction-related contingent items	837,248
Trade related contingencies	286,385
Commitments that can be unconditionally cancellable at any time by the Bank without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness	5,423,837
Foreign exchange contracts	297,116
<b>Total</b>	<b>7,055,271</b>

The geographical distribution of the above fund based and non-fund based exposures are all to Mauritius.

The counterparty type distribution of exposures was as follows, excluding cash items, past due claims and other assets:

##### Fund based:

Items	31-Dec-22 MUR'000
Sovereign	2,802,585
Financial institutions	10,533,375
Corporates	4,749,339
Individuals	5,767,078
Others	1,228,789
<b>Total</b>	<b>25,081,166</b>

##### Non fund based:

Items	31-Dec-22 MUR'000
Financial institutions	0
Corporates	297,116
Individuals	-
<b>Total</b>	<b>297,116</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Basel III disclosures (continued)

#### Credit Risk Exposures (continued)

The residual maturity breakdown of the portfolio was as follows:

##### Fund based (On balance sheet)

Items		Amount MUR'000's						
(No Months)	Total	0-3m	3-6m	6-12m	12-24m	24-36m	36-60m	> 60m
Claims on sovereigns	2,802,585	2,001,782	-	325,754	288,840	186,209	-	-
Claims on central banks	10,179,744	8,550,245	99,972	100,220	1,313,026	70,816	45,465	-
Claims on banks	353,631	353,631	-	-	-	-	-	-
Claims on domestic PSEs	80,150	-	-	-	-	-	-	80,150
Claims on corporates	4,664,650	2,220,229	187,332	428,229	1,371,918	85,586	349,018	22,338
Claims included in regulatory retail portfolio	756,546	2,203	4,146	13,502	288,065	65,587	328,278	54,765
Claims secured by residential mortgage	4,986,483	583	1,280	5,046	20,574	46,360	159,350	4,753,290
Claims secured by commercial real estate	4,539	-	-	-	1,001	3,538	-	-
<b>TOTAL</b>	<b>23,828,328</b>	<b>13,128,673</b>	<b>292,730</b>	<b>872,751</b>	<b>3,283,424</b>	<b>458,096</b>	<b>882,111</b>	<b>4,910,543</b>

##### Non fund based (Off balance sheet)

Items		Amount in MUR'000s						
(No Months)	Total	0-3 m	3-6 m	6-12 m	12-24 m	24-36 m	36-60 m	> 60 m
Direct credit substitute	210,685	56,638	4,315	124,688	1,750	3,901	19213	180
Transaction-related contingent items	837,248	70,496	23,597	502,146	118,705	54,762	38809	28,733
Trade related contingencies	286,385	271,016	15,369	-	-	-	-	-
Commitments that can be unconditionally cancellable at any time by the Bank without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness	5,423,837	3,416,426	1,538,009	314,207	16	13	804	154,362
Foreign exchange contracts	297,116	251,657	45,459	-	-	-	-	-
<b>TOTAL</b>	<b>7,055,271</b>	<b>4,066,233</b>	<b>1,626,749</b>	<b>941,041</b>	<b>120,471</b>	<b>58,676</b>	<b>58,826</b>	<b>183,275</b>

All of the items in the above mentioned disclosures are subject to the Basel III Standardised Approach.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis (continued)**

#### **Basel III disclosures (continued)**

#### **Credit Risk Exposures (continued)**

#### **Credit Risk: Standardised Approach**

The Standardised Approach to Credit Risk requires banks to use credit assessments provided by external credit

The following ECAIs are used by the Bank:

- Standard & Poor's Ratings Services
- Moody's Investors Service
- Fitch Ratings

The ratings of these international credit rating agencies are used for capital adequacy purposes for risk weighting

Apart from the above 3 referred ECAIs, the Bank of Mauritius *Guideline on the Recognition and Use of External*

- Credit Analysis and Research Limited ("CARE")
- Credit Rating Information Services of India Limited ("CRISIL")
- India Research
- Investment Information and Credit Rating Agency of India ("ICRA")

The Bank also makes use of the corporate ratings indicated by the above four Indian agencies to risk weight the advances it extends to its portfolio of Indian corporates, for its calculation of capital adequacy. If ratings are not available, the facilities extended to them are risk weighted at 100%.



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Basel III disclosures (continued)

#### Credit Risk Exposures (continued)

#### Credit Risk: Standardised Approach (continued)

Segment A exposures after credit risk mitigation ("CRM") subject to the Standardised approach as at 31 December 2022 were as follows:

#### Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Risk Weight	RWA
	MUR'000	MUR'000	%	MUR'000
Cash in hand	204,336	204,336	0	-
	47,604	47,604	20	9,521
Claims on Sovereigns	2,802,585	2,802,585	0	-
Claims on Central Banks	10,179,744	10,179,744	0	-
Claims on Banks	353,631	353,631	20	70,726
Claims on Domestic PSE	80,150	85,157	0	-
Claims on Corporate	4,664,650	4,647,437	100	4,647,437
Claims included in Regulatory Retail Portfolio	756,546	738,012	75	553,509
Claims Secured by Residential Property	4,120,085	4,119,249	35	1,441,737
	175,822	175,822	75	131,867
	3,561	3,561	100	3,561
	687,015	687,015	125	858,768
Claims secured by commercial real estate	4,539	3,538	100	3,538
Past due claims	259	259	50	130
	23,790	23,790	100	23,790
Other assets	976,849	968,617	100	968,617
<b>Total</b>	<b>25,081,166</b>	<b>25,040,357</b>		<b>8,713,201</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Basel III disclosures (continued)

#### Credit Risk Exposures (continued)

##### Non - Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Credit Conversion Factor	Credit Equivalent Amount	RWA
	MUR'000	MUR'000	%	MUR'000	MUR'000
Direct Credit Substitute	210,685	193,990	100	193,990	96,272
Transaction-related Contingent Items	837,748	764,711	50	382,356	263,786
Trade Related Contingencies	241,174	241,174	20	48,235	35,162
	45,211	45,211	50	22,606	15,806
Commitments that can be unconditionally cancellable at any time by the Bank without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness	5,423,837	5,423,837	0	-	-
<b>Total</b>	<b>6,758,655</b>	<b>6,668,923</b>		<b>647,187</b>	<b>411,026</b>

##### Non - Fund Based:

Items	Notional principal amount	Credit conversion factor	Potential future exposure	Current exposure	Credit equivalent amount	RWA
	MUR'000	%	MUR'000	MUR'000	MUR'000	MUR'000
Foreign Exchange Contract	297,116	1	2,971	5,509	8,481	8,481

#### Credit Risk Mitigation:

The Bank generally accepts security as collateral for advances extended to its customer base. The acceptable forms of security are agreed every year by way of Country Risk Plans which are prepared and by the Credit Risk Management function and approved by the regional credit function at head office level in Hong Kong before being circulated to relationship managers for guidance and adherence. Credit derivatives, haircuts and on and off-balance sheet netting are not used in respect of credit risk mitigation.

Common acceptable forms of security are:

- Standby Letters of Credit /Guarantees from banks
- Cash or deposits held under lien
- Personal or Corporate Guarantees
- Letters of Undertaking
- Registered mortgages
- Fixed and floating charge on all assets

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Management discussion and analysis (continued)**

#### **Basel III disclosures (continued)**

##### **Market Risk**

Market risk is the risk that the market rates and prices on which the Bank has taken views - interest rates, exchange rates, equity prices etc. - will move adversely relative to positions taken causing losses to the Bank.

It is the responsibility of the Chief Risk Officer (“CRO”) to ensure that market risk may only be taken by Global banking and markets businesses within authorised limits. Units other than Global Banking and Markets businesses must transfer market risk to the Global Banking and Markets business, either by an internal transaction between the two areas, or by the inclusion of the transaction in the Global Banking and Markets business' dealing position. The market risk limit mandate of the Bank therefore encompasses all market risks taken by the Bank. Exceptions to this rule are explicitly agreed with local Management, such as local and regional ALCO, with Group Market Risk function in Group Head Office in London. Any exceptions are subject to the same control and reporting requirements as that applied to risk taken by Global Banking and Markets, including annual review of limits by Group Market Risk.

An Annual Limit Review (“ALR”) is prepared by Group Market Risk and reviewed by the RMM of the Group Management Board (“GMB”) each year. The Bank henceforth submits a request annually to apply for market risk limits covering the following calendar year. All requests are submitted in writing and these clearly indicate the support of the CEO, or his delegate and, the local and regional Head of Global Banking and Markets and the Head of Market Risk in Hong Kong. These annual submissions contain formal confirmation that all limits can be independently monitored and that all products have passed through an appropriate due diligence process.

The foreign exchange risk position as at 31 December 2022 stood at MUR83.3m (2021: MUR22.9m), giving a capital requirement of MUR11.2m (2021: MUR3.8m).

##### **Operational Risk**

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or external events, including legal risk. Operational risk arises from day to day operations or external events and is relevant to every aspect of the HSBC Group's business.

The HSBC Group's Operational Risk Management Framework is the overarching approach adopted by the Bank to manage its operational risk in accordance with its business and operational risk forward plan, and in line with operational risk appetite. The framework consists of a set of activities, processes and tools which are used in the management of operational risk across HSBC, and provides operational risk specific detail following the overall framework as set out in the Enterprise-wide Risk Management Framework, and which is also outlined under the Statement of Corporate Governance Practices.

The purpose of the Operational Risk Management Framework is to enable the Bank to fully identify and manage its operational risks in an effective manner and maintain operational risk within risk appetite.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Management discussion and analysis (continued)

#### Basel III disclosures (continued)

#### Operational Risk (continued)

The Bank of Mauritius *Guideline on Operational Risk Management and Capital Adequacy determination* which came into effect on 01 April 2008, defines three main methods for calculating operational risk capital charges. These are the Basic Indicator Approach (“BIA”), the Standardised Approach and the Advanced Measurement Approach. The Bank has chosen the BIA approach to calculate its operational risk capital requirement and this is briefly described below.

Under the BIA, the capital requirement for operational risk is equal to 15% of the average annual positive gross income over the previous three years.

Gross income is defined as the sum of net interest income and net non - interest income and is arrived at before accounting for:

- a) Provisions, including those for credit impairment;
- b) operating expenses (including fees paid for outsourced services); and
- c) realised profits/ losses from the sale of investment securities.

The Bank’s capital requirement for operational risk as at 31 December 2022, based on total Segment A operating income, stood as follows:

		<b>Financial Year Ended 2022 MUR'000</b>	Financial Year Ended 2021 MUR'000	Financial Year Ended 2020 MUR'000
	<b><i>Annual Gross Income</i></b>	<b>1,014,115</b>	970,409	986,922
-1	Number of Years with positive income	<b>3</b>		
-2	Average Gross Income over the last 3 years	<b>990,482</b>		
-3	Capital charge for Operational Risk	<b>148,572</b>		

**The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

**Management discussion and analysis (continued)**

**Basel III disclosures (continued)**

**Interest rate risk in the trading book**

Present Value of Basis Point (“PVBP”) is one of the most widely used methods for quantifying outright interest rate risk. It expresses the impact on the present value of a position of a one basis point (1bp) rise in the interest rate used to calculate the present value - for example a change from 5.25% to 5.26%. PVBP is calculated net within each currency and gross across currencies.

This is an accurate expression of interest rate sensitivity and exposure and is the most appropriate method for books where the value of the book is sensitive to interest rate movements.

PVBP cannot, however, be readily calculated by mental arithmetic, unlike some other forms of limit. The PVBP of a given position is affected not only by the nominal amount of the position and its term but also by any coupon, for example on a bond, and by the actual level of interest rates used to calculate the present value.

PVBP is used by the Bank’s treasury trading system to monitor interest rate risk. The outstanding position as at 31 December 2022 in the trading book by time buckets is disclosed in note 35 of these financial statements.



\_\_\_\_\_  
**Bonnie Yi Jing Qiu**  
*Chief Executive Officer*

Date : 24 March 2023



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**Rajiv Gopaul**  
*Head of Finance*

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement on corporate governance practices

The Bank is registered in Mauritius as a branch of The Hongkong and Shanghai Banking Corporation Limited (the ‘Company’), a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in England, is the ultimate holding company.

The Bank is a public interest entity as defined under the Mauritian Financial Reporting Act 2004, and is guided by the Bank of Mauritius *Guideline on Corporate Governance*, and the National Code of Corporate Governance for Mauritius (2016) (the ‘Code’).

Corporate governance involves a framework of processes and attitudes within a company and relationships between a company’s management, shareholders and other stakeholders. Effective corporate governance practices are essential to adding value and ensuring long-term continuity and success of a company.

### Compliance with the National Code of Corporate Governance for Mauritius (2016)

During the year under review, the Management of the Bank continuously assessed the requirements and provisions as specified in the Code, and took the necessary steps to ensure adherence thereto.

Throughout the year ended 31 December 2022, to the best of the Management’s knowledge, where the Bank has not applied certain principles set out in the Code, the reasons for non-application are listed out in the relevant sections of the report.

Principles of the Code
<b>Principle 1:</b> Governance Structure
<b>Principle 2:</b> The Structure of the Board and its Committees
<b>Principle 3:</b> Director Appointment Procedures
<b>Principle 4:</b> Director Duties, Remuneration and Performance
<b>Principle 5:</b> Risk Governance and Internal Controls
<b>Principle 6:</b> Reporting with Integrity
<b>Principle 7:</b> Audit
<b>Principle 8:</b> Relations with Shareholders and Other Key Stakeholders

### Group Values, Charter and Code of Conduct

The HSBC Group outlines its values, Charter and Code of Conduct, and the Board of the Company strives to ensure effective management in line with all these principles.

The Bank’s values describe how the Bank interacts with each other and with customers, regulators and the wider community. All employees are expected to have and reflect these values in their day-to-day behaviour.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **Group Values, Charter and Code of Conduct (continued)**

The Bank's values are:

##### We value difference

- We were born speaking different languages. We were founded on the strength of different experiences, attributes and voices; they are integral to who we are and how we work. The greater our empathy and diversity, the better we reflect the worlds of our customers and communities – and the better we can serve them.
- So we champion inclusivity. We listen. We remove barriers. And we seek out views different from our own.

##### We succeed together

- We offer our customers a unique breadth of opportunity.
- And we can only deliver the full promise of this by being truly connected – across boundaries. With our customers and partners. Together as colleagues and as an organisation.
- So, we collaborate across boundaries. We break down silos. We trust and support each other. And, when necessary, get out of each other's way.
- Together, we make possible what we cannot do alone.

##### We take responsibility

- What we do has a real impact on people's lives, communities and the planet. We take this responsibility seriously.
- We set ourselves high standards and are each accountable for our actions. We always use good judgement. And if something doesn't feel right, as colleagues we speak up and act.
- We build for tomorrow, today. We succeed only by taking the long view, by focusing on the sustainable interests of our customers, investors, and the planet we all share.

##### We get it done

- We create value for our customers and investors by always moving forward and making things happen.
- We're entrepreneurial: we try new things, we learn and improve, and we take smart risks.
- We're dynamic: we reject mediocrity and we move at pace.
- We're decisive: we make clear choices and take bold actions.
- And we keep our word: we always do what we promise

All employees are expected to live the above values on a day to day basis and standing firm for what is right.

The Bank's Code of Conduct ('Code') is a document that brings together the Bank's purpose and values in the context of Bank's history and Bank's future, and how they can be used to make better decisions.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **Group Values, Charter and Code of Conduct (continued)**

Management of conduct is a critical component of all the Bank's business activities, including the Bank's strategy and business model, the Bank's culture and behaviours, its interaction with customers, financial markets operations, and governance and oversight processes. Employees are empowered through the Code of Conduct to support responsible decision making and to adhere to the highest standards of business practice.

The Bank ensures effective management in line with the above values and its Code of Conduct (Code of Ethics) which was reviewed and approved by the Board in December 2020 and there was no change to this Code in 2022. Employees are empowered through the Code to support responsible decision making and to adhere to the highest standards of business practice. Incident reporting is encouraged and a dedicated confidential telephone is available for all employees. The Bank also renewed its pledge to adhere to the Code in December 2020.

Management is responsible for compliance of the Bank with all relevant laws and regulation and ensuring the integrity of the annual financial report and periodically monitors the compliance to the Code by all the employees of the Bank.

### **1. Governance Structure**

#### **1.1 Shareholding Structure**

As at 31 December 2022, the Bank's assigned capital was MUR 794,150,000, solely held by The Hongkong and Shanghai Banking Corporation Limited.

#### **1.2 Responsibilities of the Board of the The Hongkong and Shanghai Banking Corporation Limited (the 'Company')**

The Bank is led by a committed and unitary Board, which has the ultimate collective responsibility for the overall stewardship and oversight of the activities of the Bank. The Bank operates within a clearly defined governance framework, which provides for delegation of authority and clear lines of responsibility without abdicating the Board's responsibility.

The Board through the executive management aims to promote the long-term success of the Bank, delivering sustainable value and promoting a culture of openness and debate. In exercising its duty to promote the success of the Bank, the Board is responsible for overseeing the leadership and management of the Bank.

Management is responsible for regularly reviewing and evaluating performance against financial and other strategic objectives, business challenges, business developments and risk (including strategic risk, financial risk, operational risk and compliance risk). It is also responsible for determining the nature and extent of risk which can be taken in order to achieve the Bank's strategic objectives.



## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **1. Governance Structure (continued)**

##### **1.3 Responsibilities of the Management of the Bank**

Management is responsible for keeping proper accounting records which disclose with reasonable accuracy, at any time, the financial position of the Bank. It is also responsible for safeguarding the assets and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Bank is responsible for ensuring that the internal control systems in place are effective and that the Bank's operations are properly controlled and comply with policies approved by the Bank as well as applicable laws and regulations.

Management is responsible for the preparation and fair presentation of the financial statements as described in Section 6.1.

Management's responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies and making accounting estimates that are reasonable in the circumstances.

Management has made an assessment of the Bank's ability to continue as a going concern and have no reason to believe the business will not be a going concern in the year ahead.

#### **2. The Structure of the Management and its Committees**

##### **2.1 Executive Committee**

The Executive Committee ("EXCO") of the Bank meets regularly and operates as a general committee under the direct authority of the Board of the Company. Of note, the Bank has been dispensed by the BoM from establishing a local advisory board.

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Statement on corporate governance practices (continued)

### 2. The Structure of the Senior Management and its Committees (continued)

#### 2.1 Executive Committee (continued)

Frequency	At least 10 times yearly	
Composition	Bonnie Y Qiu	Country Chief Executive Officer (Chairperson)
	Dean Lam <sup>1</sup>	Head of Commercial Banking
	Hajrah Sakauloo <sup>2</sup>	Head of Wholesale Banking
	Sarina Saul-Hassam <sup>3</sup>	Chief Operating Officer
	Heena Patel <sup>4</sup>	Acting Chief Operating Officer
	Rajiv Gopaul	Chief Financial Officer
	Nitin Ramlugon	Head of Wealth and Personal Banking
	Rim Abohegab <sup>5</sup>	Head of Human Resources
	Masud A Monwar <sup>6</sup>	Head of Human Resources
	Vassan Caleemootoo	Head of Markets and Securities Services
	Annick Meerun	Communications Manager
	Laura Steer <sup>7</sup>	Chief Risk Officer
	Yousuf M Syed <sup>8</sup>	Chief Risk Officer
	Ashish Gowreesunker	Chief Compliance Officer
	Ashiti Prosand	Head of Legal and Company Secretary
	Binsha Raderam <sup>9</sup>	Business Planning and Execution Manager – CEO Office
	Deepa Harcharan <sup>10</sup>	Business Planning and Execution Manager – CEO Office
Purpose	<p>The Executive Committee, which holds its meetings not less than 10 times each year, has the responsibility for business development initiatives, human resources and internal management structure, IT and operational issues, approval of major capital expenditure projects, social matters such as education and environmental protection, monitoring of annual budget and any other relevant issues.</p> <p>It also considers employee remuneration issues and reviews adequacy of senior employees' remuneration and key appointments. It ensures that all executives receive appropriate training on appointment and then subsequently as appropriate.</p>	
Main Responsibilities	<p>The key responsibilities of the Executive Committee include:</p> <ul style="list-style-type: none"> <li>(i) Monitoring actual performance against budgets and providing planning and budgeting guidance where appropriate;</li> <li>(ii) Managing profitability and revenue growth and profile, optimising the allocation and utilisation of all resources;</li> <li>(iii) Resolving inter-departmental issues that have impacts on business performance; and</li> <li>(iv) Making tactical decisions, based on the information presented and analysing business strategies of the Bank.</li> </ul>	

<sup>1</sup>: Dean Lam On Garden leave as from 1 January 2023 and retiring on 30 April 2023

<sup>2</sup>: Hajrah Sakauloo was appointed on 4 January 2023

<sup>3</sup>: Sarina Saul-Hassam went on Maternity Leave from 27 September 2022 to 13 February 2022

<sup>4</sup>: Heena G Patel was appointed as Interim Chief Operating Officer from 15 August 2022 to 14 February 2023

<sup>5</sup>: Rim Abohegab resigned on 1 October 2022.

<sup>6</sup>: Masud A Monwar was appointed on 1 November 2022.

<sup>7</sup>: Laura Steer resigned on 11 February 2022

<sup>8</sup>: Yousuf M Syed was appointed on as Interim Chief Risk Office from 4 February 2022 to 30 April 2022 & Chief Risk Officer as from 1 May 2022

<sup>9</sup>: Binsha Raderam resigned on 6 September 2022

<sup>10</sup>: Deepa Harcharan was appointed on 1 September 2022

In addition, the following committees are in operation:

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement on corporate governance practices (continued)

#### 2. The Structure of the Management and its Committees (continued)

##### 2.2 Asset and Liability Committee

The Asset and Liability Committee (ALCO) of the Bank has a formal schedule of matters reserved to it and holds its meetings not less than 10 times each year. It is responsible for the overall balance sheet strategy, funding and capital management, acquisition and divestment policy, and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the Bank and the impact of these risks on the balance sheet.

ALCO monitors the external environment in which the Bank operates and assesses the impact of factors such as interest rate volatility and trends, market liquidity, exchange rate movements, monetary and fiscal policies and competitors' actions.

Frequency	At least 10 times yearly	
Composition	Rajiv Gopaul	Chief Financial Officer (Chairperson)
	Bonnie Y Qiu	Country Chief Executive Officer
	Dean Lam <sup>1</sup>	Head of Commercial Banking
	Hajrah Sakauloo <sup>2</sup>	Head of Wholesale Banking
	Laura Steer <sup>3</sup>	Chief Risk Officer
	Yousuf M Syed <sup>4</sup>	Chief Risk Officer
	Vassan Caleemootoo	Head of Markets and Securities Services
	Shoba Thancanamootoo	Head of Market Treasury
	Prabal Chakraborty	Country Head of Global Liquidity and Cash Management
	Daniel Barr <sup>5</sup>	Head of GTRF
	Rajiv Bali <sup>6</sup>	Head of GTRF
	Nitin Ramlugon	Head of Wealth and Personal Banking
	Lisiane Singaravelloo <sup>7</sup>	Head of Assets and Liabilities Capital Management (ALCM) and Business Finance
	Jason Chin <sup>8</sup>	Head of Assets and Liabilities Capital Management (ALCM) and Business Finance
Main Responsibilities	<p>The key responsibilities of the Asset and Liability Committee include:</p> <ul style="list-style-type: none"> <li>(i) providing direction and ensure tactical follow-through to performance objectives within prescribed risk parameters;</li> <li>(ii) reviewing all risks facing the bank and ensure their prudent management, including, but not limited to: <ul style="list-style-type: none"> <li>- structural interest rate risk;</li> <li>- structural foreign exchange risk</li> <li>- liquidity and funding risk</li> <li>- regulatory changes</li> </ul> </li> <li>(iii) providing a forum for discussing ALCO issues;</li> <li>(iv) facilitating teamwork between different businesses/ departments;</li> <li>(v) resolving departmental inter-face issues such as transfer pricing and resource allocation;</li> <li>(vi) reviewing overall sourcing and allocation of funding; and</li> <li>(vii) determining the most likely banking environment for asset/liability forward planning and review contingency scenarios</li> </ul>	

<sup>1</sup>: Dean Lam On Garden leave as from 1 January 2023 and retiring on 30 April 2023

<sup>2</sup>: Hajrah Sakauloo was appointed on 4 January 2023

<sup>3</sup>: Laura Steer resigned on 11 February 2022

<sup>4</sup>: Yousuf M Syed was appointed on as Interim Chief Risk Office from 4 February 2022 to 30 April 2022 & Chief Risk Officer as from 1 May 2022

<sup>5</sup>: Daniel Barr resigned on 1 July 2022

<sup>6</sup>: Rajiv Bali was appointed on 1 January 2023

<sup>7</sup>: Lisiane Singaravelloo resigned on 28 February 2022

<sup>8</sup>: Jason Chin was appointed on 1 March 2022

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement on corporate governance practices (continued)

#### 2. The Structure of the Management and its Committees (continued)

##### 2.3 Risk Management Meeting (RMM)

The Risk Management Meeting is a formal governance committee established to provide recommendations and advice to the Chief Risk Officer (CRO) on enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Bank. It supports the CRO's individual accountability for the oversight of enterprise risk as set out in the Group's Risk Management Framework ("RMF").

Decision-making authority in relation to all matters considered at the RMM remains with the CRO, except where decision-making authority is within the scope of another RMM member in accordance with the RMF.

The CRO is accountable to the PTL EXCO. Members will provide reports to EXCO through the Bank's Chief Risk Officer ("CRO") and other members of the Region/Local Risk Management Function. As determined by the CRO.

Frequency	6 meetings per Year	
Composition	Laura Steer <sup>1</sup>	Chief Risk Officer (CRO) (Chairperson)
	Yousuf M Syed <sup>2</sup>	Chief Risk Officer (CRO) (Chairperson)
	Dean Lam <sup>3</sup>	Country Head of Wholesale Banking
	Hajrah Sakauloo <sup>4</sup>	Country Head of Wholesale Banking
	Bonnie Y Qiu	Chief Executive Officer (CEO)
	Rajiv Gopaul	Chief Financial Officer (CFO)
	Sarina Saul-Hassam <sup>5</sup>	Chief Operating Officer (COO)
	Heena G Patel <sup>6</sup>	Interim Chief Operating Officer (Interim COO)
	Ashiti Prosand	Head of Legal and Company Secretary
	Vassan Caleemootoo	Head of Markets & Securities Services
	Nitin Ramlugon	Head of Wealth & Personal Banking
	Ashish Gowreensunker	Chief Compliance Officer (CCO)
	Rim Abohegab <sup>7</sup>	Head of Human Resources
	Masud A Monwar <sup>8</sup>	Head of Human Resources
Main Responsibilities	<p>The RMM serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives, including the management of all financial crime risks. This may include:</p> <p><u>Strategy</u></p> <ul style="list-style-type: none"> <li>Ensuring that risk considerations are incorporated within the strategic planning and budgeting processes;</li> <li>Receiving regular reports on the status of material Change/Transformation projects including the delivery, risk, key exposures, and risk mitigation plans in conjunction with the opinions from the Second Line, Risk, Internal Audit or external stakeholders as necessary;</li> <li>Ensuring the integration of risk management into the Group's strategic objectives for all component parts of the overall strategy, for example the technology strategy, required to deliver the overall strategy</li> </ul>	

<sup>1</sup>: Laura Steer resigned on 11 February 2022

<sup>2</sup>: Yousuf M Syed was appointed on as Interim Chief Risk Office from 4 February 2022 to 30 April 2022 & Chief Risk Officer as from 1 May 2022

<sup>3</sup>: Dean Lam On Garden leave as from 1 January 2023 and retiring on 30 April 2023

<sup>4</sup>: Hajrah Sakauloo was appointed on 4 January 2023

<sup>5</sup>: Sarina Saul-Hassam went on Maternity Leave from 27 September 2022 to 13 February 2023

<sup>6</sup>: Heena G Patel was appointed as Interim Chief Operating Officer from 30 August 2022 to 14 February 2023

<sup>7</sup>: Rim Abohegab resigned on 1 October 2022.

<sup>8</sup>: Masud A Monwar was appointed as Head of Human Resources on 1 November 2022.

**Statement on corporate governance practices (continued)**

**2. The Structure of the Management and its Committees (continued)**

**2.3 Risk Management Meeting (continued)**

Main Responsibilities	<u>Business Performance and Priorities</u>
	<ul style="list-style-type: none"> <li>(i) Reviewing key enterprise-wide risk management policies and framework addendums, including but not limited to the Bank Risk Appetite Framework, Risk Appetite Statements and Stress Testing Framework and changes thereto, prior to onward submission for HBAP/Board approval where appropriate</li> <li>(ii) Reviewing the Bank risk profile, and Risk Appetite Profile, and be informed of material changes to the Emerging Risk Profile, and to the Risk Map &amp; Top Risks.</li> <li>(iii) Reviewing credit and market risk limits for the Bank's businesses and the delegation of these limits for the control of the credit, market, operational and reputational risks in light of the Bank's capital and related risk capacity</li> <li>(iv) Considering relevant reports and updates pertaining to the key risks and issues in the three Lines of Defence ("3LOD"), commissioning further review where required.</li> <li>(v) Reviewing processes governing new product approval, post-implementation reviews and ongoing monitoring of the current portfolios</li> <li>(vi) Receiving and reviewing reports and updates on the Bank's internal assessments and/or regulatory submissions, including but not limited to Recovery and Resolution, Stress Testing, the Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Assessment Process ('ILAAP') and related management actions as required.</li> <li>(vii) Reviewing the effectiveness of internal controls required to manage risk, including processes for managing Regulatory Compliance Risk arising from Volcker Rules in relation to the activity of the Bank.</li> <li>(viii) Reviewing processes for managing Conduct Risk and cascade a supportive culture in relation to risk management and controls and to ensure that the Bank's risk management practices support its conduct outcomes.</li> <li>(ix) Reviewing, discussing and addressing material financial and non-financial risks, including financial crime risks and issues, relating to money laundering, tax evasion, sanctions, bribery and corruption, and fraud.</li> <li>(x) Reviewing and understanding the high level structure and operational processes of the business in respect of Client Assets and assess the effectiveness, transparency and visibility of the controls over these. Discuss and oversee the remediation of breaches and to also consider Client Assets' findings from Regulator's supervision reports, Risk, Audit, and Regulatory Compliance monitoring reviews, as well as regulatory developments.</li> </ul>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement on corporate governance practices (continued)

### 3. The Structure of the Management and its Committees (continued)

#### 2.3 Risk Management Meeting (continued)

Main Responsibilities	<u>Business Performance and Priorities (continued)</u>
	<ul style="list-style-type: none"><li>(xi) Reviewing and providing on-going recommendation of updates to the Bank's Business Continuity Plan ("BCP"), to ensure that any material changes in the Bank's business, strategy, nature or scale of its activities or the regulatory or operational environment are considered and the BCP updated if required; and</li><li>(xii) Reviewing, discussing and addressing regulatory risks and issues, policy changes and resultant impact. Promoting an, monitoring and assessing the regulatory risk culture.</li><li>(xiii) Promoting and cascading of a supporting culture in relation to risk management and controls and ensuring our risk management practices support our conduct outcomes.</li><li>(xiii) Reviewing, discussing and addressing regulatory risks and issues, policy changes and resultant impact. Promote, monitor and assess the regulatory risk culture.</li><li>(xiv) Promoting and cascading of a supportive culture in relation to risk management and controls and ensuring the risk management practices support the Bank's conduct outcome.</li></ul>

By carrying out the above responsibilities the RMM meets the Basel Committee on Banking Supervision (BCBS) requirements of reviewing regular risk management reports which enable the RMM to assess the risks involved in the Bank's business and how they are controlled and monitored and give clear, explicit and dedicated focus to current and forward-looking aspects of risk.

The terms of reference of the EXCO, ALCO and RMM are reviewed annually.

#### 2.4 Corporate Governance Committee

All matters pertaining to Corporate Governance are regularly reviewed and discussed by the Management. Hence, a committee on Corporate Governance has not been constituted.

#### 2.5 Remuneration Committee

The Bank has been dispensed from constituting a separate Remuneration Committee. The exemption was granted by Bank of Mauritius vide its letter dated 13 December 2012.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement on corporate governance practices (continued)

#### 2. The Structure of the Management and its Committees (continued)

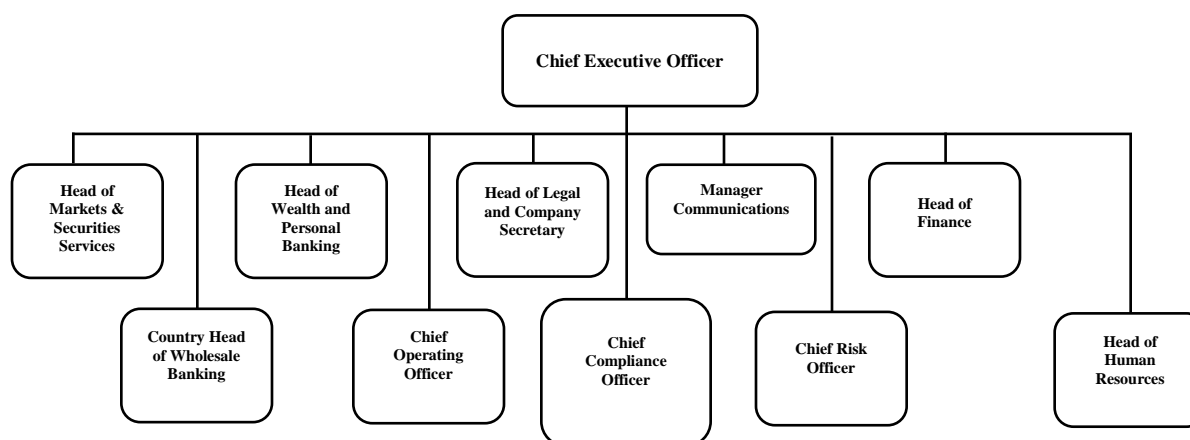
##### 2.6 Senior Management's Profile (continued)

##### 2.6 Committee Attendance

	EXCO	ALCO	RMM
Number of meetings held	10	10	6
Chief Executive Officer	9	9	5
Country Head of Wholesale Banking	10	10	6
Chief and Acting Chief Operating Officer	10	-	6
Head of Finance	10	10	6
Head of Wealth and Personal Banking	10	10	6
Head of Human Resources	9	-	5
Head of Markets and Securities Services	10	9	6
Business Planning and Executive Manager	7	-	-
Communications Manager	9	-	-
Chief and Acting Chief Risk Officer	9	9	6
Chief Compliance Officer	9	-	6
Head of Legal and Company Secretary	9	-	5
Head of Market Treasury	-	10	-
Country Head of Global Liquidity and Cash Management	-	8	-
Head of ALCM and Business Finance	-	9	-
Country Head of Global Trade and Receivables Finance	-	8	-

The Bank is headed by its Chief Executive Officer **Bonnie Y Qiu**.

As at 31 December 2022, the organisation chart of the Bank is as follows:



## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **2. The Structure of the Management and its Committees (continued)**

##### **2.6 Senior Management's Profile (continued)**

###### **Bonnie Y Qiu - Chief Executive Officer (Resident)**

Bonnie Y Qiu is the Chief Executive Officer of HSBC in Mauritius. She joined HSBC in 2002 as a graduate trainee in the UK, and has degrees from University of London and is also an Associate of the Chartered Institute of Bankers. She is currently the Chief Executive Officer of HSBC Mauritius. Prior to this, she was Group Head of Premier and Jade, and also country head of Wealth and Personal Banking in China and Taiwan.

Her experience also includes institutional banking risk management, strategic project management, government relations and business banking.

###### **Rajiv Gopaul – Head of Finance (Resident)**

Mr. Rajiv Gopaul is Head of Finance, HSBC Mauritius. He joined HSBC in 2000 and has served in a number of roles in HSBC Group Finance spanning Tax, ALCM and Group Treasury in London and, in 2014, was appointed the Finance Lead for the UK Ring-Fenced Bank project. Prior to joining HSBC, he qualified as a Chartered Accountant specialising in Corporate Tax and worked at a large UK banking group as Head of UK tax compliance.

Mr Gopaul holds a Bachelor of Science degree in Accounting & Finance from the London School of Economics & Political Science.

###### **Dean Lam Kin Teng – Country Head of Wholesale Banking (Resident) – On Garden leave as from 1 January 2023 and retiring on 30 April 2023**

Mr. Lam joined the HSBC Group in August 2000 in the capacity of Chief Financial Officer (CFO) for HSBC Mauritius until May 2007. During that period, he also undertook the responsibility of Finance Director of HSBC Bank (Mauritius) Limited between April 2006 and May 2007. Mr. Lam then moved to Hong Kong to take up the role of Manager International at the HSBC Asia Pacific Regional office overlooking the Northern Asia countries. Upon his return to Mauritius in June 2009, he was appointed as Head of Corporate Banking prior to taking up the role of Managing Director of HSBC Bank (Mauritius) Limited in June 2013.

Mr. Lam is a Chartered Accountant and also holds a Bachelor of Science degree in Accounting and Finance from the London School of Economics and Political Science.

###### **Hajrah Sakauloo – Country Head of Wholesale Banking (Resident) – Appointed on 4 January 2023**

Fellow member of the Association of Chartered Certified Accountants, Mrs. Sakauloo joined HSBC in 1997 and has held various positions at the Bank within operations, Custody & Clearing, Corporate & Institutional banking and Global Banking & Markets with a particular focus on global business. She is currently the Head of wholesale banking which covers a wide spectrum of businesses ranging from large international corporate clients to mid corporates.



## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **2. The Structure of the Management and its Committees (continued)**

##### **2.6 Senior Management's Profile (continued)**

###### **Laura Steer – Chief Risk Officer (Resident) – Resigned on 11 February 2022**

Mrs Steer joined HSBC in 2010 after graduating from the University of Oxford with First Class Honours. She also holds a Distinction from the Henley Business School and First Class Honours from the London Institute of Banking and Finance. Mrs Steer has held positions with HSBC in Hong Kong, Lebanon and the UK, spanning across corporate banking, risk management and compliance. Prior to being appointed Chief Risk Officer of HSBC Mauritius in 2018, Mrs Steer held the positions of Corporate Relationship Director in HSBC UK.

###### **Yousuf M Syed – Chief Risk Officer (Non Resident) – on as Interim Chief Risk Office from 4 February 2022 to 30 April 2022 & Chief Risk Officer as from 1 May 2022**

Yousuf has worked in leading international financial service organisations like Citicorp, American Express, Mashreq Bank, India Infoline Finance (IIFL), and geographically in India and the Middle East, mainly on retail risk management. He joined HSBC Invest Direct Financial Services (HIFSL) in 2014 as Chief Risk Officer where he was responsible for managing the enterprise-wide risk. Later he worked in the INM Remediation Management Office and Unsecured risk for India WPB Risk.

###### **Nitin Ramlugon – Head of Wealth and Personal Banking (Resident)**

Holding a B.Sc. in Management and an M.Sc. in Financial Management, Mr. Ramlugon is the Head of Retail Banking and Wealth Management. He has held management positions in diverse functions of the Bank including Human Resources, Operations, Retail Credit, Global Business and Compliance.

###### **Rim Abohegab – Head of Human Resources (Non Resident) - Resigned on 1 October 2022**

Mrs. Abohegab joined HSBC Egypt in 2013 as Head of Human Resources for GSC Egypt and in June 2018 moved HSBC GSC Philippines also in the capacity of Head of Human Resources. In January 2020 she also held the role of Global HR Business Partner - Risk Operations for HSBC Group before taking on the role of Head of Human Resources for HSBC Mauritius. Mrs. Abohegab holds a Bachelor Degree in German Literature from Cairo University and is certified in Strategic Human Resource Management.

###### **Masud A Monwar – Head of Human Resources (Resident) – Appointed on 1 November 2022**

Masud is a seasoned HR Professional with more than 16 years' experience across multinational organizations. Prior to HSBC, Masud worked in GlaxoSmithKline as HR Manager in a Business Partnering Role for two Businesses with additional responsibility of Leading Reward, Performance and Talent for the country. He holds an Executive MBA Degree and a Bachelor Degree in Business Administration.

###### **Ashiti Prosand – Head of Legal and Company Secretary (Resident)**

Ashiti Prosand joined HSBC Mauritius in March 2019 as Head of Legal and Company Secretary. She previously worked at MauBank Ltd in the same capacity. Prior joining MauBank Ltd, she worked in the legal and compliance department of Standard Chartered Bank (Mauritius) Limited, handling various roles in the aforementioned department. Ms. Prosand is a law graduate from the University of Mauritius and holds a Masters Degree in International Business Law from the University of Manchester. She is also an Associate of the Institute of Company Secretaries and Administrators (ICSA), UK.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **3. The Structure of the Management and its Committees (continued)**

##### **2.6 Senior Management's Profile (continued)**

##### **Sarina Saul-Hassam – Chief Operating Officer - Maternity leave from 27 September 2022 to 13 February 2023**

Mrs. Sarina Saul-Hassam has been with HSBC Group for 18 years and was the Regional CMB Chief Administration Officer for ASP based in Hong Kong prior joining Mauritius as COO. Sarina has got rich experience that in having undertaken a variety of transformation and leadership roles within Commercial Banking and Wealth & Personal Banking across country (UK and Indonesia), regional and global roles. Sarina graduated from the University of Manchester with a B.Sc.(Hons) Degree in Financial Services. She is passionate about leading Diversity & Inclusion with a key focus on creating career development opportunities in an inclusive and accessible way.

##### **Heena Patel - Interim Chief Operating Officer – From 30 August 2022 to 14 February 2023**

Heena joined HSBC India in 2000 and over the next decade, she worked her way through managerial roles within HSBC Securities and Capital Markets IT, gaining experience and increased responsibility across nearly all aspects of GBM IT. This involved expanding her scope to include over-all IT support and IT Operations while learning on the job about planning and strategy, account management services, and how to manage relationships with the Business. Heena became Head of Global Banking & Markets (GBM) IT for HSBC India in 2014, and was appointed Regional Head of Satellite Sites, ASP GBM IT in 2019. Heena was also interim CIO for India from October 2018 to August 2019 and took over the ASP CIO Internationals Role from March 2020. Heena holds a Bachelor of Science in Chemistry from the D.G. Ruparel College in India.

##### **Vassan Calleemootoo – Head of Markets & Securities Services (Resident)**

Mr. Calleemootoo joined the bank in 2002 within the finance and accounting team before moving into the role of FX trader in 2004. Prior to his appointment as Head of GM, Mr. Calleemootoo was Head of Marketing for Global Markets since 2006. Mr. Calleemootoo holds a BSc in Accounting.

##### **Annick Meerun – Communications Manager (Resident)**

Mrs Meerun is a seasoned journalist and communication specialist with a strong track record for crisis management, media engagement and public relations, having worked for the public and private sector. She is recalled as a national TV presenter and news reporter who was trained at France 2 Television, Paris. Holder of a Master's Degree in International Relations from Quaid E Azam University of Pakistan, she worked for Barclays Bank in Mauritius as Communications Manager before taking up her job in the Communications Department at HSBC in 2012.

##### **Ashish Gowreesunker – Chief Compliance Officer (Resident)**

Mr Gowreesunker joined HSBC Mauritius in 1995 and has held many positions across the spectrum of Retail Banking ("RBWM"), Commercial Banking ("CMB") and Securities Services. He was also the Regulatory Compliance Lead for RBWM and CMB from August 2014 to June 2017 and holds the Certified Anti Money Laundering Specialist ("CAMS") accreditation. Mr Gowreesunker has been a key pillar within our Mauritius Remediation Office and helped steer the Bank through to completion of the various remediation initiatives between 2016 and 2018. He was appointed to his current role in January 2019.

**Statement on corporate governance practices (continued)**

**3. Senior Management Appointments Procedures**

**3.1 Appointment of senior management roles**

The Bank has a formal process in place for appointment of senior management roles, which is led by the CEO of the Bank, the regional business heads or function heads in Hong Kong. The CEO reviews the structure, size and composition of the Executive Committee annually, or whenever appointments are considered, to ensure that the Bank has a diverse mix of competencies, knowledge and experience, in order to enrich Executive Committee discussions and improve the quality of decision making.

**3.2 Succession Planning**

Succession Planning and the development of management are part of the standard HSBC Group processes which are required by the Group. The Board of the Company assumes the responsibility that the Bank has an effective management team. The Bank has formal succession plans for all the critical management and senior officer roles.

**3.3 Induction & Orientation for senior management**

It is crucial that new senior managers receive a proper induction when being appointed to ensure that they are familiarised, as soon as possible, with the Bank's operations, business environment and corporate strategy, as well as their duties and responsibilities. Senior Management go through induction and orientation process including mandatory training relevant for their roles.

Management and employees of the Bank are all familiar with the Bank's business model and expectations of the HSBC Group. Each member of the Management is aware of his/her legal duties and roles and responsibilities and is kept informed on the Bank's operations and business environment, so as to enable him/her to effectively contribute to strategic discussions and oversight.

**3.4 Continuous Training & Development**

Continuous training is essential to cope with the constant changes in the business environment. Management have a duty to keep up-to-date with industry, legal and regulatory developments. It is also the responsibility of the Bank to provide adequate training and development programme to its senior managers.

As employees of the Bank, senior managers attended mandatory trainings as well as specific that are critical in their roles.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement on corporate governance practices (continued)

#### 4. Management Duties, Remuneration and performance

##### 4.1 Position statement and Statement of accountabilities

In line with the HSBC Group policy, each member of the management has an individual job description which has been reviewed and approved by his/her respective business or functional head. Each job description provides a clear description of the incumbent's roles and responsibilities.

Title	Roles and Responsibilities
Chief Executive Officer	Responsible for overseeing operations and business activities to ensure they produce the desired results and are consistent with the overall HSBC strategy.
Head of Wholesale Banking	Responsible for leading the Business, setting the strategic and day to day direction and driving growth aspirations & revenue for Commercial Banking Business whilst retaining the appropriate risk management discipline to achieve the Bank's strategic goals.
Chief Operating Officer	Responsible for directing and controlling all organisational operations in accordance with the strategic and business plans to ensure the organisational goals and objectives are met.
Chief Compliance Officer	Accountable for ensuring adequate controls are in place to manage financial crime and regulatory compliance risk and ensure the business complies with the letter and spirit of relevant regulations, thereby delivering fair outcomes and embedding a robust risk management culture in HSBC's Business processes.
Head of Human Resources	Provide strategic HR leadership to the Business to align People Strategy with Business Strategy and drive the implementation of people processes to enable business performance.
Head of Wealth and Personal Banking	Responsible for leading the Business, setting the strategic and day to day direction and driving growth aspirations & revenue for Retail Business whilst retaining the appropriate risk management discipline to achieve the Bank's strategic goals.
Chief Risk Officer	Responsible for directing the effective identification, assessment, management, monitoring and mitigation of risk across all current and potential future risk types within the remit area, including wholesale credit and market, retail, security and operational risk, and risk strategy and governance.
Head of Finance	Responsible for directing and controlling all aspects of financial management to ensure that the executive management board, auditors, tax authorities, regulators and shareholders are provided with accurate and timely information and advice on the financial position of the Bank, in compliance with prevailing financial, tax and regulatory requirements.
Head of Markets & Securities Services	Responsible for leading the Business, setting the strategic and day to day direction and driving growth aspirations & revenue for Global Markets and the international Customer Group whilst retaining the appropriate risk management discipline to achieve Group's strategic goals.
Manager Communications	Support the execution of the communications plans, campaigns and messaging in line with HSBC policies. Support internal communications for employees, as well as, external communications for a variety of audiences.
Head of Legal and Company Secretary	Provides guidance to the Management on legal related matters and ensures that the Management is aware of their duties and responsibilities.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **4. Management Duties, Remuneration and performance (continued)**

##### **4.2 Statement of Remuneration Policy**

The Bank advocates to attract, retain and motivate the most talented individuals in order that there may be a positive contribution to the long term success of the Bank.

The Bank applies a Group based reward strategy that focuses on rewarding successful performance and the assessment is tailored to both annual as well as long term objectives that have been agreed. Furthermore, the structure of remuneration is made up of fixed pay, benefits, annual incentive and the Group Performance Share Plan.

During the financial year 2022, Senior Management received emoluments, which includes salaries and other benefits as disclosed in note 34 on Related party transactions.

##### **4.3 Conflict of Interest**

Personal interests of management or persons closely associated with management must not take precedence over those of the Bank. Management should make the best effort to avoid conflicts of interests or situations which others may reasonably perceive to be conflicts of interests.

The Bank has a comprehensive policy to provide guidance on what constitute a conflict of interest and how it will be managed and monitored by the Bank in line with the applicable laws. This policy is directed not only to management and Senior Officers of the Bank, but to all employees who can influence any decision of the Bank.

##### **4.4 Information Governance**

The Bank continuously seeks to foster frameworks that uphold the security of information and IT systems in adherence to regulatory and industry norms keeping in mind the confidentiality, integrity and availability of information. The Management, through relevant committees ensures that set policies, are regularly reviewed and implemented to manage associated risks, supported by appropriate structures, processes and resources.

Information Risk occurs when information held by the Bank wherever it resides and in whatever format it is stored, is lost, stolen or manipulated. The Bank protects against this risk through the implementation of administrative, technical, and physical measures. There will normally be wide-ranging duties of confidentiality with respect to customer information. Many of the jurisdictions in which the Group operates also have specific data protection, privacy and bank secrecy laws, regulations and codes which also apply where information is outsourced or transferred to third parties and which additionally obligate Group companies to keep customer data safe from identity fraud.

The Bank has applied standard of confidentiality in relation to certain types of information. Managers are responsible for ensuring that all mandatory information risk policies are acted upon and implemented. They are also responsible for ensuring that effective procedures are in place to meet the obligations and requirements imposed by local data protection, privacy and bank secrecy laws, regulations, and codes. Local Security Risk, IT, HR, and Regulatory Compliance advice should be sought to ensure that all aspects of data protection are covered, and that wherever an incident of data loss occurs, a clear local reporting structure is in place.

The Management maintains oversight on Information Technology expenditure through the Executive Committee. All key IT projects and expenditures are monitored and scrutinised by Management and discussed at the Executive Committee meeting.

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls

**5.1 Risk Management**

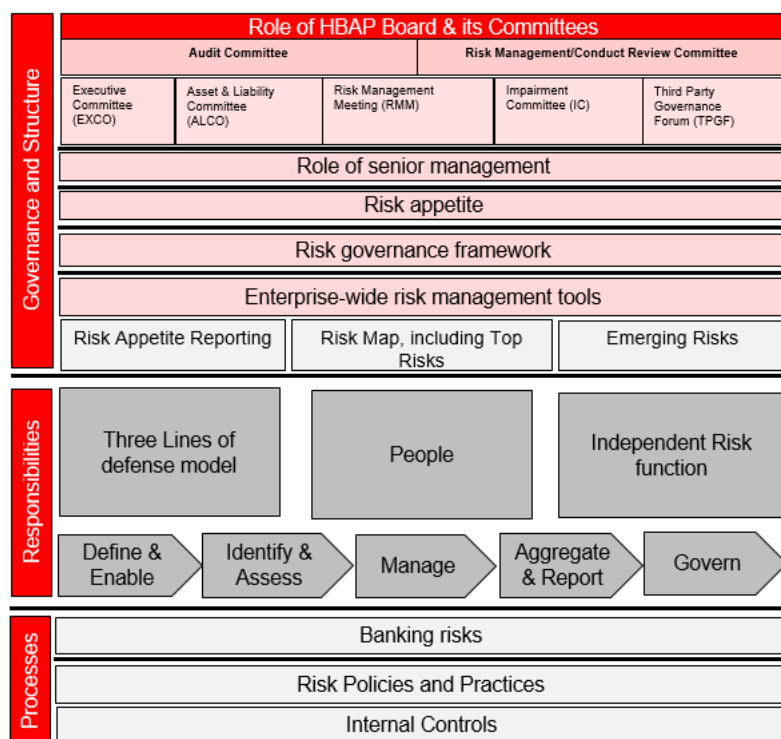
All Bank employees have a role to play in the management of risk, with the ultimate accountability residing with the EXCO of the Bank. The management, advised by the Risk Management Meeting, sets the ‘tone from the top’ and is responsible for reviewing and evaluating the effectiveness of the Bank’s risk management framework, as well as embedding and maintaining a supportive culture in relation to the management of risk.

The Group Risk Management Framework (‘RMF’) is applied throughout the Bank and across all risk types. It is underpinned by the Bank’s risk culture and reinforced by the Group Values, Charter and Code of Conduct.

The RMF describes Group’s and the bank’s approach to managing risk. It is applicable to all employees and is supplemented by specialist principles, risk frameworks, and guidance such as the Purposeled Conduct Approach which is designed to capture how the Bank’s risk management arrangements impact our customers and the financial markets in which the Bank operates, and the Insider Risk Framework which captures how the risk management arrangements address the risk that a member of staff could intentionally cause harm to the Bank, our customers or our staff.

The RMF applies to all the types of risk, both financial and non-financial, that the Bank faces in its business and operational activities.

The following diagram and descriptions summarises the key components of the framework, including governance, roles and responsibilities and internal controls.



The next sections provide an overview of the key components of the framework as applied by the Bank.

**Statement on corporate governance practices (continued)**

**5. Risk Governance and Internal Controls (continued)**

**5.2 Risk Governance**

The Management has ultimate responsibility for the effective management of risk and approves the Bank's risk appetite. It is advised by the Risk Management Meeting.

Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework resides with the CRO. The CRO is supported by the Risk Management Meeting and ensures all matters of significance are raised. The minutes of the Risk Management Meeting are made available to all management members.

Day-to-day responsibility of risk management is delegated to senior managers with individual accountability for decision making. All employees have a role to play in risk management and these roles are defined using the Three Lines of Defence Model, which is outlined in further detail below.

The above risk governance structure helps to ensure appropriate oversight and accountability of risk, and facilitates reporting and escalation to the Risk Management Meeting. Matters of significance are, in turn, reported to the Executive Committee.

**5.3 Risk Roles and Responsibilities**

The Bank's three Line of Defence ('LOD') is an activity-based model and delineates accountabilities and responsibilities for risk management and the control environment within each LOD. The model applies to all individuals and all risk types, and supports the delivery of conduct outcomes and a positive risk culture.

There must be a clear segregation between risk ownership (First LOD), risk oversight and stewardship (Second LOD) and independent assurance (Third LOD) to help support effective identification, assessment, management, and reporting of risks.

- The First LOD has ultimate ownership for risk and controls, including read across assessments of identified issues, events and near misses, and the delivery of good conduct outcomes. It is the responsibility of the First LOD to assess whether an issue is likely to have relevance to another part of the business, and therefore what level of read across action is required.
- The Second LOD provides subject matter expertise, advice, guidance and review and challenge of the First LOD's activities to help ensure that risk management decisions and actions are appropriate, within risk appetite and support the delivery of conduct outcomes. The Second LOD is independent of the risk-taking activities undertaken by the First LOD and includes CROs, Risk Stewards, the Operational and Resilience Risk ("ORR") function and Second LoD Assurance teams.
- Third LOD is Global Internal Audit ("GIA"). GIA helps the Board and Executive Management to protect the assets, reputation and sustainability of the HSBC Group. GIA provides independent assurance to management and the non-executive Risk and Audit Committees as to whether our risk management, governance and internal control processes are designed and operating effectively.

The Bank risk function, headed by the CRO, is responsible for the Bank's risk management framework and forms part of the second line of defence. It is independent from the businesses, including sales and trading functions, to provide challenge, appropriate oversight and balance in risk/return decisions.

**Statement on corporate governance practices (continued)**

**5. Risk Governance and Internal Controls (continued)**

**5.3 Risk Roles and Responsibilities (continued)**

The Bank uses a range of tools to identify, monitor and manage risks. The key enterprise-wide risk management tools are summarised below:

- **Risk Appetite:** The risk appetite is defined as the level and types of risks that the bank is willing to take in order to achieve its strategic objectives. Embedding risk appetite means there is a clear understanding among the Board, senior management and all employees for the ownership and accountability for risks, and the acceptable levels of risk. The Risk Appetite is set to ensure that the bank's risks can be properly managed.
- **Risk Map:** The Risk Map is an integrated risk management tool used to assess, monitor and report the current risk profile, including Risk Drivers and Top Risks, of the Bank. It provides a point-in-time view of the risk profile across both financial and non-financial risks in line with HSBC's Group's risk taxonomy and identified Thematic Issues. Risk ratings are assigned by the second line of defence and those risks which have 'amber' or 'red' risk ratings require monitoring and mitigating action plans to be either in place or initiated to manage the risk down to acceptable levels.
- **Emerging Risks:** An Emerging Risk is defined as a risk that could have a material impact on the risk profile of the Bank but is not under active management and is not immediate. The Emerging Risks report is a key enterprise risk management tool used and provides forward-looking and thematic analysis of Emerging Risks which are often large scale events or trends, difficult to predict and are often beyond the Bank's ability to directly control. The report is used to assess the internal and external risk environment and provide a view of emerging issues that could threaten the execution of the Bank's strategy or operations.

All risks should be monitored and managed in line with the Risk Management Framework

In addition to the above tools, the Bank is also supported by a stress testing programme which supports risk management and capital planning. This includes execution of stress tests mandated by Bank's regulators and is supported by dedicated teams and infrastructure.

As at 31 December 2022, the following risks were identified by the Bank as emerging risks;

Climate Risk – "Physical Risk": Second-order impacts include all impacts of climate change on economic, human and ecosystems beyond the boundaries of the corporation. These may include changes in the availability of natural resources, agricultural productivity, and the geographic distribution of species, disruption to transport, changes to global trade routes and migration. Clients' own infrastructure are impacted by extreme weather events, this could result in financial loss for them, increasing credit risk for the Bank. Bank's business continuity (staff/property/systems) could be impacted, resulting in detriment to clients, thereby increasing operational risk for the Bank.

Climate Risk – "Transition Risk": Existing clients' business models may not be aligned with the transition to a low carbon economy, resulting in potential economic and thereby increasing the risk for the Bank, e.g Credit Risk, reputation risk. Transition to low carbon economy may cause reduced income or loss of employment thereby reducing customers' ability to repay loans and increasing credit risk.



**Statement on corporate governance practices (continued)**

**5. Risk Governance and Internal Controls (continued)**

**5.3 Risk Roles and Responsibilities (continued)**

- Digitalisation and Technological Advances – Lack of Infrastructure/resources/funding to benefit from new technologies: Continued expansion of technology and organizations involved will create competition. Hire and train resources with expertise in an emerging and rapidly changing technology at a time when they are in extremely high demand. Lack of adequate infrastructure and funding for the Bank could result in depleting market share.  
Digitalisation and Technological Advances – Payment Delivery and Future modes of Payments: Metaverse is a universe of interoperable applications, virtual worlds and real world connection points that make up an “experiential internet” where people can socialise, work, transact, play and create. As the Metaverse develops and expands, there will be several risks and capabilities that will impact how the Bank conducts business today.
- Geopolitical and Macroeconomic Risks: While the COVID pandemic was considered a ‘black swan’ event, over the last 30 years, infection disease outbreaks have emerged with alarming regularity. It is likely that a new infection disease may emerge, hastened by human migration, population growth, global travel, climate change and urbanization. This could have potential consequences for societies, national economies and global relations.
- Global Minimum Tax and Impact on Mauritius: Over 140 countries agreed on a fundamental global corporate tax reform in 2021. The new framework includes a consumer-location-based profit taxation (Pillar 1) and a global minimum tax rate of 15% (Pillar 2). This could lead to change in the Tax treaties between countries resulting in subsidiaries moving away from Mauritius and hence impacting transaction volumes and credit requirement from HSBC. Overall there could also be a reduction in Foreign Direct investments into Mauritius
- Third Party Risk (risks arising from the receipt of services from third parties): HSBC’s Supplier Code of Conduct is an attestation based exercise which isn’t supported by any targeted diligence or oversight. This is a concern for the primary suppliers but also in respect of the extended network of 4th/Nth parties. Consequently, there is a significant risk of brand damage or detriment as a consequence of inappropriate / unethical / illegal activity somewhere in the extended supply chain / supplier network.

Details of risk management policies and controls relating to trading and non-trading activities are disclosed on pages 14 to 17 under the Management discussion and analysis section.

**5.4 Internal Controls**

The Bank’s internal controls help ensure it achieves its objectives in operational effectiveness and efficiency, reliable financial reporting, and in compliance with laws, regulations and policies. They also help ensure that the Bank’s risk management activities operate as designed and that the management of risk is carried out appropriately.

- Policies and Procedures: The Bank’s policies and procedures document its risk management requirements; they are reviewed at least annually for continued relevance and appropriateness to help ensure compliance with all relevant regulatory requirements and general good governance.
- Control Activities: applicable for all risk categories, control activities are the actions established through policies and procedures which ensure the Bank’s risks are managed effectively and consistently across the Bank. Control activities are preventive, detective or limiting in nature, and can be manual or automated.

**Statement on corporate governance practices (continued)**

**5. Risk Governance and Internal Controls (continued)**

**5.4 Internal Controls (continued)**

- The enterprise-wide risk management tools, such as the Risk Appetite, Risk Map (including Top Risks) and Emerging Risks Report, are used to assess, monitor and report on the effectiveness of the control activities, the residual risks and escalate where the risk appetite has, or is likely to be, breached. It is through these tools and the risk governance structure in place that the Management derives assurance that the internal control systems are effective and that any identified risks or deficiencies have monitoring and mitigating action plans in place.
- Systems and Infrastructure: systems or processes which support the identification, capture and exchange of information in a form and time-frame which enables employees to carry out their responsibilities.

During the year there were no significant or material deficiencies in the Bank's Internal Control systems that the management are not aware of. Management was not aware of any significant area not covered by Internal Control systems.

**5.5 Whistleblowing and HSBC Confidential**

The Bank's global whistleblowing arrangements through HSBC Confidential are intended to provide a safe and confidential method for individuals to report concerns and are a critical aspect of promoting a culture of openness and transparency, in support of the Bank's Values, Charter and Code of Conduct.

Individuals across the Bank, are actively encouraged to report concerns about wrongdoing or unethical conduct including the use of normal and usual routes, for reporting and escalation. Where those procedures are, in the judgement of the person reporting their concern, inappropriate, unavailable, or where they have escalated a matter by normal routes and those routes have been exhausted or considered ineffective, individuals may report their concerns through HSBC Confidential.

HSBC Confidential is overseen by the HSBC's Group Conduct & Values Committee and Group Audit Committee. Investigations are carried out thoroughly and independently, drawing on the expertise of a variety of teams, including Regulatory Compliance, Human Resources, Legal, Financial Crime Risk, Information Security and Internal Audit.

Individuals should be able to raise genuine concerns without fear of reprisals and the Bank has a strict policy prohibiting retaliation against those who raise concerns. All allegations of retaliation reported are escalated to senior management.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **6. Reporting with integrity**

##### **6.1 Statement of management's responsibility**

The Management is responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2022, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to and forming part of the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and regulations and guidelines of the Bank of Mauritius.

Please refer to the Statement of management's responsibility for financial reporting at page 55 forming part of this Annual report.

##### **6.2 Performance and Outlook**

Please refer to the Management Discussion and Analysis section forming part of this Annual report.

##### **6.3 Website**

This annual report will be published on the Bank's website.

##### **6.4 Related Party transactions**

Related party transactions of the Bank were conducted in line with relevant internal policies and guidelines. For related party transactions please refer to note 34 of the financial statements.

Please refer to the Management Discussion and Analysis section forming part of this Annual report.

##### **6.5 Health & safety**

The Bank has a protocol in place to manage health and safety according to law, which comprises of a Safety and Health Committee and employment of an independent Health and Safety Officer in the management of accidents and incidents, health and safety risk assessments and audits, awareness of staff, training of fire wardens and first aiders, conduct of fire drills and inspection by the Ministry of Labour amongst others to ensure the safety of HSBC employees, customers and contractors.

A Health and Safety (H&S) officer is employed, who is qualified and registered with the Ministry of Labour, to review, address and manage health and safety risks within its premises. The H&S officer will make recommendations on risk mitigation and will use the regional H&S risk steward for further H&S advice.

#### **7. Audit**

##### **7.1 Internal audit**

The Bank's Audit Committee assists the Board in meeting its responsibilities in ensuring an effective system of internal control and compliance and for meeting its external financial reporting obligations on laws and regulations. Global Internal Audit (GIA) assists the Audit Committee in discharging its duties to review the internal control and risk management framework in the Bank.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement on corporate governance practices (continued)

#### 7. Audit (continued)

##### 7.1 Internal audit (continued)

The Regional Asia Pacific (“ASP”) Internal Audit team, part of the GIA function provides independent and objective assurance on the design and operational effectiveness of the Bank’s framework of risk management, control and governance processes, as designed and represented by management. The Group Head of Internal Audit reports functionally to the Chairman of the Group Audit Committee and administratively to the Group Chief Executive. The Head of Audit, ASP International participates in the Audit Committee to discuss audit plan status, key controls and risks and observations. Senior Manager Regional ASP Internal Audit also has a separate meeting with the Chairman of the Audit Committee to discuss matters in the absence of executive directors. The Head of Audit, ASP International and Senior Manager Regional ASP Internal Audit have direct access to the Audit Committee members. The Internal Audit function has no restrictions to access records, employees or management of the Bank.

A risk based audit approach is adopted to focus on key risk areas and activities. The audit coverage is driven by the annual risk assessment results and regulatory expectations of the Bank. Executive management of the Bank is responsible for ensuring control issues raised by GIA are adequately addressed within an appropriate and agreed time frame. The 2022 GIA annual plan was presented to the Audit Committee on March 2022 with regular updates being provided to the Executive Committee throughout the year.

##### 7.2 External auditors

With a view to ensuring the overall adequacy of the Bank’s internal control framework, the management evaluates the independence and effectiveness of the external auditor on an ongoing basis before making a recommendation to the head office on their appointment and retention. PricewaterhouseCoopers (“PwC”) who were first appointed in 2015 as external auditor was approved by the management. As regards to the timeframe, the total duration of the assignment is for a period of one year with the possibility of re-appointment for another year and thereafter. The Bank follows HSBC Group policy together with the applicable local regulations to appoint external auditors.

For 2022, PwC presented to management their annual audit plan, which was tabled at the Executive Committee and circulated to the senior management of the Bank.

The table below shows the fees paid to the statutory auditors for the last three financial years:

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Audit fees for statutory audit and Internal Control review fees	5,022	4,584	4,458
Fees for other services (Note a)	427	100	-
	<b>5,449</b>	<b>4,684</b>	<b>4,458</b>

**Note a:** Management has a policy on non-audit services which are provided by our External Auditors. Non-audit services were under continuous review throughout 2022 to determine whether they were permitted by reference to their nature, assessing potential threats and safeguards to auditor independence as well as the overall ratio of audit to non-audit fees. The fees for other services relate to comfort on profit remittance and AML/CFT review.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **8. Relationship with shareholders and key stakeholders**

##### **8.1 Information for Key Stakeholders**

The Bank continues to foster open and trusted relationships with key stakeholders through regular communication and engagement. The Bank communicates to stakeholders in a transparent and timely manner through various communication channels, including press announcements, events and the Bank's website ([www.hsbc.co.mu](http://www.hsbc.co.mu)).

##### *Customers*

HSBC Group aims to be the world's leading international bank and strives for excellence. Customers are at the heart of everything that the Bank does. The Bank is working to make life simpler, faster and better for its customers.

Operating with high standards of conduct is central to the Bank's long-term success and ability to serve customers. The Bank has clear policies, frameworks and governance in place to support the delivery of that commitment. These cover the way the Bank behaves, designs products and services, trains and incentivises employees, and interacts with customers and each other.

The HSBC approach to conduct is designed to ensure that through its actions and behaviours it delivers fair outcomes for its customers and do not disrupt the orderly and transparent operation of financial markets. The Management places a strong emphasis on conduct, requiring adherence to high behavioural standards and adhering to the HSBC Values.

##### *Employees*

The Bank encourages employees to perform at their best, and creates an environment to make that possible. Employees are encouraged to speak up, and reflect the Bank's values in the decisions they make and how they make them, as these decisions shape the future of customers and colleagues.

##### *Diversity and inclusion*

The Bank is committed to enabling a thriving environment where people are valued, respected and supported; where different ideas, backgrounds, styles and perspectives are actively sought out to create business value; and where career advancement is based on objective criteria. The Bank focuses on the diversity profile of its workforce to make it more reflective of the communities it operates in and the customers it serves.

##### *Employee development*

The development of the Bank's employees is essential to the future strength of its business. The Bank continues to develop employee capability - in 2017, the HSBC Group introduced HSBC University, the new home of learning at HSBC. HSBC University brings new programmes, training facilities, and technologies with a particular focus on Leadership, Risk Management, Strategy and Performance, as well as business-specific technical training.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement on corporate governance practices (continued)**

#### **8. Relationship with shareholders and key stakeholders (continued)**

##### **8.1 Information for Key Stakeholders (continued)**

###### *Giving employees a voice*

The Bank conducts employee surveys and hosts HSBC Exchange events to give employees a voice. Exchanges are meetings with no agendas, where managers and leaders simply listen and employees do the talking. It's an innovative approach that provides a forum for people to share their views on any issue and talk about what matters most to them.

###### *Regulators and industry bodies*

Management is fully engaged with the authorities and regulators, whom they meet on a regular basis. The management presents annually an overview of the Bank in a trilateral meeting with the central bank, the Bank of Mauritius. In addition, management participates in various work groups initiated by the Bank of Mauritius and the Financial Services Commission.

The Bank is a member of the Mauritius Bankers Association, the industry body representing commercial banks licensed and authorised to conduct banking business in Mauritius. The Bank is also a founder member of the Mauritius Institute of Directors, a local professional organization whose mission is to champion best business practices and effective corporate governance.

##### **8.2 Reporting to the The Hongkong and Shanghai Banking Corporation Limited (the 'Company')**

Given that the Bank is a branch of a foreign bank incorporated in Hong Kong, the management has constant access to and regularly reports to the head office in Hong Kong. Communications happen on a day-to-day basis between the Branch and the head office.

##### **8.3 Employee share plans**

To help align the interests of employees with those of shareholders, share options are granted under all-employee share plans and discretionary awards of performance shares and restricted shares are made under the HSBC Share Plan.

##### **8.4 All-employee share option plans**

All-employee share option plans have operated within the Group and eligible employees have been granted options to acquire HSBC Holdings ordinary shares. Options under the plans are usually exercisable after one, three or five years.

The exercise of options may be advanced to an earlier date in certain circumstances, for example on retirement, and may be extended in certain circumstances, for example on the death of a participant, the executors of the participant's estate may exercise options up to six months beyond the normal exercise period.

**Statement on corporate governance practices (continued)**

**8. Relationship with shareholders and key stakeholders (continued)**

**8.5 Discretionary awards**

Share awards are restricted shares that are awarded to some employees only, on a discretionary basis to help reward an individual's contribution to the Bank and in recognition of their future potential. In addition, the awards are designed to help retain and motivate key individuals by sharing with them the long-term growth and success of the Bank as a whole.

**8.6 Profit remittance policy**

Branches should remit 100% of their profits as per the profit remittance policy of the Company. Nevertheless, branches may be authorised to retain profits under particular circumstances that will be reviewed on a case by case basis. Profit retention requests from branches have to be submitted to regional Technical Asset and Liability Committee ("TALCO") for approval. Profit retention requests are usually driven by expected business growth and/or regulatory changes and their consequences on local regulatory requirements.

**8.7 Third Party Management Agreement**

No third party management agreement presently exists.

**8.8 Corporate Social Responsibility and Donations**

Financial institutions have responsibilities not only towards their customers, shareholders and employees, but also to the wider communities and environment in which they operate. For the Bank, acting sustainably means building its business for the long term by living up to these responsibilities and valuing relationships with stakeholders. By running its business sustainably, the Bank can contribute to the future prosperity of communities, businesses, economies and individuals.

The Bank seeks to connect customers to commercial opportunities which also support the transition to a low carbon economy. Applying environmental and social criteria to its lending decisions in such sectors as forestry and energy is integral to the Bank's approach.

Regarding the Bank's community role, disadvantaged children, fighting school failure and alleviating poverty have remained major focus areas in 2022, especially in the context of the Covid-19 pandemic. The Bank continued its partnership with various organisations that support vulnerable children, youths and women. The Bank is also helping youths, from school drop-outs to university students to develop the skills and knowledge they need to succeed in an increasingly uncertain world. In addition to sustaining communities, the Bank is deeply involved in environmental sustainability, supporting programmes to save the unique biodiversity of Mauritius. In addition to sustaining communities, the Bank is deeply involved in environmental sustainability, supporting programmes to save the unique biodiversity of Mauritius.

**The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

**Statement on corporate governance practices (continued)**

**8. Relationship with shareholders and key stakeholders (continued)**

**8.8 Corporate Social Responsibility and Donations (continued)**

The Bank donated MUR3.2m (2021: MUR3.2m) to charities in Mauritius, which was paid in full during the year. There were no statutory charitable giving payments in 2022 (2021: Nil).

There were no political donations during the year.

Donations focused on the Group's Corporate Sustainability Pillars of Future Skills, Climate Solutions and Sustainable Finance, as well as on local priorities of alleviating poverty and school failure. The Bank is fully committed to helping the communities in which it operates, to develop, notably in terms of the skills needed to succeed in a global economy and in the face of the unprecedented challenges posed by climate change. Donations are designed to support the just transition to a net zero global economy – and help build a thriving, resilient future for society.

A number of flagship multiyear partnerships have been set up so as to establish model demonstration projects that can inspire the authorities and other companies all over the country. The Bank's commitment to sustainability, notably the global Net Zero transition, will continue throughout 2023 and beyond. Mauritius remains important to the Bank and HSBC is dedicated to creating a sustainable and enabling business environment for the best interest of all its stakeholders.



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**Bonnie Yi Jing Qiu**  
*Chief Executive Officer*



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**Rajiv Gopaul**  
*Head of Finance*

Date: 24 March 2023



**The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**


**Statement of compliance**

**(Section 75 (3) of the Financial Reporting Act)**

**Name of Public Interest Entity (the 'PIE'): The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch**

**Reporting Period: 31 December 2022**

We, on behalf of the Management of The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch, confirm that to the best of our knowledge the PIE has complied with the obligations and requirements of The National Code of Corporate Governance for Mauritius (2016).

  
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**Bonnie Yi Jing Qiu**  
*Chief Executive Officer*  
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**Rajiv Gopaul**  
*Head of Finance*

Date : 24 March 2023

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Statement of management's responsibility for financial reporting**

The Bank's financial statements have been prepared by management, which is responsible for their integrity, consistency, objectivity and reliability. International Financial Reporting Standards as well as the requirements of the Mauritian Banking Act 2004 and the guidelines issued thereunder have been applied and management has exercised its judgment and made best estimates, where deemed necessary.

The Bank has designed and maintained its accounting systems, related internal controls and supporting procedures, to provide reasonable assurance that financial records are complete and accurate and that assets are safeguarded against loss from unauthorised use or disposal. These supporting procedures include careful selection and training of qualified staff, the implementation of organisation and governance structures providing a well-defined division of responsibilities, authorisation levels and accountability for performance, and the communication of the Bank's policies, procedures manuals and guidelines of the Bank of Mauritius throughout the Bank.

The Bank's Senior Management, oversees the Management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The Bank's internal auditor, conducts a well-designed program of internal audits. In addition, the Bank's compliance function maintains policies, procedures, and programs directed at ensuring compliance with regulatory requirements.

Pursuant to the provisions of the Mauritian Banking Act 2004, the Bank of Mauritius makes such examination and inquiry into the operations and affairs of the Bank as it deems necessary.

The Bank's external auditor, PricewaterhouseCoopers ("PwC"), has full and free access to the management and its committees to discuss the audit and matters arising therefrom, such as their observations on the fairness of financial reporting and the adequacy of internal controls.



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**Bonnie Yi Jing Qiu**  
*Chief Executive Officer*



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**Rajiv Gopaul**  
*Head of Finance*

Date : 24 March 2023



## Independent Auditor's Report

To the Directors of  
The Hongkong and Shanghai Banking Corporation Limited

### Report on the Audit of the Financial Statements

#### Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch (the “Bank”) as at 31 December 2022, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

#### What we have audited

The financial statements of The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch set out on pages 68 to 196 comprise:

- the statement of financial position as at 31 December 2022;
- the statement of profit and loss and other comprehensive income for the year then ended;
- the statement of changes in equity for the year then ended;
- the statement of cash flows for the year then ended; and
- the notes to the financial statements, which include significant accounting policies and other explanatory information.

#### Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the “Auditor’s Responsibilities for the Audit of the Financial Statements” 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 Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the “IESBA Code”). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

PricewaterhouseCoopers, PwC Centre, Avenue de Telfair, Telfair 80829, Moka, Republic of Mauritius  
Tel: +230 404 5000, Fax: +230 404 5088, [www.pwc.com/mu](http://www.pwc.com/mu)  
Business Registration Number : F07000530



## Independent Auditor's Report

To the Directors of  
The Hongkong and Shanghai Banking Corporation Limited (Continued)

### Report on the Audit of the Financial Statements (Continued)

#### Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
<p><b>Credit impairment provisions under IFRS 9</b></p> <p>At 31 December 2022, the Bank recorded allowances for expected credit losses on its financial assets of MUR 77.3m (refer to Note 35 b) ii) of the financial statements).</p> <p>This is an area of focus because the determination of expected credit losses ('ECL') requires the use of complex credit risk methodologies based on the Bank's historic experience of the correlations between defaults and losses, borrower creditworthiness and economic conditions, which can result in limitations in their reliability to appropriately estimate ECL. Judgement and subjectivity are involved in determining whether these methodologies and their application in models remain appropriate. Management judgement also include:</p> <ul style="list-style-type: none"> <li>• Evaluation of significant increase in credit risk ('SICR');</li> <li>• Input assumptions applied to estimate the probability of default ('PD'), exposure at default ('EAD') and loss given default ('LGD');</li> <li>• Incorporating forward economic guidance;</li> <li>• Likelihood of economic scenarios; and</li> <li>• Making post model adjustments</li> </ul>	<p>Given the complexity of the model used for the ECL computation, specialist teams with experience in modelling assisted us.</p> <p>We tested controls in place over the methodologies, their application, significant assumptions and data used in determining the ECL provision. These included controls over the approval of credit facilities, subsequent monitoring, determination of customer credit ratings and system reconciliations performed.</p> <p>We performed substantive audit procedures over the compliance of ECL methodologies with the requirements of IFRS 9.</p> <p>We selected a sample of Stage 1 and Stage 2 exposures and assessed whether the stage classification of these exposures was appropriate in terms of the Bank's criteria for SICR at the end of the reporting period. This procedure included the inspection of credit ratings at the end of the reporting period, relative to origination date.</p> <p>We reviewed the minutes of the Impairment Governance Forum to assess management's challenge and discussions surrounding models, ECL output and the approval of any model adjustments.</p> <p>We further performed the following to assess the significant assumptions, data and disclosures:</p>



## Independent Auditor's Report

To the Directors of  
The Hongkong and Shanghai Banking Corporation Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

### Key Audit Matters (Continued)

Key audit matter (Continued)	How our audit addressed the key audit matter (Continued)
	<ul style="list-style-type: none"> <li>• We involved our economic experts in assessing the reasonableness of the severity and likelihood of the economic scenarios used;</li> <li>• We considered whether the judgements made in selecting the significant assumptions, as well as determining the management judgemental adjustments, would give rise to indicators of possible management bias;</li> <li>• We performed substantive audit procedures over critical data used in the determination of ECL to ensure these are relevant and reliable;</li> <li>• For stage 3 exposures, we considered the impairment indicators, uncertainties and assumptions applied by management in their assessment of the recoverability of the exposure. We independently recalculated the ECL based on our assessment of the expected cash flows on a sample basis; and</li> <li>• We assessed the adequacy of the disclosures in relation to ECL made in the annual report.</li> </ul>



## Independent Auditor's Report

To the Directors of  
The Hongkong and Shanghai Banking Corporation Limited (Continued)

### Report on the Audit of the Financial Statements (Continued)

#### **Other Information**

Management is responsible for the other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements 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, 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 Management for the Financial Statements**

Management is responsible for the preparation and fair presentation of the financial statements in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and regulations and guidelines issued by the Bank of Mauritius and for such internal control as the directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Bank or to cease operations, or have no realistic alternative but to do so.

Management is responsible for overseeing the financial reporting process.

#### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists.



## Independent Auditor's Report

To the Directors of  
The Hongkong and Shanghai Banking Corporation Limited (Continued)

### Report on the Audit of the Financial Statements (Continued)

#### **Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

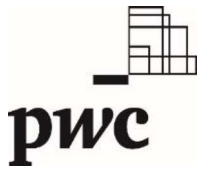
Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with management regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.





## Independent Auditor's Report

To the Directors of  
The Hongkong and Shanghai Banking Corporation Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

### **Auditor's Responsibilities for the Audit of the Financial Statements (Continued)**

From the matters communicated with management, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

## Report on Other Legal and Regulatory Requirements

### **Mauritian Companies Act 2001**

The Mauritian Companies Act 2001 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- (a) we have no relationship with or interests in the Bank other than in our capacity as auditor,
- (b) we have obtained all the information and explanations we have required; and
- (c) in our opinion, proper accounting records have been kept by the Bank as far as appears from our examination of those records.

### **Mauritian Banking Act 2004**

The Mauritian Banking Act 2004 requires that in carrying out our audit we consider and report to you on the following matters. We confirm that:

- (a) in our opinion, the financial statements have been prepared on a basis consistent with that of the preceding year and are complete, fair and properly drawn up and comply with the Mauritian Banking Act 2004 and regulations and guidelines issued by the Bank of Mauritius; and
- (b) the explanations or information called for or given to us by the officers or agents of the Bank were satisfactory.





## Independent Auditor's Report

To the Directors of  
The Hongkong and Shanghai Banking Corporation Limited (Continued)

Report on Other Legal and Regulatory Requirements (Continued)

### **Mauritian Financial Reporting Act 2004**

Our responsibility under the Mauritian Financial Reporting Act 2004 is to report on the compliance with the Code of Corporate Governance ("Code") disclosed in the annual report and assess the explanations given for non-compliance with any requirement of the Code. From our assessment of the disclosures made on corporate governance in the annual report, the Bank has, pursuant to section 75 of the Mauritian Financial Reporting Act 2004, complied with the requirements of the Code.

PricewaterhouseCoopers

PricewaterhouseCoopers

24 March 2023

A handwritten signature in dark ink, appearing to read "S. Maghun", with a stylized flourish at the end.

Shakil Maghun, licensed by FRC

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement of profit or loss and other comprehensive income for the year ended 31 December 2022

	Notes	2022 MUR'000	2021 MUR'000	2020 MUR'000
Interest income		625,261	556,093	751,462
Interest expense		(112,903)	(69,458)	(176,983)
<b>Net interest income</b>	8	<b>512,358</b>	<b>486,635</b>	<b>574,479</b>
Fee and commission income		190,185	162,043	173,618
Fee and commission expense		(48,550)	(34,327)	(41,250)
<b>Net fee and commission income</b>	9	<b>141,635</b>	<b>127,716</b>	<b>132,368</b>
Net trading income	10	208,753	216,207	147,410
		862,746	830,558	854,257
Other operating income	11	188,885	182,075	186,174
<b>Total operating income</b>		<b>1,051,631</b>	<b>1,012,633</b>	<b>1,040,431</b>
Net impairment release/(charge) on financial assets	12	67,345	322,830	(609,456)
Personnel expenses	13	(467,528)	(446,117)	(402,643)
Operating lease expenses	14	(4,276)	(3,626)	(6,106)
Depreciation	22	(45,420)	(43,788)	(40,729)
Other expenses	15	(583,115)	(491,833)	(482,463)
<b>Total expenses</b>		<b>(1,100,339)</b>	<b>(985,364)</b>	<b>(931,941)</b>
<b>Profit/(loss) before income tax</b>		<b>18,637</b>	<b>350,099</b>	<b>(500,966)</b>
Income tax (expense)/credit	16	(6,744)	(69,417)	63,111
<b>Profit/(loss) for the year</b>		<b>11,893</b>	<b>280,682</b>	<b>(437,855)</b>
<b>Other comprehensive income</b>				
<b>Items that will not be reclassified to profit or loss</b>				
Remeasurements of retirement obligations	29	124,837	207,168	(297,975)
Deferred tax impact on remeasurements of retirement obligations	23	(93,894)	(26,591)	19,006
Gain on revaluation of land and buildings	22	12,998	15,268	6,580
Deferred tax impact on gain on revaluation of land and buildings	23	4,915	(461)	(308)
Net change in fair value of financial assets at fair value through other comprehensive income	21	-	-	(8,185)
		48,856	195,384	(280,882)
<b>Items that may be reclassified to profit or loss</b>				
Net change in fair value of financial assets at fair value through other comprehensive income	21	(159,504)	(100,307)	119,164
Deferred tax impact on change in fair value of financial assets at fair value through other comprehensive income		4,607	(4,607)	-
		(154,897)	(104,914)	119,164
<b>Total other comprehensive income for the year</b>		<b>(106,041)</b>	<b>90,470</b>	<b>(161,718)</b>
<b>Total comprehensive income for the year</b>		<b>(94,148)</b>	<b>371,152</b>	<b>(599,573)</b>

The notes on pages 73 to 196 form part of these financial statements.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement of financial position

at 31 December 2022

	Notes	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>ASSETS</b>				
Cash and cash equivalents	17	7,068,916	6,643,354	6,443,248
Trading assets	18	5,530	11,992	6,062
Loans and advances to banks	19	200,357	378,631	264,052
Loans and advances to customers	20	12,123,598	10,808,135	14,333,854
Investment securities - fair value through other comprehensive income	21	6,537,624	10,600,515	8,313,010
Investment securities - Amortised cost	21	1,309,123	148,173	-
Other assets	24	2,513,370	3,163,913	2,439,861
Intangible assets		2,703	3,392	-
Property, plant and equipment	22	390,844	345,243	415,100
Deferred tax assets	23	-	56,239	105,548
Current tax assets	16	-	-	1,137
<b>Total assets</b>		<b>30,152,065</b>	<b>32,159,587</b>	<b>32,321,872</b>

The notes on pages 73 to 196 form part of these financial statements.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement of financial position (continued) at 31 December 2022

	Notes	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>LIABILITIES</b>				
Deposits from banks	25	451,231	1,177,285	747,792
Deposits from customers	26	26,335,817	25,814,918	22,778,413
Trading liabilities	18	6,871	1,089	3,220
Other borrowed funds	27	444,494	1,083,503	5,218,552
Current tax liabilities	16	44,099	52,002	-
Other liabilities	28	583,918	1,372,155	1,287,923
<b>Total liabilities</b>		<b>27,866,430</b>	<b>29,500,952</b>	<b>30,035,900</b>
<b>Shareholder's funds</b>				
Assigned capital	30	794,150	794,150	794,150
Retained earnings	30	896,274	1,172,632	707,398
Other reserves	30	595,211	691,853	784,424
<b>Total shareholder's funds</b>		<b>2,285,635</b>	<b>2,658,635</b>	<b>2,285,972</b>
<b>Total liabilities and shareholder's funds</b>		<b>30,152,065</b>	<b>32,159,587</b>	<b>32,321,872</b>

Approved on and authorised for issue on 24 March 2023

  
Bonnie Yi Jing Qiu  
Chief Executive Officer

  
Rajiv Gopaul  
Head of Finance

The notes on pages 73 to 196 form part of these financial statements.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement of changes in equity for the year ended 31 December 2022

	Assigned capital	Retained earnings	Share based payment	Revaluation reserve	Other Reserves Statutory reserve	General banking reserve	Fair value reserve	Total shareholder's funds
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
<b>Balance at 1 January 2020</b>	400,000	1,347,030	25,323	204,101	306,835	162,170	53,247	2,498,706
<b>Total comprehensive income</b>								
Loss for the year	-	(437,855)	-	-	-	-	-	(437,855)
<i>Other comprehensive income</i>								
Net change in fair value	-	-	-	-	-	-	110,979	110,979
Realisation of revaluation reserve to retained earnings	-	1,880	-	(1,880)	-	-	-	-
Remeasurements of retirement obligations	-	(297,975)	-	-	-	-	-	(297,975)
Revaluation of land and buildings	-	-	-	6,580	-	-	-	6,580
Tax on other comprehensive income	-	19,006	-	(308)	-	-	-	18,698
<b>Total other comprehensive income</b>	-	(277,089)	-	4,392	-	-	110,979	(161,718)
<b>Total comprehensive income</b>	-	(714,944)	-	4,392	-	-	110,979	(599,573)
<b>Transactions with owner of the Bank</b>								
Other movements during the year	394,150	4,590	(13,942)	-	-	-	-	384,798
Net change in fair value of share-based payment liability	-	413	1,628	-	-	-	-	2,041
<b>Transactions with owner of the Bank</b>	394,150	5,003	(12,314)	-	-	-	-	386,839
Transfer from general banking reserve	-	70,309	-	-	-	(70,309)	-	-
<b>Balance at 31 December 2020</b>	794,150	707,398	13,009	208,493	306,835	91,861	164,226	2,285,972
<b>Total comprehensive income</b>								
Profit for the year	-	280,682	-	-	-	-	-	280,682
<i>Other comprehensive income</i>								
Net change in fair value	-	-	-	-	-	-	(100,307)	(100,307)
Realisation of revaluation reserve to retained earnings	-	1,968	-	(1,968)	-	-	-	-
Remeasurements of retirement obligations	-	207,168	-	-	-	-	-	207,168
Revaluation of land and buildings	-	-	-	15,268	-	-	-	15,268
Tax on other comprehensive income	-	(26,591)	-	(461)	-	-	(4,607)	(31,659)
<b>Total other comprehensive income</b>	-	182,545	-	12,839	-	-	(104,914)	90,470
<b>Total comprehensive income</b>	-	463,227	-	12,839	-	-	(104,914)	371,152
<b>Transactions with owner of the Bank</b>								
Other movements during the year	-	72	1,439	-	-	-	-	1,511
Net change in fair value of share-based payment liability	-	1,955	(1,955)	-	-	-	-	-
<b>Transactions with owner of the Bank</b>	-	2,027	(516)	-	-	-	-	1,511
Transfer to general banking reserve	-	(20)	-	-	-	20	-	-
<b>Balance at 31 December 2021</b>	794,150	1,172,632	12,493	221,332	306,835	91,881	59,312	2,658,635
<b>Total comprehensive income</b>								
Profit for the year	-	11,893	-	-	-	-	-	11,893
<i>Other comprehensive income</i>								
Net change in fair value	-	-	-	-	-	-	(159,504)	(159,504)
Realisation of revaluation reserve to retained earnings	-	2,098	-	(2,098)	-	-	-	-
Remeasurements of retirement obligations	-	124,837	-	-	-	-	-	124,837
Revaluation of land and buildings	-	-	-	12,998	-	-	-	12,998
Write off of deferred tax	-	(93,894)	-	4,915	-	-	4,607	(84,372)
<b>Total other comprehensive income</b>	-	33,041	-	15,815	-	-	(154,897)	(106,041)
<b>Total comprehensive income</b>	-	44,934	-	15,815	-	-	(154,897)	(94,148)
<b>Transactions with owner of the Bank</b>								
Other movements during the year	-	-	1,830	-	-	-	-	1,830
Net change in fair value of share-based payment liability	-	342	(342)	-	-	-	-	-
Profit remittance to Head office	-	(280,682)	-	-	-	-	-	(280,682)
<b>Transactions with owner of the Bank</b>	-	(280,340)	1,488	-	-	-	-	(278,852)
Transfer to general banking reserve	-	(40,952)	-	-	-	40,952	-	-
<b>Balance at 31 December 2022</b>	794,150	896,274	13,981	237,147	306,835	132,833	(95,585)	2,285,635

The notes on pages 73 to 196 form part of these financial statements.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Statement of cash flows

for the year ended 31 December 2022

	Notes	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Cash flows from operating activities</b>				
Profit/(loss) before income tax		18,637	350,099	(500,966)
<b>Adjustments for:</b>				
Depreciation	22	45,420	43,788	40,729
(Profit)/loss on disposal of property, plant and equipment	11	-	(197)	1,655
Profit on modification of lease		(2,820)	-	(807)
Net impairment (release)/charge on financial assets	12	(67,345)	(322,830)	609,456
Net interest income	8	(512,358)	(486,635)	(574,479)
Write off of plant, property and equipment	22	10,392	-	-
Exchange differences in respect of cash and cash equivalents		(139,114)	(378,778)	421,812
		<b>(647,188)</b>	<b>(794,553)</b>	<b>(2,600)</b>
<b>Changes in:</b>				
Other assets	24	645,827	(733,582)	(485,590)
Other liabilities	28	(691,302)	368,443	(41,311)
Trading assets	18	6,462	(5,930)	(4,087)
Trading liabilities	18	5,782	(2,131)	(550)
Loans and advances to customers	20	(1,241,417)	3,835,670	934,081
Loans and advances to banks	19	177,719	(113,824)	67,560
Deposits from customers	26	520,899	3,036,505	3,311,046
Deposits from banks	25	(726,054)	429,493	74,803
Interest received		681,144	565,655	741,827
Interest paid		(93,900)	(74,315)	(196,667)
Other borrowed funds		(639,009)	(4,133,804)	(1,374,725)
		<b>(2,001,037)</b>	<b>2,377,627</b>	<b>3,023,787</b>
Tax (paid)/refund	16	(42,778)	1,372	(54,143)
<b>Net cash (used in)/from operating activities</b>		<b>(2,043,815)</b>	<b>2,378,999</b>	<b>2,969,644</b>
<b>Cash flows from investing activities</b>				
Acquisition of intangible assets		-	(3,392)	-
Acquisition of property, plant and equipment	22	(52,483)	(9,501)	(19,423)
Proceeds from disposal of property, plant and equipment		-	-	-
Purchase of investment securities		(11,686,730)	(7,225,981)	(6,418,162)
Proceed from sale and maturity of investment securities		14,521,600	4,701,700	5,968,000
<b>Net cash from/(used in) investing activities</b>		<b>2,782,387</b>	<b>(2,537,174)</b>	<b>(469,585)</b>
<b>Cash flows from financing activities</b>				
Principal element of lease payments		(22,207)	(19,253)	(26,376)
Repatriation of profit		(280,682)	-	-
Capital injection		-	-	394,150
<b>Net cash (used in)/from financing activities</b>		<b>(302,889)</b>	<b>(19,253)</b>	<b>367,774</b>
<b>Net change in cash and cash equivalents</b>		<b>435,683</b>	<b>(177,428)</b>	<b>2,867,833</b>
Cash and cash equivalents at 01 January		6,643,354	6,442,004	3,995,983
Exchange differences in respect of cash and cash equivalents		139,114	378,778	(421,812)
<b>Cash and cash equivalents at 31 December</b>	33	<b>7,218,151</b>	<b>6,643,354</b>	<b>6,442,004</b>

The notes on pages 73 to 196 form part of these financial statements.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022*

#### **1 Reporting entity**

The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch (the ‘Bank’) is registered in the Republic of Mauritius as a foreign company and holds a banking licence issued by the Bank of Mauritius. The Bank is registered in Mauritius as a branch of The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong. The Bank’s registered office is Icon Ebene, Level 5, Office 1 (West Wing), Rue de L’Institut, Ebene 72201, Mauritius. The Bank primarily is involved in corporate, treasury and retail banking.

#### **2 Basis of preparation**

##### ***(a) Compliance with International Financial Reporting Standards***

The Bank’s financial statements have been prepared in accordance with IFRS and in compliance with the requirements of the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and the regulations and guidelines issued by the Bank of Mauritius.

##### ***(b) New and amended standards effective during the year ended 31 December 2022***

There are no standards, interpretations or amendments to accounting standards that are effective for annual period beginning on 1 January 2022 and that had a material impact on the Bank’s financial statements.

##### ***(c) New standards and interpretations not yet adopted***

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2022 reporting periods and have not been early adopted by the Bank. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **2 Basis of preparation (continued)**

##### **(d) Basis of measurement**

The financial statements have been prepared on a historical cost basis except for the following items:

- derivative financial instruments are measured at fair value;
- Fair value through other comprehensive income (“FVOCI”) financial assets;
- financial instruments at fair value through profit or loss (“FVPL”) are measured at fair value; and
- net defined benefit (asset)/liability is measured at fair value of plan assets less present value of the defined benefit obligation.

##### **(e) Critical accounting estimates and judgments**

The preparation of financial information requires the use of estimates and judgements about future conditions. In view of the inherent uncertainties and the high level of subjectivity involved in the recognition or measurement of items highlighted as the critical accounting estimates and judgements in note 4, it is possible that the outcomes in the next financial year could differ from those on which management’s estimates are based, resulting in materially different conclusions from those reached by management for the purposes of these financial statements. Management’s selection of the Bank’s accounting policies which contain critical estimates and judgements reflects the materiality of the items to which the policies are applied and the high degree of judgement and estimation uncertainty involved.

##### **(f) Going concern**

The financial statements are prepared on a going concern basis as management is satisfied that the Bank has the resources to continue in business for the foreseeable future. In making this assessment, Management has considered a wide range of information relating to present and future conditions, including future projections of profitability, cash flows and capital resources. These considerations include stressed scenarios as well as considering potential impacts from other top and emerging risks, and the related impact on profitability, capital and liquidity.

##### **(g) Rounding of amounts**

All amounts disclosed in the financial statements and notes have been rounded off to the nearest thousand Mauritian Rupees unless otherwise stated.



## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **2 Basis of preparation (continued)**

##### **(h) Segmental reporting**

A segment is a distinguishable component of the Bank that is engaged either in providing products or services (business segment), or in providing products or services within a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

In accordance with the Bank of Mauritius Guideline on Segmental Reporting under a Single Banking Licence Regime, the Bank is required to split into Segment A and Segment B:

- Segment B is essentially directed to the provision of international financial services that give rise to foreign source income. Such services may be fund based or non-fund based; and
- Segment A relates to Banking business other than Segment B business.

Expenditure incurred by the Bank but which is not directly attributable to income derived from Mauritius or its foreign source income is apportioned in a fair and reasonable manner.

Neither these guidelines nor IFRS mandate the application of IFRS 8 to the financial statements of the Bank.

#### **3. Summary of significant accounting policies**

The accounting policies set out below have been applied consistently to all the years presented in the financial statements unless otherwise stated.

##### **(a) Foreign currencies**

###### **(i) Functional and presentation currency**

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements of the Bank are presented in Mauritian Rupees ("MUR"), which is the Bank's functional currency and presentation currency.

###### **(ii) Transactions and balances**

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

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements** *for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(a) Foreign currencies (continued)**

###### **(ii) Transactions and balances (continued)**

Foreign exchange gains and losses that relate to borrowings are presented in profit or loss, within net trading income. All other foreign exchange gains and losses are presented in the statement of profit or loss on a net basis within other income or other expenses.

Non-monetary items that are measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined. Translation differences on assets and liabilities carried at fair value are reported as part of the fair value gain or loss.

##### **(b) Interest**

Interest income and expense are recognised in profit or loss for all interest bearing financial instruments measured at amortised cost and FVOCI using the effective interest method. The effective interest method is a way of calculating the amortised cost of a financial asset or a financial liability (or groups of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period.

The 'effective interest rate' is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes transaction costs and fees and points paid or received by the Bank that are an integral part of the effective interest rate.

Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or financial liability.

Interest income and expense on all trading assets and liabilities are considered to be incidental to the Bank's trading operations and are presented together with all other changes in the fair value of trading assets and liabilities in net trading income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for Financial assets that have subsequently become credit-impaired (or stage 3), for which interest revenue is calculated by applying the effective interest rate to their amortised cost (i.e. net of the expected credit loss provision).

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(c) Fees and commission**

Fees and commission income are earned from a diverse range of services provided by the Bank to its customers. 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 we have fully provided the service to the customer, for example, fees arising from negotiating a transaction (fee and commission income and global custody fees). Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement (for example, retail banking customer fees, corporate banking related fees and financial guarantee contracts). It should be noted that the Bank does not offer services with multiple non-distinct/distinct performance obligations.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

##### **(d) Net trading income**

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest and foreign exchange differences. Net income from other financial instruments are carried at fair value through profit or loss.

##### **(e) Lease payments**

Leases are recognised as a Rights of Use (“ROU”) asset and a corresponding lease liability at the date at which the leased asset is made available for use. Lease payments are allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease term so as to produce a constant period rate of interest on the remaining balance of the liability. The ROU asset is depreciated over the shorter of the ROU asset’s useful economic life and the lease term on a straight-line basis.

The Bank leases various offices and residential properties. The rental contracts are typically made for fixed period of 1 to 6 years but may have extension options as described below. The lease agreements do not impose any covenants, but the leased assets may not be used as a security for borrowing purposes.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable;
- variable lease payment that are based on an index or a rate;
- amounts expected to be payable by the lessee under residual value guarantees;
- the exercise price of a purchase option if the lessee is reasonably certain to exercise that option; and
- payments of penalties for terminating the lease, if the lease term reflects the lessee exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee’s incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (e) Lease payments (continued)

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability;
- any lease payments made at or before the commencement date less any lease incentives received;
- any initial direct costs; and
- restoration costs.

##### Extension and termination option

Extension and termination options are included in the property leases. These terms are used to maximise operational flexibility in terms of managing contracts. The extension and termination options held are exercisable only by the Bank and not by the respective lessor.

##### (f) Income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

##### (i) Current tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period. Management periodically evaluate positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and considers whether it is probable that a taxation authority will accept an uncertain tax treatment. The Bank measures its tax balance either based on the most likely amount or the expected value depending on which method provides a better prediction of the resolution of the uncertainty.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(f) Income tax (continued)**

###### **(i) Current tax (continued)**

Corporate Social Responsibility tax (“CSR”) is also payable by the Bank at the rate of 2% of the Segment A chargeable income of the preceding year.

The Bank is subject to the Advances Payment System (“APS”) whereby it pays income tax on a quarterly basis.

###### **(ii) Deferred tax**

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred income tax is provided using the liability method on temporary differences arising between the tax bases of assets and liabilities and their carrying amount in the financial statements.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at the end of each reporting period and are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, using tax rates enacted or substantively enacted by the end of the reporting period.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realised simultaneously.

##### **(g) Financial assets and liabilities**

###### **(i) Measurement methods**

###### **Amortised cost and effective interest rate**

The amortised cost is the amount at which the financial asset or financial liability is measured at initial recognition minus the principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (g) Financial assets and liabilities (continued)

###### (i) Measurement methods (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees.

When the Bank revises the estimates of future cash flows, the carrying amount of the respective financial assets or financial liability is adjusted to reflect the new estimate discounted using the original effective interest rate. Any changes are recognised in profit or loss.

###### (ii) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (“ECL”) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at FVOCI, as described in note 35(b)(iii), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

‘Fair value’ is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk.

When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (g) Financial assets and liabilities (continued)

##### (ii) Initial recognition and measurement (continued)

If there is no quoted price in an active market, then the Bank uses valuation techniques that maximise the use of relevant observable inputs and minimise the use of unobservable inputs. The chosen valuation technique incorporates all of the factors that market participants would take into account in pricing a transaction.

The best evidence of the fair value of a financial instrument at initial recognition is normally the transaction price – i.e. the fair value of the consideration given or received. If the Bank determines that the fair value at initial recognition differs from the transaction price and the fair value is evidenced neither by a quoted price in an active market for an identical asset or liability nor based on a valuation technique that uses only data from observable markets, then the financial instrument is initially measured at fair value, adjusted to defer the difference between the fair value at initial recognition and the transaction price.

Subsequently, that difference is recognised in profit or loss on an appropriate basis over the life of the instrument but no later than when the valuation is wholly supported by observable market data or the transaction is closed out.

If an asset or a liability measured at fair value has a bid price and ask price, then the Bank measures assets and long positions at a bid price and liabilities and short positions at an ask price.

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Bank on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure. Those portfolio-level adjustments are allocated to the individual assets and liabilities on the basis of the relative risk adjustment of each of the individual instruments in the portfolio.

The fair value of a demand deposit is not less than the amount payable on demand, discounted from the first date on which the amount could be required to be paid.

The Bank recognises transfers between levels of the fair value hierarchy as of the end of the reporting period during which the change has occurred.

##### (iii) Classification and subsequent measurement of financial assets

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

- FVPL;
- FVOCI; or
- Amortised cost.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (g) Financial assets and liabilities (continued)

##### (iii) Classification and subsequent measurement of financial assets (continued)

##### *Debt instruments*

Debt instruments are those instruments that meet the definition of a financial liability from the issuer's perspective, such as loans, government and corporate bonds and trade receivables purchased from clients in factoring arrangements without recourse.

Classification and subsequent measurement of debt instruments depend on:

- (i) the Bank's business model for managing the asset; and
- (ii) the cash flow characteristics of the asset.

Based on these factors, the Bank classifies its debt instruments into one of the following three measurement categories:

##### Amortised cost

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest ("SPPI"), and that are not designated at FVPL, are measured at amortised cost. The carrying amount of these assets is adjusted by any expected credit loss allowance recognised and measured as described in note 35(b)(iii). Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

##### Fair value through other comprehensive income ("FVOCI")

Financial assets held for a business model that is achieved by both collecting contractual cash flows and selling and that contain contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest are measured at FVOCI. These comprise primarily investment securities. They are recognised on the trade date when the Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Other operating income'.

##### Fair value through profit or loss ("FVPL")

Assets that do not meet the criteria for amortised cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL and is not part of a hedging relationship is recognised in profit or loss and presented within 'Net trading income' in the period in which it arises. Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (g) Financial assets and liabilities (continued)

##### (iii) Classification and subsequent measurement of financial assets (continued)

##### **Business model**

The business model reflects how the Bank manages the assets in order to generate cash flows. That is, whether the Bank's objective is solely to collect the contractual cash flows from the assets or is to collect both the contractual cash flows and cash flows arising from the sale of assets. If neither of these is applicable (e.g. financial assets are held for trading purposes), then the financial assets are classified as part of 'other' business model and measured at FVPL. Factors considered by the Bank in determining the business model for a group of assets include past experience on how the cash flows for these assets were collected, how the asset's performance is evaluated and reported to key management personnel, how risks are assessed and managed and how managers are compensated.

##### **SPPI**

Where the business model is to hold assets to collect contractual cash flows or to collect contractual cash flows and sell, the Bank assesses whether the financial instruments' cash flows represent solely payments of principal and interest (the 'SPPI test'). In making this assessment, the Bank considers whether the contractual cash flows are consistent with a basic lending arrangement i.e. interest includes only consideration for the time value of money, credit risk, other basic lending risks and a profit margin that is consistent with a basic lending arrangement. Where the contractual terms introduce exposure to risk or volatility that are inconsistent with a basic lending arrangement, the related financial asset is classified and measured at FVPL.

##### (iv) Classification and subsequent measurement of financial liabilities

Financial liabilities are classified as subsequently measured at amortised cost, except for:

- Financial liabilities at FVPL: this classification is applied to derivatives, financial liabilities held for trading (e.g. short positions in the trading booking) and other financial liabilities designated as such at initial recognition. Gains or losses on financial liabilities designated at FVPL are presented partially in Other Comprehensive Income ("OCI") (the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability, which is determined as the amount that is not attributable to changes in market conditions that give rise to market risk) and partially profit or loss (the remaining amount of change in the fair value of the liability). This is unless such a presentation would create, or enlarge, an accounting mismatch, in which case the gains and losses attributable to changes in the credit risk of the liability are also presented in profit or loss;
- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods,
- Financial guarantee contracts and loan commitments (see note 3(u)).

The Bank's holding in financial liabilities represents mainly deposits and borrowings from banks, customers and other liabilities.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(g) Financial assets and liabilities (continued)**

###### **(v) Offsetting**

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions such as in the Bank's trading activity.

###### **(vi) Derecognition**

Financial assets or a portion thereof, are derecognised when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the Bank tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition) or the Bank neither transfers nor retains substantially all the risks and rewards of ownership and the Bank has not retained control.

The Bank enters into transactions where it retains the contractual rights to receive cash flows from assets but assumes a contractual obligation to pay those cash flows to other entities and transfers substantially all of the risks and rewards. These transactions are accounted for as 'pass through' transfers that result in derecognition if the Bank:

- Has no obligation to make payments unless it collects equivalent amounts from the assets;
- Is prohibited from selling or pledging the assets; and
- Has an obligation to remit any cash it collects from the assets without material delay.

Financial liabilities are derecognised when they have been redeemed or otherwise extinguished.

##### **(h) Impairment**

Under IFRS 9, the Bank assesses on a forward-looking basis the expected credit losses ("ECL" associated with its debt instrument assets carried at amortised cost and FVOCI and with the exposure arising from loan commitments and financial guarantee contracts. The Bank recognises a loss allowance for such losses at the end of each reporting period. The measurement of ECL reflects:

- An unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- The time value of money; and
- Reasonable and supportable information that is available without undue cost or effort at the reporting date about past events, current conditions and forecasts of future economic conditions.

Note 35(b)(iii) provides more detail of how the expected credit loss allowance is measured.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (h) Impairment (continued)

###### Statutory and other regulatory requirements

Statutory and other regulatory loan loss reserve requirements (one percent of the aggregate amount of portfolio assessed loans) that exceed the amounts to be provided under IFRS 9 are dealt with in the general banking reserve as an appropriation of retained earnings.

The Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition*, effective as from 1<sup>st</sup> July 2016, also directs financial institutions to stand guided by the following minimum requirements with regards to classification and assessment of credit impairment:

Classified Credits	Specific Provisioning Requirement
(i) Sub-standard Credit	20 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)
(ii) Doubtful Credit	50 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)
(iii) Loss	100 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)

Under the Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition*, portfolio provision shall not be less than one percent of aggregate amount of portfolio assessed loans. Over and above, in line with the Bank of Mauritius Macprudential Measures for the Banking Sector, additional portfolio provision is made as detailed below:

	Effective as from 01 July 2015
Housing	0.50%
Commercial, Residential and Land Parceling (classified under Construction sector)	1.00%
Tourism sector	1.00%
Personal sector	1.00%

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(i) Write-off of loans and advances**

Loans (and the related impairment allowance accounts) 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. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss. Note 35(b)(iii)(G) provides more detail on the write off policy of the Bank.

##### **(j) Reversals of impairment**

If the amount of an impairment loss decreases in a subsequent period, and the decrease can be related objectively to an event occurring after the impairment was recognised, the excess is written back by reducing the loan impairment allowance account accordingly. The write-back is recognised in profit or loss.

##### **(k) Renegotiated loans and advances**

The Bank may sometimes renegotiate or otherwise modify the contractual cash flows of loans to customers. When this happens, the Bank assesses whether or not the new terms are substantially different to the original terms. The Bank does this by considering, among others, the following factors:

- If the borrower is in financial difficulty, whether the modification merely reduces the contractual cash flows to amounts the borrower is expected to be able to pay.
- Whether any substantial new terms are introduced, such as a profit share/equity-based return that substantially affects the risk profile of the loan.
- Significant extension of the loan term when the borrower is not in financial difficulty.
- Significant change in interest rate.
- Change in the currency the loan is denominated in.
- Insertion of collateral, other security or credit enhancements that significantly affect the credit risk associated with the loan.

These renegotiated loans are subject to ongoing review to determine whether they remain impaired. The carrying amounts of loans that have been classified as renegotiated retain this classification until maturity or derecognition.

Loans are identified as renegotiated and classified as credit-impaired when the Bank modifies the contractual payment terms due to significant credit distress of the borrower. An impairment test is performed on renegotiated loans prior to the modification. Renegotiated loans remain classified as credit-impaired until there is sufficient evidence to demonstrate a reduction in the risk of non-payment of future cash flows and retain the designation of renegotiated until maturity or derecognition.

A loan that is renegotiated is derecognised if the existing agreement is cancelled and a new agreement is made on substantially different terms or if the terms of an existing agreement are modified such that the renegotiated loan is a substantially different financial.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### ***(k) Renegotiated loans and advances (continued)***

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period of one year, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed. As at 31 December 2022, the Bank had renegotiated loans in its portfolio as disclosed in Note 35 (b)(iii)(J).

##### ***(l) Cash and cash equivalents***

Cash and cash equivalents are items which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the statement of cash flows, cash and cash equivalents include unrestricted balances held with the Bank of Mauritius and highly liquid financial assets with original maturities of three months or less from the acquisition date including balances with financial institutions.

Cash and cash equivalents are carried at amortised cost in the statement of financial position.

##### ***(m) Trading assets and liabilities***

Trading assets and liabilities are those assets and liabilities that the Bank acquires or incurs principally for the purpose of selling or repurchasing in the near term, or holds as part of a portfolio that is managed together for short-term profit or position taking.

Trading assets and liabilities are initially recognised and subsequently measured at fair value in the statement of financial position, with transaction costs recognised in profit or loss. All changes in fair value are recognised as part of net trading income in profit or loss. Trading assets and liabilities are not reclassified subsequent to their initial recognition, except that non-derivative trading assets may be reclassified out of the fair value through profit or loss – i.e. trading – category if they are no longer held for the purpose of being sold or repurchased in the near term and the following conditions are met.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(n) Intangible assets**

Intangible assets are recognised when they are separable or arise from contractual or other legal rights, and it is probable that future economic benefits will flow to the Bank, the cost of which can be measured reliably. Intangible assets include computer software, trade names, mortgage servicing rights, customer lists, core deposit relationships, credit card customer relationships and merchant or other loan relationships. Computer software includes both purchased and internally generated software. The cost of internally generated software comprises all directly attributable costs necessary to create, produce and prepare the software to be capable of operating in the manner intended by management. Costs incurred in the ongoing maintenance of software are expensed immediately as incurred.

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

Intangible assets with finite useful lives are generally amortised, on a straight-line basis, over their useful lives. The life period of the purchased software is 5 years.

##### **(o) Property, plant and equipment**

###### **(i) Recognition and measurement**

Items of property, plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses, except freehold land and buildings, which are measured at revalued amounts. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

If significant parts of an item of property or equipment have different useful lives, then they are accounted for as separate items (major components) of property, plant and equipment.

###### **(ii) Subsequent costs**

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

###### **(iii) Depreciation**

Depreciation is calculated to write off the costs of items of property, plant and equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. Land is not depreciated.

The estimated useful lives of significant items of property, plant and equipment are as follows:

Buildings	- 50 years
Furniture and equipment	- 2 years to 20 years
Computer equipment	- 3 years to 5 years
Motor vehicles	- 5 years

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(o) Property, plant and equipment (continued)**

###### **(iii) Depreciation (continued)**

Items below MUR10,000 are not capitalised.

Depreciation methods, useful lives and residual values are reviewed at the end of each reporting period and adjusted if appropriate.

###### **(iv) Revaluation of freehold land and buildings**

Every three years, the Bank revalues its freehold land and buildings based on a full valuation report provided by professionally qualified valuers on an open market value basis. However, an interim or desktop valuation is carried out annually by a professionally qualified valuer and the freehold land and buildings are revalued accordingly.

Revaluation surpluses are credited to other comprehensive income and accumulated in the revaluation to reserves in equity. Any subsequent decrease is first charged to reserves in equity. Thereafter, decreases are charged to profit or loss to the extent that the decrease exceeds any amount formerly held in reserves in respect of the same asset. On disposal of revalued assets, the amounts included in the revaluation surplus are transferred to retained earnings.

Items of equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Cost includes expenditure that is directly attributable to the acquisition of the asset.

Purchased software that is integral to the functionality of the related equipment is capitalised as part of that equipment. If significant parts of an item of equipment have different useful lives, then they are accounted for as separate items (major components) of equipment.

###### **(v) Derecognition**

Any gain or loss on disposal of an item property, plant and equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other operating income in profit or loss. An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected from its use or disposal.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### ***(p) Impairment of non-financial assets***

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

##### ***(q) Deposits and other borrowed funds***

Deposits are the Bank's sources of debt funding. Other borrowed funds are used in the daily treasury management activities of the Bank.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits and other borrowed funds are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates the liabilities at fair value through profit or loss. The Bank carries some deposits and debt securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (g).

##### ***(r) Provisions***

Provisions, including legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.



## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **3. Summary of significant accounting policies (continued)**

##### **(s) Employee benefits**

The Bank operates two pension plans, which include both a defined benefit and a defined contribution plan.

##### **(i) Defined contribution plans**

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank provides retirement benefits for its employees through a defined contribution plan which is funded by contributions from the Bank. Under the defined contribution plan, the Bank has no legal or constructive obligation to contribute further to what has been contributed into the fund as defined in the rules of the scheme. Pension contributions are charged to profit or loss in the year to which they relate. The Bank has an obligation under the current labour laws to pay a severance allowance on retirement of its employees and is allowed to deduct from this severance allowance up to five times the amount of any annual pension granted at retirement age from the said fund.

##### **(ii) Defined benefit plans**

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The Bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

The present value of the severance allowance payable under the Workers' Rights Act 2019 is calculated annually by independent actuaries using the projected unit credit method. The present value of the severance allowance is determined by the estimated future cash outflows using a discount rate by reference to current interest rates and the yield on bonds and treasury bills and recent corporate debenture issues. Where the present value of the severance allowance payable on retirement is greater than five years of pension payable under the pension plan, the additional severance allowance payable is recognised as a liability and disclosed as unfunded obligations under retirement benefits obligations.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (s) *Employee benefits (continued)*

##### (ii) Defined benefit plans (continued)

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

##### (iii) State pension plan

Contributions to the Contribution Sociale Généralisée (“CSG”) are recognised in profit or loss in the period in which they fall due.

##### (iv) Share based payment

The Bank grants restricted shares of HSBC Holdings plc to certain employees under various vesting. Upon vesting, the HSBC Holdings plc delivers the shares to the employees. The Bank’s liability against HSBC Holdings plc under such arrangements is measured at fair value at the end of each reporting period. The changes in fair value are recognised in “Other reserves” in each period. For restricted shares, the fair value is determined by using HSBC Holdings plc shares closing price as at year end.

For share options granted to employees of the Bank directly by HSBC Holdings plc, the compensation expense to be spread over the vesting period is determined by reference to the fair value of the options on grant date, and the impact of any nonmarket vesting conditions such as option lapses. The expense is recognised over the vesting period. The corresponding amount is credited to ‘Reserve for own shares’ in equity.

##### (v) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

##### (vi) Termination benefits

Termination benefits are payable when employment is terminated by the Bank before the normal retirement date, or when an employee accepts voluntary redundancy in exchange for these benefits. The Bank recognises termination benefits at the earlier of the following dates:

- (a) when the Bank can no longer withdraw the offer of those benefits; and
- (b) when the Bank recognises costs for a restructuring that is within the scope of IAS37 and involves the payment of termination benefits.

In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

##### (t) *Assigned capital*

Assigned capital represents the capital contribution made by the Head Office to the Bank. Incremental external costs directly attributable to raising additional capital are shown in equity as a deduction, net of tax, from the proceeds.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (u) *Contingent liabilities, contractual commitments and guarantees*

###### (i) 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.

###### (ii) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised.

Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Any increase in the liability relating to guarantees is taken to profit or loss under net impairment charge on financial asset.

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calculated as described in note 35(b)(iii)). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 3. Summary of significant accounting policies (continued)

##### (u) *Contingent liabilities, contractual commitments and guarantees (continued)*

##### (iii) Acceptances and letters of credit

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances and letters of credit are accounted for as off-balance sheet items and are disclosed as contingent liabilities and commitments.

##### (v) Comparatives

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. As required by the BoM *Guideline on Public Disclosure of Information*, disclosures have been made with comparative information for two years.

#### 4. Use of judgements and estimates

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

##### (i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts in the financial statements are described below.

##### (ii) Assumption and estimation uncertainties

##### *Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). 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. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 35 (b)(iii), which also sets out key sensitivities of the ECL to changes in these elements.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 4. Use of judgements and estimates (continued)

##### (ii) Assumption and estimation uncertainties (continued)

*Measurement of the expected credit loss allowance (continued)*

A number of significant judgements are also required in applying the accounting requirements for measuring ECL mainly relating to:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL;

The Probability of Default (“PD”), Loss Given Default (“LGD”) and the Exposure at Default (“EAD”) models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value (‘LTV’) profiles for the remaining maturity of the asset by using forecasts and applying the corresponding LGD expectation.

The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in notes 35(b)(iii) and 35(b)(iv).

##### *Sensitivity analysis of ECL estimates*

The recognition and measurement of ECL involves the use of significant judgement and estimation. The Bank forms multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. The Bank uses multiple economic scenarios to reflect assumptions about future economic conditions, starting with three economic scenarios based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management’s judgement, the consensus forecast distribution does not adequately capture the relevant risks. The economic assumptions presented in this section have been formed by the Bank with reference to external forecasts specifically for the purpose of calculating ECL. The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario data:

Average of 5 year forecast period 1Q2023 - 4Q2027	%
GDP growth rate	3.8
Inflation	2.6

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 4. Use of judgements and estimates (continued)

##### (ii) Assumption and estimation uncertainties (continued)

##### *Measurement of the expected credit loss allowance (continued)*

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

	Upside (2023-2027)	Downside (2023-2027)
<b>GDP growth rate (%)</b>	4.9	2.8
<b>Inflation (%)</b>	2.4	2.7

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

	Severe Downside (2023-2027)
<b>GDP growth rate (%)</b>	1.9
<b>Inflation (%)</b>	3.2

##### *Retirement Benefit Obligations*

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in the assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The actuarial report determines the appropriate discount rate at the end of each year and which are validated by the Bank. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the actuary considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

The sensitivity analysis for the key assumptions are disclosed in Note 29.

##### *Fair Value of Financial Instruments*

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **5 Fair value of financial instruments**

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

##### *(i) Valuation of financial instruments*

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Quoted (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques mainly include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models for financial instruments measured at fair value that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 5 Fair value of financial instruments (continued)

(ii) *Recurring financial instruments measured at fair value – fair value hierarchy*

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised:

There has been no transfer between the fair value hierarchy level during the year.

		Quoted market price	Using observable inputs	With significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
	Note	MUR'000	MUR'000	MUR'000	MUR'000
<b>At 31 December 2022</b>					
Trading assets	18	-	5,530	10	5,540
Investment securities - fair value through other comprehensive income	21	-	6,537,624	-	6,537,624
Trading liabilities	18	-	5,714	1,157	6,871
<b>At 31 December 2021</b>					
Trading assets	18	-	455	11,537	11,992
Investment securities	21	-	10,600,515	-	10,600,515
Trading liabilities	18	-	352	737	1,089
<b>At 31 December 2020</b>					
Trading assets	18	-	3,162	2,900	6,062
Investment securities	21	-	8,313,010	-	8,313,010
Trading liabilities	18	-	3,141	79	3,220

#### IFRS 13 reconciliation for Level 3

	Assets		Liabilities
	Investment securities	Trading assets	Trading liabilities
	MUR'000	MUR'000	MUR'000
At 1 January 2020	8,185	918	1,993
Transfers in	-	9,014	6,734
Settlements	-	(7,080)	(8,761)
Fair value (loss)/gain	(8,185)	48	113
At 31 December 2020	-	2,900	79
Transfers in	-	23,301	8,257
Settlements	-	(14,620)	(7,520)
Fair value loss	-	(45)	(79)
At 31 December 2021	-	11,536	737
Transfers in	-	24,147	10,351
Settlements	-	(35,673)	(9,931)
Fair value loss	-	-	-
At 31 December 2022	-	10	1,157



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 5 Fair value of financial instruments (continued)

(ii) *Recurring financial instruments measured at fair value – fair value hierarchy (continued)*

The following table summarises the quantitative information about the significant unobservable inputs used in

Description	Fair value at			Unobservable Input	Range of Inputs		Relationship of 2020 unobservable inputs to fair value
	31-Dec-22	31-Dec-21	31-Dec-20		2022	2021	
	MUR '000	MUR '000	MUR '000				
Foreign exchange derivative assets	10	11,537	2,900	Forward Points	42.9005-46.3095	39.25 – 43.92	36.27 – 40.57 Sensitivity of the foreign exchange assets and liabilities are monitored on a net basis. A change of 1 basis point in interest rate would change fair value by +/- MUR 485
Foreign exchange derivative liabilities	1,157	737	79	Forward Points	42.9005-46.3095	39.25 – 43.92	
FVOCI investments	-	-	-	Net Asset Value per share (NAV)	-	0	

The discounted cash flow method has been used to fair value the foreign exchange derivative assets and liabilities, whether the forward rates have been used as the discount factor.

For the FVOCI investments, the investment fair value is nil as at the reporting date.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 5 Fair value of financial instruments (continued)

(iii) Financial instruments not measured at fair value

The table below sets out fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

	Fair values				Total
	Valuation techniques				
	Carrying amount	Quoted market price	Using observable inputs	With significant unobservable inputs	
	Level 1	Level 2	Level 3		
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Assets and Liabilities at 31 Dec 2022					
Assets					
Loan and advances to banks	200,357	-	200,357	-	200,357
Loan and advances to customers	12,123,598	-	12,078,983	-	12,078,983
Investment securities at amortised cost	1,309,123	-	1,289,563	-	1,289,563
Liabilities					
Deposits from banks	451,231	-	451,231	-	451,231
Deposits from customers	26,335,817	-	26,335,817	-	26,335,817
Other borrowed funds	444,494	-	444,494	-	444,494

Assets and Liabilities at 31 Dec 2021

<b>Assets</b>					
Loan and advances to banks	378,631	-	378,631	-	378,631
Loan and advances to customers	10,808,135	-	10,876,672	-	10,876,672
Investment securities at amortised cost	148,173	-	149,113	-	149,113
<b>Liabilities</b>					
Deposits from banks	1,177,285	-	1,177,285	-	1,177,285
Deposits from customers	25,814,918	-	25,814,918	-	25,814,918
Other borrowed funds	1,083,503	-	1,083,559	-	1,083,559

Assets and Liabilities at 31 Dec 2020

<b>Assets</b>					
Loan and advances to banks	264,052	-	264,052	-	264,052
Loan and advances to customers	14,333,854	-	14,196,909	-	14,196,909
<b>Liabilities</b>					
Deposits from banks	747,792	-	747,792	-	747,792
Deposits from customers	22,778,413	-	22,778,413	-	22,778,413
Other borrowed funds	5,218,552	-	5,228,204	-	5,228,204

The following is a list of financial instruments whose carrying amount is a reasonable approximation of the fair value because, for example, they are short term in nature or reprice to current market rates frequently:

Assets	Liabilities
Cash and cash equivalents Other Assets including: <ul style="list-style-type: none"> <li>▪ Mandatory balances with central bank</li> <li>▪ Balances due in the clearing</li> <li>▪ Short-term receivables</li> <li>▪ Investment securities at amortised cost</li> </ul>	Other liabilities including: <ul style="list-style-type: none"> <li>▪ Acceptance and endorsements</li> <li>▪ Short-term payables</li> </ul>

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **5 Fair value of financial instruments (continued)**

*(iii) Financial instruments not measured at fair value (continued)*

##### **Bases of valuation**

The fair value measurement is the Bank's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Bank expects to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

##### **Loans and advances to banks and customers**

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third party brokers which reflect over-the-counter trading activity, forward looking discounted cash flow models using assumptions which the Bank believes are consistent with those which would be used by market participants in valuing such loans, and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs.

Valuation techniques are calibrated on a regular basis and tested for validity using prices from observable current market transactions in the same instrument, without modification or repackaging, or are based on any available observable market data.

The fair value of a loan reflects both loan impairments at the reporting date and estimates of market participants' expectations of impairment losses over the life of the loans, and the fair value effect of repricing between origination and the reporting date. The fair valuation of loans and advances to banks and customers is based on indirect observable inputs and therefore classifies under Level 2.

##### **Deposits from banks and customer accounts**

For the purpose of estimating fair value, deposits by banks and customer accounts are grouped by remaining contractual maturity. Fair values are estimated by applying current rates offered for deposits of similar remaining maturities, therefore the deposits by banks and customers' accounts are under Level 2 valuation techniques. The fair value of a deposit repayable on demand is approximated by its carrying value.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 6 Classification of Financial assets and Financial liabilities

See accounting policies in Note 3 (g)(ii). The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments. There has been no reclassification between the categories of financial instruments during the year.

	IFRS 9 Measurement Category	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Assets</b>				
Cash and cash equivalents	Amortised cost	7,068,916	6,643,354	6,443,248
Trading assets	FVPL	5,530	11,992	6062
Loans and advances to banks	Amortised cost	200,357	378,631	264,052
Loans and advances to customers	Amortised cost	12,123,598	10,808,135	14,333,854
Investment securities	FVOCI	6,537,624	10,600,515	8,313,010
Investment securities	Amortised cost	1,309,123	148,173	-
Other assets	Amortised cost	2,406,513	3,159,423	2,433,581
		<b>29,651,661</b>	<b>31,750,223</b>	<b>31,793,807</b>
<b>Liabilities</b>				
Deposits from banks	Amortised cost	451,231	1,177,285	747,792
Deposits from customers	Amortised cost	26,335,817	25,814,918	22,778,413
Trading liabilities	FVPL	6,871	1,089	3,220
Other borrowed funds	Amortised cost	444,494	1,083,503	5,218,552
Other liabilities	Amortised cost	528,224	1,371,898	1,046,443
		<b>27,766,637</b>	<b>29,448,693</b>	<b>29,794,420</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 7 Segmental reporting

The information on pages 103 to 107 is provided for in accordance with the Bank of Mauritius *Guideline on Segmental Reporting*.

The financial statements incorporate both segments with a functional currency of Mauritian Rupees (MUR).

#### A. Statement of financial position

	Note	Segment A			Segment B			Bank		
		2022 MUR'000	2021 MUR'000	2020 MUR'000	2022 MUR'000	2021 MUR'000	2020 MUR'000	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>ASSETS</b>										
Cash and cash equivalents	17	3,792,521	2,730,676	3,371,429	3,276,395	3,912,678	3,071,819	7,068,916	6,643,354	6,443,248
Trading assets	18	5,509	11,019	6,054	21	973	8	5,530	11,992	6,062
Loans and advances to banks	19	100,357	111,149	167,142	100,000	267,482	96,910	200,357	378,631	264,052
Loans and advances to customers	20	10,488,801	8,990,024	9,496,618	1,634,797	1,818,111	4,837,236	12,123,598	10,808,135	14,333,854
Investment securities - fair value through other comprehensive income	21	6,537,624	10,600,515	8,313,010	-	-	-	6,537,624	10,600,515	8,313,010
Investment securities - Amortised cost	21	1,309,123	148,173	-	-	-	-	1,309,123	148,173	-
Other assets	24	2,446,768	2,144,613	1,752,005	66,602	1,019,300	687,856	2,513,370	3,163,913	2,439,861
Intangible assets		2,703	3,392	-	-	-	-	2,703	3,392	-
Property, plant and equipment	22	390,844	345,243	415,100	-	-	-	390,844	345,243	415,100
Deferred tax assets	23	-	56,239	105,548	-	-	-	-	56,239	105,548
Current tax assets	16	-	-	4,719	-	-	(3,582)	-	-	1,137
<b>Total assets</b>		<b>25,074,250</b>	<b>25,141,043</b>	<b>23,631,625</b>	<b>5,077,815</b>	<b>7,018,544</b>	<b>8,690,247</b>	<b>30,152,065</b>	<b>32,159,587</b>	<b>32,321,872</b>
<b>LIABILITIES</b>										
Deposit from banks	25	143,703	58,594	32,115	307,528	1,118,691	715,677	451,231	1,177,285	747,792
Deposit from customers	26	23,051,324	22,181,763	20,529,449	3,284,493	3,633,155	2,248,964	26,335,817	25,814,918	22,778,413
Trading liabilities	18	442	-	-	6,429	1,089	3,220	6,871	1,089	3,220
Other borrowed funds	27	444,494	1,083,503	1,970,749	-	-	3,247,803	444,494	1,083,503	5,218,552
Current tax liabilities	16	44,099	52,002	-	-	-	-	44,099	52,002	-
Other liabilities	28	517,314	352,761	605,501	66,604	1,019,394	682,422	583,918	1,372,155	1,287,923
<b>Total liabilities</b>		<b>24,201,376</b>	<b>23,728,623</b>	<b>23,137,814</b>	<b>3,665,054</b>	<b>5,772,329</b>	<b>6,898,086</b>	<b>27,866,430</b>	<b>29,500,952</b>	<b>30,035,900</b>
<b>Shareholder's funds</b>										
Assigned capital	30	794,150	794,150	794,150	-	-	-	794,150	794,150	794,150
Retained earnings	30	896,274	1,172,632	707,398	-	-	-	896,274	1,172,632	707,398
Other reserves	30	595,211	691,853	784,424	-	-	-	595,211	691,853	784,424
<b>Total shareholder's funds</b>		<b>2,285,635</b>	<b>2,658,635</b>	<b>2,285,972</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,285,635</b>	<b>2,658,635</b>	<b>2,285,972</b>
<b>Total liabilities and shareholder's funds</b>		<b>26,487,011</b>	<b>26,387,258</b>	<b>25,423,786</b>	<b>3,665,054</b>	<b>5,772,329</b>	<b>6,898,086</b>	<b>30,152,065</b>	<b>32,159,587</b>	<b>32,321,872</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 7 Segmental reporting (continued)

#### B. Statement of profit or loss and other comprehensive income

	Notes	Segment A			Segment B			Bank	
		2022 MUR'000	2021 MUR'000	2020 MUR'000	2022 MUR'000	2021 MUR'000	2020 MUR'000	2022 MUR'000	2021 MUR'000
Interest income		612,899	542,554	678,579	12,362	13,539	72,883	625,261	556,093
Interest expense		(100,308)	(62,853)	(126,887)	(12,595)	(6,605)	(50,096)	(112,903)	(176,983)
<b>Net interest income</b>	8	<b>512,591</b>	479,701	551,692	<b>(233)</b>	6,934	22,787	<b>512,358</b>	486,635
Fee and commission income		152,433	126,749	140,838	37,752	35,294	32,780	190,185	162,043
Fee and commission expense		(48,547)	(34,323)	(39,192)	(3)	(4)	(2,058)	(48,550)	(34,327)
<b>Net fee and commission income</b>	9	<b>103,886</b>	92,426	101,646	<b>37,749</b>	35,290	30,722	<b>141,635</b>	127,716
Net trading income	10	208,753	216,207	147,410	-	-	-	208,753	216,207
Other operating income	11	188,885	182,075	186,174	-	-	-	188,885	182,075
<b>Total operating income</b>		<b>1,014,115</b>	970,409	986,922	<b>37,516</b>	42,224	53,509	<b>1,051,631</b>	1,012,633
Net impairment release/(charge) on financial assets	12	67,345	322,830	(609,456)	-	-	-	67,345	322,830
Personnel expenses	13	(450,850)	(420,632)	(390,564)	(16,678)	(25,485)	(12,079)	(467,528)	(446,117)
Operating lease expenses	14	(4,123)	(3,626)	(6,106)	(153)	-	-	(4,276)	(3,626)
Depreciation	22	(43,800)	(43,788)	(40,729)	(1,620)	-	-	(45,420)	(43,788)
Other expenses	15	(562,313)	(474,157)	(478,666)	(20,802)	(17,676)	(3,797)	(583,115)	(491,833)
<b>Total expenses</b>		<b>(1,061,086)</b>	(942,203)	(916,065)	<b>(39,253)</b>	(43,161)	(15,876)	<b>(1,100,339)</b>	(985,364)
<b>Profit/(loss) before income tax</b>		<b>20,374</b>	351,036	(538,599)	<b>(1,737)</b>	(937)	37,633	<b>18,637</b>	350,099
Income tax (expense)/ credit	16	(6,744)	(69,417)	64,993	-	-	(1,882)	(6,744)	(69,417)
<b>Profit/(loss) for the year</b>		<b>13,630</b>	281,619	(473,606)	<b>(1,737)</b>	(937)	35,751	<b>11,893</b>	280,682

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 7 Segmental reporting (continued)

#### B. Statement of profit or loss and other comprehensive income (continued)

	Segment A			Segment B			Bank		
	2022	2021	2020	2022	2021	2020	2022	2021	2020
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
<b>Other comprehensive income, net of tax</b>									
<b>Items that will not be reclassified to profit or loss</b>									
Remeasurements of retirement obligations	124,837	207,168	(297,975)	-	-	-	124,837	207,168	(297,975)
Related tax on remeasurements of retirement obligations	(93,894)	(26,591)	19,006	-	-	-	(93,894)	(26,591)	19,006
Gain on revaluation of land and buildings	12,998	15,268	6,580	-	-	-	12,998	15,268	6,580
Related tax on gain on revaluation of land and buildings	4,915	(461)	(308)	-	-	-	4,915	(461)	(308)
Net change in fair value of financial assets at fair value through other comprehensive income	-	-	(8,185)	-	-	-	-	-	(8,185)
	48,856	195,384	(280,882)	-	-	-	48,856	195,384	(280,882)
<b>Items that may be reclassified to profit or loss</b>									
Net change in fair value of financial assets at fair value through other comprehensive income	(159,504)	(100,307)	119,164	-	-	-	(159,504)	(100,307)	119,164
Deferred tax impact on change in fair value of financial assets at fair value through other comprehensive income	4,607	(4,607)	-	-	-	-	4,607	(4,607)	-
	(154,897)	(104,914)	119,164	-	-	-	(154,897)	(104,914)	119,164
<b>Other comprehensive income for the year</b>	(106,041)	90,470	(161,718)	-	-	-	(106,041)	90,470	(161,718)
<b>Total comprehensive income for the year</b>	(92,411)	372,089	(635,324)	(1,737)	(937)	35,751	(94,148)	371,152	(599,573)

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 7 Segmental reporting (continued)

##### Global businesses and Corporate Centre

The Bank's activities involved WPB, CMB and GBM supported by Corporate Centre. In each Global Business, the Bank focuses on delivering growth in areas where the Bank has distinctive capabilities and has significant opportunities.

- *Wealth and Personal Banking* Includes loans, deposits and other transactions and balances with retail customers.
- *Commercial Banking* Includes loans, deposits and other transactions and balances with corporate customers.
- *Global Banking and Markets* Global Banking involves loans, deposits and other transactions and balances with corporate and institutional clients worldwide.  
Global Markets undertakes the Bank's centralised market risk management activities and foreign currency operations.
- *Corporate Centre* Corporate Centre includes Market Treasury ('MKTY') and support functions. MKTY undertakes treasury activities which include funding through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities. For the purpose of the global businesses analysis, the results, assets and liabilities of MKTY are re-allocated to the other global businesses.

2022		Wealth and Personal Banking	Commercial Banking	Global Banking and Markets	Corporate Centre	Consolidated
		MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
<i>External revenue:</i>	<i>Notes</i>					
Net interest income	8	296,594	200,294	14,014	1,456	512,358
Net fee and commission income	9	44,592	71,979	28,465	(3,401)	141,635
Net trading income	10	16,192	45,651	146,747	163	208,753
Revenue		357,378	317,924	189,226	(1,782)	862,746
Other operating income	11	83,094	79,231	25,993	567	188,885
Total segment operating income		440,472	397,155	215,219	(1,215)	1,051,631
Segment result		(161,138)	123,285	109,015	(52,525)	18,637
Income tax expense	16					(6,744)
Profit for the year						11,893
Segment assets		10,739,259	9,694,581	489,902	9,228,323	30,152,065
Segment liabilities		18,053,234	8,799,281	419,106	594,809	27,866,430



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 7 Segmental reporting (continued)

##### Global Businesses and Corporate Centre (continued)

2021		Wealth and Personal Banking MUR'000	Commercial Banking MUR'000	Global Banking and Markets MUR'000	Corporate Centre MUR'000	Consolidated MUR'000
<i>External revenue:</i>	<i>Notes</i>					
Net interest income	8	280,547	187,925	6,525	11,638	486,635
Net fee and commission income	9	41,878	62,232	26,200	(2,594)	127,716
Net trading income	10	16,437	41,420	124,806	33,544	216,207
Revenue		338,862	291,577	157,531	42,588	830,558
Other operating income	11	82,572	74,164	24,319	1,020	182,075
Total segment operating income		421,434	365,741	181,850	43,608	1,012,633
Segment result		(86,543)	345,443	75,084	16,115	350,099
Income tax expense	16					(69,417)
Profit for the year						280,683
Segment assets		14,667,226	13,366,091	843,715	3,282,555	32,159,587
Segment liabilities		17,873,454	9,629,532	1,321,464	676,502	29,500,952
<b>2020</b>		<b>Wealth and Personal Banking MUR'000</b>	<b>Commercial Banking MUR'000</b>	<b>Global Banking and Markets MUR'000</b>	<b>Corporate Centre MUR'000</b>	<b>Consolidated MUR'000</b>
<i>External revenue:</i>	<i>Notes</i>					
Net interest income	8	337,072	233,062	7,216	(2,871)	574,479
Net fee and commission income	9	49,391	58,249	26,369	(1,641)	132,368
Net trading income	10	18,321	31,816	96,039	1,234	147,410
Revenue		404,784	323,127	129,624	(3,278)	854,257
Other operating income	11	89,500	96,209	26,351	(25,886)	186,174
Total segment operating income		494,284	419,336	155,975	(29,164)	1,040,431
Segment result		(99,477)	(432,593)	47,854	(16,750)	(500,966)
Income tax expense	16					63,111
Profit for the year						(437,855)
Segment assets		11,215,930	13,869,289	623,121	6,613,532	32,321,872
Segment liabilities		18,584,112	9,719,789	1,109,928	622,071	30,035,900

**The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

**Notes to and forming part of the financial statements**

for the year ended 31 December 2022 (continued)

**8. Net interest income**

**Bank (Total)**

**Interest income**

Recognised on financial assets measured at amortised cost

Cash and cash equivalents

Investment securities

Loans and advances to banks

Loans and advances to customers

Other

Recognised on financial assets measured at FVOCI

Investment securities

**Total interest income**

**Interest expense**

Recognised on financial liabilities measured at amortised cost

Deposits from banks

Deposits from customers

Other borrowed funds

Other

Other (including interest expense under IFRS 16)

**Total interest expense**

**Net interest income**

**Segment A**

**Interest income**

Recognised on financial assets measured at amortised cost

Cash and cash equivalents

Investment securities

Loans and advances to banks

Loans and advances to customers

Other

Recognised on financial assets measured at FVOCI

Investment securities

**Total interest income**

**Interest expense**

Recognised on financial liabilities measured at amortised cost

Deposits from banks

Deposits from customers

Other borrowed funds

Other

Other (including interest expense under IFRS 16)

**Total interest expense**

**Net interest income**

**Segment B**

**Interest income**

Recognised on financial assets measured at amortised cost

Cash and cash equivalents

Loans and advances to banks

Loans and advances to customers

Other

**Total interest income**

**Interest expense**

Recognised on financial liabilities measured at amortised cost

Deposits from banks

Deposits from customers

Other borrowed funds

**Total interest expense**

**Net interest income**

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Interest income</b>			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	17,333	6,514	16,852
Investment securities	10,619	398	-
Loans and advances to banks	1,166	292	3,411
Loans and advances to customers	439,154	376,262	501,045
Other	6,973	1,392	357
<u>Recognised on financial assets measured at FVOCI</u>			
Investment securities	150,016	171,235	229,797
<b>Total interest income</b>	<b>625,261</b>	<b>556,093</b>	<b>751,462</b>
<b>Interest expense</b>			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from banks	1,445	1,573	2,200
Deposits from customers	91,231	59,894	105,215
Other borrowed funds	19,262	7,991	67,900
<u>Other</u>			
Other (including interest expense under IFRS 16)	965	-	1,668
<b>Total interest expense</b>	<b>112,903</b>	<b>69,458</b>	<b>176,983</b>
<b>Net interest income</b>	<b>512,358</b>	<b>486,635</b>	<b>574,479</b>
<b>Segment A</b>			
<b>Interest income</b>			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	10,975	2,508	7,561
Investment securities	10,619	398	-
Loans and advances to banks	1,166	292	3,261
Loans and advances to customers	433,187	366,761	437,605
Other	6,936	1,360	355
<u>Recognised on financial assets measured at FVOCI</u>			
Investment securities	150,016	171,235	229,797
<b>Total interest income</b>	<b>612,899</b>	<b>542,554</b>	<b>678,579</b>
<b>Interest expense</b>			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from banks	1,428	1,546	2,176
Deposits from customers	86,754	57,162	100,118
Other borrowed funds	11,161	4,145	22,925
<u>Other</u>			
Other (including interest expense under IFRS 16)	965	-	1,668
<b>Total interest expense</b>	<b>100,308</b>	<b>62,853</b>	<b>126,887</b>
<b>Net interest income</b>	<b>512,591</b>	<b>479,701</b>	<b>551,692</b>
<b>Segment B</b>			
<b>Interest income</b>			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	6,358	4,006	9,291
Loans and advances to banks	-	-	150
Loans and advances to customers	5,967	9,502	63,440
Other	37	31	2
<b>Total interest income</b>	<b>12,362</b>	<b>13,539</b>	<b>72,883</b>
<b>Interest expense</b>			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from banks	17	26	24
Deposits from customers	4,477	2,732	5,097
Other borrowed funds	8,101	3,847	44,975
<b>Total interest expense</b>	<b>12,595</b>	<b>6,605</b>	<b>50,096</b>
<b>Net interest income</b>	<b>(233)</b>	<b>6,934</b>	<b>22,787</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 9 Net fee and commission income

##### *Bank (Total)*

##### **Fee and commission income**

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Retail banking customer fees	87,064	72,960	87,829
Corporate banking related fees	61,530	46,107	54,534
Financial guarantee contracts	3,592	11,566	4,444
Global custody	19,531	17,358	18,810
Other	18,468	14,052	8,001
Total fee and commission income	190,185	162,043	173,618

##### **Fee and commission expense**

Retail banking customer fees	43,861	31,084	38,829
Corporate banking related fees	11	701	338
Other	4,678	2,542	2,083
Total fee and commission expense	48,550	34,327	41,250

##### **Net fee and commission income**

141,635 127,716 132,368

##### *Segment A*

##### **Fee and commission income**

Retail banking customer fees	86,170	72,115	86,983
Corporate banking related fees	36,800	22,208	46,366
Financial guarantee contracts	3,508	11,485	4,298
Global custody	15,263	13,936	85
Other	10,692	7,005	3,106
Total fee and commission income	152,433	126,749	140,838

##### **Fee and commission expense**

Retail banking customer fees	43,858	31,080	38,815
Corporate banking related fees	11	701	325
Other	4,678	2,542	52
Total fee and commission expense	48,547	34,323	39,192

##### **Net fee and commission income**

103,886 92,426 101,646

##### *Segment B*

##### **Fee and commission income**

Retail banking customer fees	894	845	846
Corporate banking related fees	24,730	23,899	8,168
Financial guarantee contracts	84	81	146
Global custody	4,268	3,422	18,725
Other	7,776	7,047	4,895
Total fee and commission income	37,752	35,294	32,780

##### **Fee and commission expense**

Retail banking customer fees	3	4	14
Corporate banking related fees	-	-	13
Other	-	-	2,031
Total fee and commission expense	3	4	2,058

##### **Net fee and commission income**

37,749 35,290 30,722

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 10 Net trading income

	2022	2021	2020
<i>Bank (Total) and Segment A</i>	MUR'000	MUR'000	MUR'000
Foreign exchange	208,648	216,150	146,795
Net revaluation gain on financial instruments	105	57	615
	<b>208,753</b>	<b>216,207</b>	<b>147,410</b>

#### 11 Other operating income

	2022	2021	2020
<i>Bank (Total) and Segment A</i>	MUR'000	MUR'000	MUR'000
Intercompany recharges	188,444	176,677	190,668
Rental income	-	4,810	5,100
Gain/(loss) on disposal of property plant and equipment	-	197	(1,655)
Profit/(loss) on remeasurements of ROU	128	-	(10,608)
Gain on disposal of investment securities	159	-	331
Other	154	391	2,338
	<b>188,885</b>	<b>182,075</b>	<b>186,174</b>

Intercompany recharges relate to regionally allocated cost and IT costs.

#### 12 Net impairment release/(charge) on financial assets

	2022	2021	2020
<i>Bank (Total) and Segment A</i>	MUR'000	MUR'000	MUR'000
Release/(charge) for impairment losses for the year:			
Loans and advances to customers	74,047	309,951	(596,944)
Investment securities at FVOCI	(3,841)	11,715	(11,043)
Investment securities at amortised costs	(1,754)	(10)	-
Loans and advances to banks	(555)	757	(765)
Loan commitments and financial guarantees	(513)	386	(675)
Other assets	(39)	31	(29)
	<b>67,345</b>	<b>322,830</b>	<b>(609,456)</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 13 Personnel expenses

	2022	2021	2020
	MUR'000	MUR'000	MUR'000
<b>Bank (Total)</b>			
Wages and salaries	341,546	336,898	310,264
Compulsory social security obligations	19,073	17,413	10,958
Defined contribution plan costs (unfunded) (Note 29)	4,758	5,253	4,834
Equity-settled share based payments	1,830	1,922	2,060
Defined benefit plan costs (funded) (Note 29)	17,587	27,894	26,357
Provision for termination benefits	28,438	-	-
Other personnel expenses	54,296	56,737	48,170
	<b>467,528</b>	<b>446,117</b>	<b>402,643</b>
<b>Segment A</b>			
Wages and salaries	329,362	317,652	300,666
Compulsory social security obligations	18,393	16,418	10,607
Contributions to defined contributions plans (unfunded)	4,588	4,953	4,778
Equity-settled share based payments	1,765	1,812	2,059
Defined benefit plan costs (funded)	16,960	26,301	24,738
Provision for termination benefits	27,423	-	-
Other personnel expenses	52,359	53,496	47,716
	<b>450,850</b>	<b>420,632</b>	<b>390,564</b>
<b>Segment B</b>			
Wages and salaries	12,184	19,246	9,598
Compulsory social security obligations	680	995	351
Contributions to defined contributions plans (unfunded)	170	300	56
Equity-settled share based payments	65	110	1
Defined benefit plan costs (funded)	627	1,594	1,619
Provision for termination benefits	1,015	-	-
Other personnel expenses	1,937	3,240	454
	<b>16,678</b>	<b>25,485</b>	<b>12,079</b>

#### 14 Operating lease expenses

Non-cancellable operating lease rentals are payable as follows:

	2022	2021	2020
	MUR'000	MUR'000	MUR'000
<b>Bank (Total)</b>			
Minimum rental recognised in profit or loss	4,276	3,626	6,106
<b>Segment A</b>			
Minimum rental recognised in profit or loss	4,123	3,626	6,106
<b>Segment B</b>			
Minimum rental recognised in profit or loss	153	-	-
<b>Operating lease commitments</b>			
Future minimum rentals to be paid:			
- Less than one year	4,276	3,626	6,106

The leasing arrangements that the Bank have are mainly on a number of premises and office equipment. The premises are used for residence of expatriate staff, office, branches and ATMs. There is no motor vehicle under lease. The arrangements are under operating leases for a fixed term with an option to renew. The rental may increase yearly, at an agreed interval or at renewal based on the local price index but does not exceed 10% per annum.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 15 Other expenses

The other expenses are mainly head office charges.

	2022	2021	2020
	MUR'000	MUR'000	MUR'000
<b>Bank (Total)</b>			
Information and technology costs	23,616	17,977	19,786
Maintenance of premises costs	26,291	19,019	18,699
Other administrative expenses	142,010	120,781	131,581
Intercompany recharges	367,718	327,854	312,396
Write off of plant, property and equipment	10,392	-	-
Other expenses	13,088	6,202	1
	<b>583,115</b>	<b>491,833</b>	<b>482,463</b>
<b>Segment A</b>			
Information and technology costs	22,774	16,950	19,397
Maintenance of premises costs	25,353	17,932	18,695
Other administrative expenses	136,944	113,881	130,185
Intercompany recharges	354,600	319,192	310,388
Write off of plant, property and equipment	10,021	-	-
Other expenses	12,621	6,202	1
	<b>562,313</b>	<b>474,157</b>	<b>478,666</b>
<b>Segment B</b>			
Information and technology costs	842	1,027	389
Maintenance of premises costs	938	1,087	4
Other administrative expenses	5,066	6,900	1,396
Intercompany recharges	13,118	8,662	2,008
Write off of plant, property and equipment	371	-	-
Other expenses	467	-	-
	<b>20,802</b>	<b>17,676</b>	<b>3,797</b>

#### 16 Income tax

As per The Finance (Miscellaneous Provisions) Act 2018 of Mauritius, the tax rate has been amended to 15% or 5% if certain conditions are met effective as from assessment year 2020-2021 (assessment year 2019-2020: 15% less the foreign tax credit of 80% for segment B).

The Bank is also liable to pay a special levy on its leviable income (Net interest income and other income before deduction of expenses) derived during the year. Special levy is calculated at the rate of 4.5% on leviable income when leviable income is greater than MUR1.2bn, otherwise it is charged at 5.5%, subject always to a maximum cap at 1.5 times the amount paid in respect of the year ended 31 December 2017. The special levy is included in income tax expense and current liability in the financial statements.

At the end of the reporting period, the Bank has unused tax losses of Rs 323m (2021: Rs 216m) available for offset against future profits. No deferred tax asset has been recognised in respect of the remaining losses due to unpredictability of future profit streams.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 16 Income tax (continued)

##### Bank (Total)

##### Current tax expense/(credit)

##### Current year:

##### Income tax

##### Deferred tax

Total tax expense/(credit) per statement of profit or loss and other comprehensive income

##### Reconciliation of effective tax rate

Profit/(loss) before income tax per statement of profit or loss and other comprehensive income

Income tax at 5%

Special levy on banks

Effect of non-deductible expenses

Over provision of income tax in prior year

Under provision of deferred tax

CSR

Deferred tax written off

Over provision of tax in current year

##### Current Tax Liabilities/(Assets)

As 1 January

Charge for the year

(Payment)/refund

At 31 December

##### Segment A

##### Current tax expense

##### Current year:

##### Income tax

##### Deferred tax

##### Reconciliation of effective tax rate

Profit/(loss) before income tax per statement of profit or loss and other comprehensive income

Income tax at 5%

Special levy on banks

Effect of non-deductible expenses

Overprovision of income tax in prior year

Under provision of deferred tax

CSR

Deferred tax written off

Over provision of tax in current year

##### Current Tax Liabilities/(Assets)

As 1 January

Charge for the year

(Payment)/refund

At 31 December

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Current tax expense/(credit)			
Current year:			
Income tax	34,877	51,767	(23,084)
Deferred tax	(28,133)	17,650	(40,027)
Total tax expense/(credit) per statement of profit or loss and other comprehensive income	6,744	69,417	(63,111)
Reconciliation of effective tax rate			
Profit/(loss) before income tax per statement of profit or loss and other comprehensive income	18,637	350,099	(500,966)
Income tax at 5%	932	17,505	(35,820)
Special levy on banks	44,099	53,322	-
Effect of non-deductible expenses	215	174	(152)
Over provision of income tax in prior year	(9,223)	(1,555)	(30,174)
Under provision of deferred tax	(1,146)	(29)	-
CSR	-	-	4,478
Deferred tax written off	(28,133)	-	-
Over provision of tax in current year	-	-	(1,443)
	6,744	69,417	(63,111)
Current Tax Liabilities/(Assets)			
As 1 January	52,002	(1,137)	76,090
Charge for the year	34,877	51,767	(23,084)
(Payment)/refund	(42,780)	1,372	(54,143)
At 31 December	44,099	52,002	(1,137)
Segment A			
Current tax expense			
Current year:			
Income tax	34,877	51,767	(24,966)
Deferred tax	(28,133)	17,650	(40,027)
	6,744	69,417	(64,993)
Reconciliation of effective tax rate			
Profit/(loss) before income tax per statement of profit or loss and other comprehensive income	20,374	351,036	(538,599)
Income tax at 5%	1,019	17,552	(37,702)
Special levy on banks	44,099	53,322	-
Effect of non-deductible expenses	207	164	(152)
Overprovision of income tax in prior year	(9,223)	(1,555)	(30,174)
Under provision of deferred tax	(1,225)	(66)	-
CSR	-	-	4,478
Deferred tax written off	(28,133)	-	-
Over provision of tax in current year	-	-	(1,443)
	6,744	69,417	(64,993)
Current Tax Liabilities/(Assets)			
As 1 January	52,740	(4,719)	71,032
Charge for the year	34,877	51,767	(24,966)
(Payment)/refund	(43,518)	5,692	(50,785)
At 31 December	44,099	52,740	(4,719)

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 16 Income tax (continued)

##### Segment B

Current tax expense

Current year:

Income tax

2022 MUR'000	2021 MUR'000	2020 MUR'000
-	-	1,882
-	-	1,882

##### Reconciliation of effective tax rate

(Loss)/profit before income tax per statement of profit or loss and other comprehensive income

Income tax at 5%

Effect of non-deductible expenses

Under provision of tax in current year

(1,737)	(937)	37,633
(86)	(47)	1,882
8	10	-
78	37	-
-	-	1,882

##### Current Tax Liabilities

As 1 January

Charge for the year

Payment

At 31 December

(738)	3,582	5,058
-	-	1,882
738	(4,320)	(3,358)
-	(738)	3,582

#### 17 Cash and cash equivalents

##### Bank (Total)

Cash in hand

Foreign currency notes and coins

Unrestricted balances with central bank

Money market placements

Balances with banks abroad

2022 MUR'000	2021 MUR'000	2020 MUR'000
204,336	218,269	322,208
15,246	19,824	10,778
3,335,211	2,319,893	2,634,004
252,974	1,268,452	1,597,667
3,261,149	2,816,916	1,878,591
7,068,916	6,643,354	6,443,248

Unrestricted balances with Central Bank include non-interest bearing balances over and above the minimum cash reserve requirement (CRR). Money market placements under cash and cash equivalents are fixed/floating interest bearing investments with original maturities of three months or less from the acquisition date. Cash and cash equivalents are measured at amortised cost, less impairment.

##### Segment A

Cash in hand

Unrestricted balances with central bank

Money market placements

2022 MUR'000	2021 MUR'000	2020 MUR'000
204,336	218,269	322,208
3,335,211	2,319,893	2,634,004
252,974	192,514	415,217
3,792,521	2,730,676	3,371,429

##### Segment B

Foreign currency notes and coins

Money market placements

Balances with banks abroad

15,246	19,824	10,778
-	1,075,938	1,182,450
3,261,149	2,816,916	1,878,591
3,276,395	3,912,678	3,071,819



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 18 Trading assets and liabilities

##### (a) Trading assets

###### Bank (Total)

###### Derivative assets

- Currency spot
- Currency forwards

2022 MUR'000	2021 MUR'000	2020 MUR'000
21	-	8
5,509	11,992	6,054
5,530	11,992	6,062

###### Segment A

###### Derivative assets

- Currency forwards

5,509	11,019	6,054
5,509	11,019	6,054

###### Segment B

###### Derivative assets

- Currency spot
- Currency forwards

21	-	8
-	973	-
21	973	8

##### (b) Trading liabilities

###### Bank (Total)

###### Derivative liabilities

- Currency spot
- Currency forwards

2022 MUR'000	2021 MUR'000	2020 MUR'000
8	352	13
6,863	737	3,207
6,871	1,089	3,220

###### Segment A

###### Derivative liabilities

- Currency spot
- Currency forwards

-	-	-
442	-	-
442	-	-

###### Segment B

###### Derivative liabilities

- Currency spot
- Currency forwards

8	352	13
6,421	737	3,207
6,429	1,089	3,220

All trading assets and trading liabilities are current in nature.

The nominal amount of the foreign exchange contracts are as follows

###### Currencies

USD  
EUR  
GBP  
CNH  
MUR  
Others

2022 MUR'000	2021 MUR'000	2020 MUR'000
605,149	1,349,007	187,695
139,847	65,091	172,364
5,007	191,244	-
920	-	-
373,733	-	-
4,045	-	4,047
1,128,701	1,605,342	364,106

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 19 Loans and advances to banks

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Loans and advances to banks			
In Mauritius (Segment A)	100,930	111,149	167,917
Abroad (Segment B)	100,000	267,500	96,910
	200,930	378,649	264,827
Less Stage 1 and 2 impairment	(573)	(18)	(775)
	200,357	378,631	264,052
<i>Remaining term to maturity</i>			
Up to 3 months	100,000	102,495	2,908
Over 3 months and up to 6 months	-	-	-
Over 6 months and up to 12 months	100,930	276,136	261,144
Over 1 year and up to 5 years	-	-	-
	200,930	378,631	264,052
Current	200,930	378,631	264,052
Non-Current	-	-	-
	200,930	378,631	264,052

#### 20 Loans and advances to customers

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Total</b>			
Retail customers:			
Credit cards	247,945	233,088	261,528
Mortgages	4,738,083	4,110,493	4,193,277
Other retail loans	1,111,907	765,807	755,282
Corporate customers	5,952,905	5,757,112	5,463,041
Governments	80,000	17,949	802,146
Entities outside Mauritius	55,829	64,086	3,492,554
	12,186,669	10,948,535	14,967,828
Less Stage 3 impairment	(37,465)	(93,539)	(552,804)
Less Stage 1 and 2 impairment	(25,606)	(46,861)	(81,170)
	12,123,598	10,808,135	14,333,854
<b>Segment A</b>			
Retail customers:			
Credit cards	247,945	233,088	261,528
Mortgages	4,738,083	4,110,493	4,193,277
Other retail loans	1,111,907	765,807	755,282
Corporate customers	4,373,937	4,003,086	4,118,359
Governments	80,000	17,950	802,146
	10,551,872	9,130,424	10,130,592
Less Stage 3 impairment	(37,465)	(93,539)	(552,804)
Less Stage 1 and 2 impairment	(25,606)	(46,861)	(81,170)
	10,488,801	8,990,024	9,496,618

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 20 Loans and advances to customers (continued)

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Segment B</b>			
Entities outside Mauritius	55,829	64,085	3,492,554
Corporate customers (Global business license holders)	1,578,968	1,754,026	1,344,682
	<b>1,634,797</b>	<b>1,818,111</b>	<b>4,837,236</b>

#### (a) Remaining term to maturity of loans and advances

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Bank (Total)</b>			
Within 3 months	5,485,263	4,340,305	7,681,875
Over 3 to 6 months	7,307	2,923	754,950
Over 6 to 12 months	196,577	274,009	59,971
Over 1 to 5 years	1,441,016	1,827,168	2,007,670
Over 5 years	5,056,506	4,504,130	4,463,362
	<b>12,186,669</b>	<b>10,948,535</b>	<b>14,967,828</b>
Current	5,689,147	4,617,237	8,496,796
Non-Current	6,497,522	6,331,298	6,471,032
	<b>12,186,669</b>	<b>10,948,535</b>	<b>14,967,828</b>

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Segment A</b>			
Within 3 months	4,017,891	2,751,179	3,484,919
Over 3 to 6 months	7,307	2,819	398,521
Over 6 to 12 months	196,577	273,968	45,253
Over 1 to 5 years	1,323,470	1,654,782	1,802,991
Over 5 years	5,006,627	4,447,676	4,398,908
	<b>10,551,872</b>	<b>9,130,424</b>	<b>10,130,592</b>

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Segment B</b>			
Within 3 months	1,467,372	1,589,126	4,196,956
Over 3 to 6 months	-	104	356,429
Over 6 to 12 months	-	41	14718
Over 1 to 5 years	117,546	172,386	204,679
Over 5 years	49,879	56,454	64,454
	<b>1,634,797</b>	<b>1,818,111</b>	<b>4,837,236</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 20 Loans and advances to customers (continued)

##### (b) Credit concentration of risk by industry sectors

Total credit facilities extended by the Bank to customers classified by industry sectors:

	2022	2021	2020
	MUR'000	MUR'000	MUR'000
<b>Bank (Total)</b>			
Agriculture and fishing	47	9,463	9,273
Manufacturing	2,546,850	2,275,657	2,414,969
<i>of which EPZ</i>	958,977	791,493	851,848
Tourism	196,411	366,740	355,661
Construction	6,428	32,681	13,791
Financial and business services	547,012	323,186	3,736,033
Traders	924,685	751,701	911,012
Households	6,153,706	5,173,474	5,215,287
<i>of which credit card</i>	247,945	233,088	261,528
Global business license holders	1,578,968	1,754,026	1,344,682
Public non-financial corporations	80,000	4,615	802,146
Other(including infrastructure)	152,562	256,992	164,974
	<b>12,186,669</b>	<b>10,948,535</b>	<b>14,967,828</b>

In accordance with Bank of Mauritius Guidelines, home mortgage loans are included within the Households sector.

	2022	2021	2020
	MUR'000	MUR'000	MUR'000
<b>Segment A</b>			
Agriculture and fishing	47	9,463	9,273
Manufacturing	2,546,850	2,275,657	2,342,450
<i>of which EPZ</i>	958,977	791,493	851,848
Tourism	196,411	366,740	355,661
Construction	6,428	32,681	13,791
Financial and business services	547,012	323,186	385,758
Traders	924,685	751,701	911,012
Households	6,097,877	5,109,389	5,145,527
<i>of which credit card</i>	247,945	233,088	261,528
Public non-financial corporations	80,000	4,615	802,146
Other(including infrastructure)	152,562	256,992	164,974
	<b>10,551,872</b>	<b>9,130,424</b>	<b>10,130,592</b>
<b>Segment B</b>			
Manufacturing	-	-	72519
Financial and business services	-	-	3,350,275
Households	55,829	64,085	69,760
Global business licence holders	1,578,968	1,754,026	1,344,682
	<b>1,634,797</b>	<b>1,818,111</b>	<b>4,837,236</b>

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

### 20 Loans and advances to customers (continued)

#### (c) Allowance for impairment losses

	Stage 3 MUR'000	Stage 1&2 MUR'000	Total MUR'000
Balance at 31 December 2019	16,872	36,893	53,765
Release for credit impairment for the year	535,932	44,277	580,209
Balance at 31 December 2020	552,804	81,170	633,974
Provision for credit impairment for the year	(459,265)	(34,309)	(493,574)
Balance at 31 December 2021	93,539	46,861	140,400
Provision for credit impairment for the year	(56,074)	(21,255)	(77,329)
<b>Balance at 31 December 2022</b>	<b>37,465</b>	<b>25,606</b>	<b>63,071</b>

Allowance for impairment losses pertain to Segment A activities only.

#### (d) Provision for impairment losses by industry sectors

2022	Gross amount of loans MUR'000	Non- performing loans MUR'000	Stage 3 MUR'000	Stage 1 & 2 MUR'000	Total credit loss allowance MUR'000
Agriculture and fishing	47	-	-	-	-
Manufacturing	2,546,850	-	-	386	386
of which EPZ	958,977	-	-	-	-
Tourism	196,411	69,825	24,374	251	24,625
Construction	6,428	-	-	4	4
Financial and business services	547,012	-	-	981	981
Traders	924,685	-	-	291	291
Households	6,153,706	68,442	13,091	23,675	36,766
of which credit card	247,945	1,566	231	4,167	4,398
Global business licence holders	1,578,968	-	-	-	-
Public non-financial corporations	80,000	-	-	-	-
Other	152,562	-	-	18	18
	<b>12,186,669</b>	<b>138,267</b>	<b>37,465</b>	<b>25,606</b>	<b>63,071</b>

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

### 20 Loans and advances to customers (continued)

#### (d) Provision for impairment losses by industry sectors (continued)

2021	Gross amount of loans MUR'000	Non- performing loans MUR'000	Stage 3 MUR'000	Stage 1& 2 MUR'000	Total credit loss allowance MUR'000
Agriculture and fishing	9,463	-	-	-	-
Manufacturing	2,275,657	-	-	9	9
<i>of which EPZ</i>	<i>791,493</i>	-	-	-	-
Tourism	366,740	119,458	73,220	16	73,236
Construction	32,681	-	-	-	-
Financial and business services	323,186	-	-	30	30
Traders	751,701	-	-	4	4
Households	5,173,474	77,639	20,317	46,804	67,121
<i>of which credit card</i>	<i>233,088</i>	<i>1,146</i>	<i>683</i>	<i>6,017</i>	<i>6,700</i>
Global business licence holders	1,754,026	-	-	-	-
Public non-financial corporations	4,615	-	-	-	-
Other	256,992	-	-	-	-
	10,948,535	197,097	93,537	46,863	140,400
2020	Gross amount of loans MUR'000	Non- performing loans MUR'000	Stage 3 MUR'000	Stage 1&2 MUR'000	Total credit loss allowance MUR'000
Agriculture and fishing	9,273	-	-	-	-
Manufacturing	2,414,969	-	-	1458	1458
<i>of which EPZ</i>	<i>851,848</i>	-	-	-	-
Tourism	355,661	131096	49474	178	49652
Construction	13,791	-	-	18	18
Financial and business services	3,736,033	-	-	722	722
Traders	911,012	-	-	29	29
Households	5,215,287	88,148	20,207	78,649	98,856
<i>of which credit card</i>	<i>261,528</i>	<i>2,089</i>	<i>676</i>	<i>5,611</i>	<i>6,287</i>
Global business licence holders	1,344,682	-	-	-	-
Public non-financial corporations	802,146	788300	483123	-	483123
Other	164,974	-	-	116	116
	14,967,828	1,007,544	552,804	81,170	633,974

Provision for impairment losses pertain to Segment A activities only.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022(continued)

#### 21 Investment securities

##### Bank (Total) and Segment A

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Investment securities carried at FVOCI	6,537,624	10,600,515	8,313,010
Investment securities carried at amortised cost	1,309,123	148,173	-
	<b>7,846,747</b>	<b>10,748,688</b>	<b>8,313,010</b>
Treasury Bills/Notes	7,546,800	10,600,515	8,313,010
Corporate bonds	299,947	148,173	-
	<b>7,846,747</b>	<b>10,748,688</b>	<b>8,313,010</b>
Current	5,473,767	7,351,194	2,973,597
Non-Current	2,372,980	3,397,494	5,339,413
	<b>7,846,747</b>	<b>10,748,688</b>	<b>8,313,010</b>

Investment securities carried at FVOCI pertain to Segment A activities only.

	FVOCI	Investment Securities at amortised cost	FVOCI	Investment Securities at amortised cost	FVOCI	Investment Securities at amortised cost
	2022	2021	2020	2020	2020	2020
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Treasury Bills/Notes						
At 01 January	10,600,515	148,184	8,324,946	-	7,755,621	-
Additions during the year	10,165,150	1,670,798	7,109,700	148,184	6,266,900	-
Disposed during the year	(200,000)	-	-	-	(524,500)	-
Matured during the period	(13,821,600)	(500,000)	(4,701,700)	-	(5,443,500)	-
Amortised discount/premium	(43,111)	(8,095)	(31,903)	-	151,261	-
Fair value (loss)/gain	(163,330)	-	(100,528)	-	119,164	-
Gross carrying amount	6,537,624	1,310,887	10,600,515	148,184	8,324,946	-
Less impairment	-	(1,764)	-	(10)	(11,936)	-
At 31 December	6,537,624	1,309,123	10,600,515	148,174	8,313,010	-
Equity shares						
At 01 January	-	-	-	-	8,185	-
Fair value loss through other comprehensive income	-	-	-	-	(8,185)	-
At 31 December	-	-	-	-	-	-

Investments securities comprise Government of Mauritius treasury bills and treasury notes that are held for regulatory purposes. Investment securities at amortised cost comprise of Government of Mauritius treasury bills, treasury notes and corporate bonds.

#### 22 Property, plant and equipment

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Owned property, plant and equipment	356,267	323,273	319,468
Right-of-use assets	34,577	21,970	95,632
At 31 December	<b>390,844</b>	<b>345,243</b>	<b>415,100</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 22 Property, plant and equipment (continued)

Bank (Total) and Segment A	Right-of-use assets	Land and buildings	Computer and other equipment	Other fixed assets	Total
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
<b>Cost</b>					
Balance at 1 January 2020	137,430	233,500	47,486	171,826	590,242
Acquisitions	-	-	2,978	16,445	19,423
Disposals	-	-	(2,264)	(18,480)	(20,744)
Revaluation adjustment	-	4,700	-	-	4,700
Modification of lease	(20,521)	-	-	-	(20,521)
Balance at 31 December 2020	116,909	238,200	48,200	169,791	573,100
Acquisitions	714	-	6,896	2,605	10,215
Disposals	-	-	(1,941)	(15,486)	(17,427)
Revaluation adjustment	-	13,300	-	-	13,300
Modification of lease	(56,943)	-	-	-	(56,943)
Transfers	-	-	17,552	(17,552)	-
<b>Balance at 31 December 2021</b>	<b>60,680</b>	<b>251,500</b>	<b>70,707</b>	<b>139,358</b>	<b>522,245</b>
Acquisitions	28,366	-	125	52,358	80,849
Disposals	-	-	(30,864)	(32,326)	(63,190)
Revaluation adjustment	-	10,900	-	-	10,900
Modification of lease	(42,148)	-	-	-	(42,148)
Transfers	-	-	484	(484)	-
<b>Balance at 31 December 2022</b>	<b>46,898</b>	<b>262,400</b>	<b>40,452</b>	<b>158,906</b>	<b>508,656</b>
<b>Accumulated depreciation</b>					
Balance at 31 December 2019	19,667	-	46,361	93,531	159,559
Depreciation for the year	22,938	1,880	2,189	13,722	40,729
Disposals/write off	-	-	(1,755)	(17,325)	(19,080)
Revaluation adjustment	-	(1,880)	-	-	(1,880)
Modification of lease	(21,328)	-	-	-	(21,328)
Balance at 31 December 2020	21,277	-	46,795	89,928	158,000
Depreciation for the year	23,110	1,968	3,575	15,135	43,788
Disposals/write off	-	-	(437)	(16,704)	(17,141)
Revaluation adjustment	-	(1,968)	-	-	(1,968)
Modification of lease	(5,677)	-	-	-	(5,677)
Transfers	-	-	10,218	(10,218)	-
<b>Balance at 31 December 2021</b>	<b>38,710</b>	<b>-</b>	<b>60,151</b>	<b>78,141</b>	<b>177,002</b>
Depreciation for the year	22,636	2,098	5,567	14,430	44,731
Disposals/write off	-	-	(30,864)	(21,934)	(52,798)
Revaluation adjustment	-	(2,098)	-	-	(2,098)
Modification of lease	(49,025)	-	-	-	(49,025)
<b>Balance at 31 December 2022</b>	<b>12,321</b>	<b>-</b>	<b>34,854</b>	<b>70,637</b>	<b>117,812</b>
<b>Net Book Value</b>					
<b>As at 31 December 2022</b>	<b>34,577</b>	<b>262,400</b>	<b>5,598</b>	<b>88,269</b>	<b>390,844</b>
As at 31 December 2021	21,970	251,500	10,556	61,217	345,243
As at 31 December 2020	95,632	238,200	1,405	79,863	415,100

The last valuation (desktop) was carried out on 31 December 2022 by an experienced, qualified independent valuer, Mr. Geoff Kruger from Leadenhall International Property Services (Pty) Ltd, who has relevant professional experience in the localities and categories of the properties held.



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 22 Property, plant and equipment (continued)

The valuation of land and buildings has been determined using market comparables. To provide an indication about the reliability of the inputs used in determining fair value, the Bank has classified its land and buildings into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 5.

MUR'000	At 31 December 2022		At 31 December 2021		At 31 December 2020	
	Land	Buildings	Land	Buildings	Land	Buildings
Level 2	152,019	-	146,514	-	139,700	-
Level 3	-	110,373	-	104,986	-	98,500

#### IFRS 13 reconciliation for Level 3

Bank (Total)	2022	2021	2020
	MUR'000	MUR'000	MUR'000
At 01 January	251,500	238,200	233,500
Revaluation	10,900	13,300	4,700
At 31 December	262,400	251,500	238,200

#### *Valuation inputs and relationships to fair value*

Valuation model	Sales comparison Approach and Depreciated Replacement cost
Unobservable inputs	Rate per square metre

#### *Sensitivity*

A 5% increase/decrease in the rate per square metre will lead to a decrease/increase in the value of land and buildings by +/- MUR13,119,607 with all other variables held constant.

There was no transfer in fair value hierarchy during the year.

All properties, plant and equipment pertains to Segment A only. The Bank did not have any assets held under finance lease as at 31 December 2022, 2021 and 2020.

The cost of land is MUR 651,000 as at 31 December 2022 and is not depreciated (2021: MUR 651,000 and 2020: MUR 651,000).

The carrying amounts of buildings that would have been included in the financial statements had the assets been carried at cost less accumulated depreciation is as follows:

Bank (Total)	2022	2021	2020
	MUR'000	MUR'000	MUR'000
Cost	27,500	27,500	27,500
Accumulated depreciation	(25,209)	(25,032)	(24,855)
Net book value	2,291	2,468	2,645

#### 22 (a) Intangible assets

	2022	2021	2020
	MUR'000	MUR'000	MUR'000
<b>Cost</b>			
Balance as at 1 January	3,450	-	-
Acquisition	-	3,450	-
Balance as at 31 December	3,450	3,450	-
<b>Amortisation</b>			
Balance as at 1 January	58	-	-
Charge	689	58	-
Balance as at 31 December	747	58	-
<b>Net Book Value</b>	<b>2,703</b>	<b>3,392</b>	

The intangible assets relate to computer software with a useful life of 5 years.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 23 Deferred tax assets

	Retirement benefit obligation	Revaluation of non-investment property	Impairment allowances	Accelerated capital allowances	Lease	Fair valuation	Tax losses	Other provision	Total
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 1 January 2020	48,129	(4,146)	3,919	(978)	(101)	-	-	-	46,823
Charged/(credited) to profit or loss	576	-	40,459	(1,114)	106	-	-	-	40,027
Charged/(credited) to other comprehensive income	19,006	(308)	-	-	-	-	-	-	18,698
At 31 December 2020	67,711	(4,454)	44,378	(2,092)	5	-	-	-	105,548
Charged/(credited) to profit or loss	1,131	-	(34,480)	624	(45)	-	15,120	-	(17,650)
Credited to other comprehensive income	(26,591)	(461)	-	-	-	(4,607)	-	-	(31,659)
At 31 December 2021	42,251	(4,915)	9,898	(1,468)	(40)	(4,607)	15,120	-	56,239
Write off of deferred tax to P&L	51,643	-	(9,898)	1,468	40	-	(15,120)	-	28,133
Write off of deferred tax in other comprehensive income	(93,894)	4,915	-	-	-	4,607	-	-	(84,372)
At 31 December 2022	-	-	-	-	-	-	-	-	-

Deferred tax assets relate to Segment A activities only and are non-current assets.

Deferred tax assets have not been recognised in respect of the following items, because it is not probable that future taxable profit will be available which the Bank can use the benefits therefrom.

Deductible temporary differences  
Tax losses

2022	
MUR 000	MUR 000
Gross amount	Tax effect
503,119	35,218
323,048	22,613
826,167	57,831

#### 24 Other assets

##### Bank (Total)

Mandatory balances with central bank\*  
Retirement benefits (funded)  
Items in course of collection from other banks  
Accrued interest receivable  
Other  
*of which Acceptance & Endorsement*

Less Stage 1 and 2 impairment

##### Segment A

Mandatory balances with central bank\*  
Retirement benefits (Note 29)  
Items in course of collection from other banks  
Accrued interest receivable  
Other

Less Stage 1 and 2 impairment

##### Segment B

Accrued interest receivable  
Other

Note	2022	2021	2020
	MUR'000	MUR'000	MUR'000
29	2,069,555	1,958,117	1,567,270
	103,270	-	-
	47,604	30,313	7,305
	80,390	85,066	94,628
	212,578	1,090,418	770,691
	158,588	1,039,973	731,378
	2,513,397	3,163,914	2,439,894
	(27)	(1)	(33)
	2,513,370	3,163,913	2,439,861
	2,069,555	1,958,117	1,567,270
	103,270	-	-
	47,604	30,313	7,305
	80,390	85,066	87,713
	145,976	71,118	89,750
	2,446,795	2,144,614	1,752,038
	(27)	(1)	(33)
	2,446,768	2,144,613	1,752,005
	-	-	6,915
	66,602	1,019,300	680,941
	66,602	1,019,300	687,856

\*Balance to be maintained with Central Bank as Cash Reserve Requirement. The Balance with Central Bank is non-interest bearing.

All other assets are current in nature.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 25 Deposits from banks

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Bank (Total)</b>			
Other deposits from banks	451,231	1,177,285	747,792
<b>Segment A</b>			
Other deposits from banks	143,703	58,594	32,115
<b>Segment B</b>			
Other deposits from banks	307,528	1,118,691	715,677

All deposits from banks are current.

#### 26 Deposits from customers

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Bank (Total)</b>			
<b>Retail customers</b>			
Current accounts	490,112	531,434	479,535
Savings accounts	13,428,491	13,980,779	12,646,533
Time deposits with remaining term to maturity			
Up to 3 months	909,310	382,151	499,302
Over 3 months and up to 6 months	616,005	451,969	362,041
Over 6 months and up to 12 months	1,088,094	784,930	613,922
Over 1 year and up to 5 years	998,446	1,020,540	950,811
<b>Corporate customers</b>			
Current accounts	8,226,506	7,954,101	4,714,963
Savings accounts	162,665	138,116	127,523
Time deposits with remaining term to maturity			
Up to 3 months	66,920	50,244	1,903,842
Over 3 months and up to 6 months	43,775	22,939	29,805
Over 6 months and up to 12 months	165,631	435,302	418,626
Over 1 year and up to 5 years	6,016	41,390	15,146
<b>Government</b>			
Current accounts	133,846	21,023	6,412
Time deposits with remaining term to maturity			
Up to 3 months	-	-	9,952
	26,335,817	25,814,918	22,778,413
Current	25,331,355	24,752,987	21,812,456
Non-Current	1,004,462	1,061,931	965,957
	26,335,817	25,814,918	22,778,413

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 26 Deposits from customers (continued)

Current accounts are mostly non-interest bearing, whereas for Savings account a managed rate is applicable. Interest rate on time deposits will be fixed in nature.

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Segment A</b>			
<b>Retail customers</b>			
Current accounts	463,896	513,329	456,938
Savings accounts	12,623,263	13,055,184	11,728,325
Time deposits with remaining term to maturity			
Up to 3 months	843,390	355,950	465,823
Over 3 months and up to 6 months	571,146	426,575	333,046
Over 6 months and up to 12 months	995,636	768,946	579,622
Over 1 year and up to 5 years	924,192	975,964	913,676
<b>Corporate customers</b>			
Current accounts	6,061,039	5,630,333	4,026,171
Savings accounts	162,665	138,116	127,523
Time deposits with remaining term to maturity			
Up to 3 months	62,429	45,729	1,666,034
Over 3 months and up to 6 months	40,662	20,089	26,238
Over 6 months and up to 12 months	163,489	189,135	174,888
Over 1 year and up to 5 years	5,671	41,390	14,801
<b>Government</b>			
Current accounts	133,846	21,023	6,412
Time deposits with remaining term to maturity			
Up to 3 months	-	-	9,952
	<b>23,051,324</b>	<b>22,181,763</b>	<b>20,529,449</b>
<b>Segment B</b>			
<b>Retail customers</b>			
Current accounts	26,216	18,105	22,597
Savings accounts	805,228	925,596	918,208
Time deposits with remaining term to maturity			
Up to 3 months	65,920	26,201	33,479
Over 3 months and up to 6 months	44,859	25,394	28,995
Over 6 months and up to 12 months	92,458	15,984	34,300
Over 1 year and up to 5 years	74,254	44,576	37,135
<b>Corporate customers</b>			
Current accounts	2,165,467	2,323,768	688,792
Time deposits with remaining term to maturity			
Up to 3 months	4,491	4,515	237,808
Over 3 months and up to 6 months	3,113	2,849	3,567
Over 6 months and up to 12 months	2,142	246,167	243,738
Over 1 year and up to 5 years	345	-	345
	<b>3,284,493</b>	<b>3,633,155</b>	<b>2,248,964</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 27 Other borrowed funds

		2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Bank (Total)</b>				
Borrowings from banks				
	In Mauritius (Segment A)	444,494	1,083,503	1,970,749
	Abroad (Segment B)	-	-	3,247,803
		<b>444,494</b>	<b>1,083,503</b>	<b>5,218,552</b>
Current		<b>444,494</b>	1,075,938	5,218,552
Non-Current		-	7,565	-

Other borrowed funds are interest bearing and unsecured in nature. The Bank has a facility line of USD225m with HSBC Hong Kong which enables it to drawdown as and when needed to meet liquidity and funding requirements. The facility has no drawn amount as at 31 December 2022 (2021: Nil). There have been no defaults during the year.

#### 28 Other liabilities

	Note	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Bank (Total)</b>				
Accrued interest payable		59,230	39,077	43,934
Accrued expenses		64,754	76,392	61,101
Retirement benefits (funded)	29	-	(2,402)	185,495
Other retirement obligation (unfunded)	29	31,457	34,829	37,904
Lease liabilities (note a)		35,977	21,412	97,198
Other		392,500	1,202,847	862,291
<i>of which: Acceptance and Endorsement</i>		<i>158,588</i>	<i>1,039,972</i>	<i>731,378</i>
<i>Intercompany recharge costs</i>		<i>29,378</i>	<i>24,497</i>	<i>29,419</i>
<i>Provision for off-balance sheet exposure</i>		<i>1,547</i>	<i>1,068</i>	<i>1,983</i>
		<b>583,918</b>	<b>1,372,155</b>	<b>1,287,923</b>
Current		<b>547,203</b>	1,339,728	1,064,524
Non-Current		<b>295,782</b>	32,427	223,399
		<b>842,985</b>	<b>1,372,155</b>	<b>1,287,923</b>
<b>Segment A</b>				
Accrued interest payable		59,228	38,983	42,240
Accrued expenses		64,754	76,392	61,101
Retirement benefits		-	(2,402)	185,495
Other retirement obligation (unfunded)		31,457	34,828	37,904
Lease liabilities		35,977	21,412	97,198
Other		325,898	183,548	181,563
		<b>517,314</b>	<b>352,761</b>	<b>605,501</b>
<b>Segment B</b>				
Accrued interest payable		2	94	1,694
Other		66,602	1,019,300	680,728
		<b>66,604</b>	<b>1,019,394</b>	<b>682,422</b>

Note a - Lease liabilities represent the present value of lease payments over the leases contract period inclusive of the extension option. The lease payments amounts to MUR22.2m. Please refer to note 35(d)(iii) for the maturity analysis.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 29 Retirement benefits

##### (a) Defined benefits plan

The plan is a defined benefit arrangement, with benefits based on final salary. It provides for a pension at retirement and a benefit on death or disablement in service before retirement. In addition, the plan provides for a spouse's pension on a member's death in retirement. The spouse's pension is equal to one-third of the member's pension.

The pension plan is managed by a committee which comprise representatives from across the Bank and regulated by the Private Pension Scheme Act 2012. The committee is responsible of the investment policy with regards to the assets of the pension plan in accordance with the Private Pension Scheme Act 2012. The committee has outsourced the portfolio and administrative services of the pension plans to Swan Wealth Managers Ltd and Swan Pensions Ltd with effect from 21 December 2016.

The assets of the funded plan are held and administered by HSBC Superannuation Fund for Resident Officers ("ROCS") and HSBC Superannuation Fund for Staff Officers, Clerical and Subordinate Staff ("SOCS") respectively. The latter is expected to produce a smooth progression of return from one year to the next. As the fund is expected to produce a smooth return, a fairly reasonable indication of future returns can be obtained by looking at historical ones. Therefore, the long term expected return on asset assumption has been based on historical performance of the fund. In terms of the individual expected returns, the expected return on equities has been based on an equity risk premium above a risk free rate. The risk free rate has been measured in accordance to the yields on government bonds at the measurement date. The fixed interest portfolio includes government bonds, loan stocks and mortgages. The expected return for this asset class has been based on yields of government bonds at the measurement date. The actual return on plan assets was MUR(28.1m) (2021 – MUR17.5m).

The defined benefit plans expose the Bank to actuarial risks, such as longevity risk, investment risk, interest risk and salary risk.

##### *Longevity risk*

The plan liability is calculated by reference to the best estimate for the mortality of plan participants both during and after their employment. An increase in life expectancy of the plan participants will increase the plan liability.

##### *Investment risk*

The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.

##### *Interest risk*

A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

##### *Salary risk*

The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 29 Retirement benefits (continued)

##### (a) Defined benefits plan (continued)

The funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

The principal actuarial assumptions are:

	2022	2021	2020
Discount rate			
ROCS Funded	6.30%	4.70%	2.80%
SOCS Funded	6.30%	4.60%	2.70%
ROCS Unfunded	5.40%	3.10%	2.00%
SOCS Unfunded	5.60%	3.50%	2.20%
Future long-term salary increase	4.00%/	4.00%/	3.00%/
	4.70%	4.70%	4.00%
Future expected pension increase	3.75%/	3.75%/	
	4.03%	4.03%	2.49%

The retirement benefit assets as at 31 December 2022 are based on the report submitted by Swan Life Ltd.

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Equities	365,008	358,150	141,840
Fixed interest	476,976	577,707	521,717
Cash	184,111	191,170	479,688
Total market value of assets	1,026,095	1,127,027	1,143,245
Present value of plan liabilities	(922,825)	(1,124,625)	(1,328,740)
Net asset/(liability) for retirement obligation recognised in statement of financial position	103,270	2,402	(185,495)

#### Expected contribution next year

The Bank is not expected to contribute to the pension schemes for the year ended 31 December 2023 (2022: Nil) .

#### Maturity profile of the Defined Benefits Obligation

As at 31 December 2022, the average remaining working life of the employees for ROCS funded and SOCS funded is 12 years and 11 years respectively.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 29 Retirement benefits (continued)

##### (a) Defined benefits plan (continued)

##### Pension expense components for the year

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Current service cost	16,736	22,541	19,325
Interest cost	50,983	35,799	52,569
Interest income	(50,132)	(30,446)	(45,537)
Net interest cost	851	5,353	7,032
<b>Total amount recognised in profit or loss</b>	<b>17,587</b>	<b>27,894</b>	<b>26,357</b>

##### Movement in asset/(liability) recognised in statement of financial position

At start of the year	2,402	(185,495)	(388,339)
Total amount recognised in profit or loss	(17,587)	(27,894)	(26,357)
Actuarial gains/(losses)	116,707	198,840	(272,391)
Employer's contributions	1,748	16,951	501,592
At end of the year	<b>103,270</b>	<b>2,402</b>	<b>(185,495)</b>

##### Change in defined benefit obligation

Present value of defined benefit obligation			
At start of the year	(1,124,625)	(1,328,740)	(1,050,424)
Current service cost	(16,736)	(22,541)	(19,325)
Interest cost	(50,983)	(35,799)	(52,569)
Remeasurements	220,259	204,290	(240,533)
Benefits paid	49,260	58,165	34,111
Present value of defined benefit obligation at end of the year	<b>(922,825)</b>	<b>(1,124,625)</b>	<b>(1,328,740)</b>

##### Change in plan assets

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Fair value of plan assets at start of the year	1,127,027	1,143,245	662,085
Interest income	50,132	30,446	45,537
Employer's contributions	1,747	16,951	501,590
Return on plan assets, excluding amounts included in interest income	(103,551)	(5,450)	(31,856)
Benefits paid	(49,260)	(58,165)	(34,111)
Fair value of plan assets at end of the year	<b>1,026,095</b>	<b>1,127,027</b>	<b>1,143,245</b>



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 29 Retirement benefits (continued)

##### (a) Defined benefits plan (continued)

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Analysis of amount recognised in statement of changes in equity</b>			
Losses on pension scheme assets	(103,551)	(12,994)	(31,856)
Remeasurements - Experience gains on the liabilities	9,793	55,880	19,022
Remeasurements - Changes in financial assumptions on the liabilities	210,465	155,954	(259,555)
Actuarial gain/(loss) recognised in other comprehensive income	116,707	198,840	(272,389)
<b>Net asset/(liability) relating to the funded plans</b>			
Present value of funded obligations	(922,825)	(1,124,625)	(1,328,740)
Fair value of plan assets	1,026,095	1,127,027	1,143,245
Surplus/(Deficit) of funded plans	103,270	2,402	(185,495)

##### Sensitivity analysis

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Decrease in Defined Benefit Obligation due to 1% increase in discount rate	97,143	151,409	209,134
Increase in Defined Benefit Obligation due to 1% decrease in discount rate	133,723	191,401	271,380
Increase in Defined Benefit Obligation due to 1% increase in future long-term salary assumption	24,736	35,949	63,249
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term salary assumption	22,833	32,901	57,761
Increase in Defined Benefit Obligation due to 1% increase in future long-term pension assumption	107,560	147,796	198,161
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term pension assumption	90,632	122,847	163,324

The sensitivity analysis above has been determined based on sensibly possible changes of the discount rate or salary increase rate occurring at the end of the reporting year if all other assumptions remained unchanged.

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of the one another as some of the assumptions may be correlated.

The retirement benefits asset at 31 December 2022 are based on the report prepared by Swan Life Limited in December 2022.

##### (b) Defined contribution plan

The liability relates to employees who are entitled to statutory benefits prescribed under parts VIII and IX of the Workers' Rights Act 2019 ('WRA'). The latter provides for a lump sum on withdrawal, at retirement or death, whichever occurs earlier, based on final salary and years of service.

For employees who are members of the Defined Contribution plan, half of any lumpsum and 5 years of pension (relating to Employer's share of contributions only) payable from the pension fund have been offset from the gratuities.

The Bank is not expected to contribute to its post-employment defined contribution plans for the year ending 31 December 2023.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 29 Retirement benefits (continued)

##### (b) Defined contribution plan (continued)

The principal actuarial assumptions are:

	2022	2021	2020
Discount rate	6.90%	5.40%	3.10%
Future long-term salary increase	5.00%	4.35%	3.40%

#### Maturity profile of the Defined Contribution Obligation

The average remaining working life of the employees at 31 December 2022 is 20 years.

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Pension expense components for the year</b>			
Current service cost	2,877	4,078	867
Net interest cost	1,881	1,175	587
<b>Total amount recognised in profit or loss</b>	<b>4,758</b>	<b>5,253</b>	<b>1,454</b>
<b>Movement in liability recognised in statement of financial position</b>			
At start of the year	(34,829)	(37,904)	(10,866)
Total amount recognised in profit or loss	(4,758)	(5,253)	(1,454)
Actuarial gains/(losses)	8,130	8,328	(25,584)
At end of the year	<b>(31,457)</b>	<b>(34,829)</b>	<b>(37,904)</b>
<b>Change in defined contribution obligation</b>			
Present value of defined contribution obligation			
At start of the year	(34,829)	(37,904)	(10,866)
Current service cost	(2,877)	(4,078)	(867)
Interest cost	(1,881)	(1,175)	(587)
Remeasurements	8,130	8,328	(25,584)
Present value of defined benefit obligation at end of the year	<b>(31,457)</b>	<b>(34,829)</b>	<b>(37,904)</b>
<b>Analysis of amount recognised in statement of changes in equity</b>			
Remeasurements - Experience losses on the liabilities	(2,012)	(5,138)	(4,092)
Remeasurements - Changes in financial assumptions on the liabilities	10,142	13,466	(21,492)
Actuarial gains/(losses) recognised in other comprehensive income	<b>8,130</b>	<b>8,328</b>	<b>(25,584)</b>
<b>Cumulative actuarial (losses)/gains recognised</b>			
Cumulative actuarial losses at start of year	(19,468)	(27,796)	(2,212)
Actuarial gains/(losses) recognised this year	8,130	8,328	(25,584)
Cumulative actuarial losses at end of year	<b>(11,338)</b>	<b>(19,468)</b>	<b>(27,796)</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 29 Retirement benefits (continued)

##### (b) Defined contribution plan (continued)

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Net liability relating to the unfunded plans</b>			
Unfunded defined contribution obligation	(31,457)	(34,829)	(37,904)
Actuarial gains/(losses) on plan liabilities	8,130	8,328	(25,584)

#### Sensitivity analysis

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Increase in defined benefit obligation due to 1% decrease in discount rate	11,407	10,788	12,245
Decrease in defined benefit obligation due to 1% increase in discount rate	9,305	10,444	10,593
Increase in defined benefit obligation due to 1% increase in future long-term salary assumption	11,684	10,794	12,067
Decrease in defined benefit obligation due to 1% decrease in future long-term pension assumption	9,626	10,612	10,654

The sensitivity analysis above has been carried out by recalculating the present value of obligation at end of period after increasing the discount rate/salary increase rate while leaving all other assumptions unchanged. The results are particularly sensitive to a change in discount rate/salary increase rate due to the nature of the liabilities being the difference between the pure retirement gratuities under the Workers Rights Act 2019 and the deductions allowable, being five times the annual pension provided and half the lump sum received by the member at retirement from the pension fund with reference to the Bank's share of contributions.

The retirement benefits asset at 31 December 2022 are based on the report prepared by Swan Life Limited in December 2022.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 30 Capital and reserves

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Other Reserves</b>			
Share based payment reserve	13,981	12,493	13,009
Revaluation reserve	237,147	221,332	208,493
Statutory reserve	306,835	306,835	306,835
General banking reserve	132,833	91,881	91,861
Fair value reserve	(95,585)	59,312	164,226
	595,211	691,853	784,424
<b>Retained Earnings</b>	896,274	1,172,632	707,398
	1,491,485	1,864,485	1,491,822

##### a) *Assigned capital*

The Bank's assigned capital is at MUR794.2m (2021: MUR794.2m) which is above the minimum capital requirement of MUR400m as per Section 20 of the Mauritian Banking Act 2004.

##### b) *Revaluation reserve*

The revaluation reserve comprises the cumulative increase in the existing value of freehold land and buildings held by the Bank.

##### c) *Statutory reserve*

The Bank's statutory reserve was at MUR307m in accordance with Section 21 of the Mauritian Banking Act 2004 which requires the Bank to transfer 15% of its annual profits to a statutory reserve until this reserve equals its stated capital.

##### d) *General banking reserve*

This represents amounts set aside by the Bank, as appropriation of earnings, for unforeseeable risks and future losses.

Additional provision for certain specific sectors are made in accordance with the Bank of Mauritius macro-prudential measures. The Bank also makes additional provision on its impaired book over and above the Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition*.

##### e) *Fair value reserve*

The fair value reserve comprises the cumulative net change in the financial assets held at FVOCI until the assets are derecognised or impaired.

##### f) *Retained earnings*

Retained earnings relates to profit or loss carried forward at year-end.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 30 Capital and reserves (continued)

##### g) Share based payment reserve

This represents reserves for restricted share plan and share options granted to employees.

##### (i) Restricted Share Plan

Share awards are restricted shares that are awarded to some employees only, on a discretionary basis to help reward an individual's contribution to the Bank and in recognition of their future potential. In addition, the awards are designed to help retain and motivate key individuals by sharing with them the long-term growth and success of the Bank as a whole. The shares are granted over a period of 3 years with staggered vesting conditions of 33% each year and are equity settled.

	<b>MUR'000</b>
At 1 January 2020	25,323
Charge to profit or loss	2,060
Fair value movement on shares held	1,628
Other movement	(16,002)
At 31 December 2020	13,009
Charge to profit or loss	1,922
Fair value movement on shares held	(1,955)
Other movement	(483)
At 31 December 2021	<b>12,493</b>
Charge to profit or loss	<b>1,830</b>
Fair value movement on shares held	<b>(342)</b>
<b>At 31 December 2022</b>	<b>13,981</b>

##### (ii) Share Save

The HSBC Holdings Savings-Related Share Option Plan: International are all-employee share plans under which eligible employees (those employed within the HSBC Group on the first working day of the year of grant) may be granted options to acquire HSBC Holdings ordinary shares. Employees may make contributions of up to £250 (or equivalent) each month over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. Alternatively, the employee may elect to have the savings, plus (where applicable) any interest or bonus, repaid in cash. One-year options will be exercisable within three months following the first anniversary of the commencement of the savings contract.

Three or five-year options are exercisable within six months following the third or fifth anniversary of the commencement of the relevant savings contract. In the case of redundancy, retirement on grounds of injury or ill health, retirement, the transfer of the employing business to another party, or a change of control of the employing company, options may be exercised before completion of the relevant savings contract.

As from 2013, there has been no further grants under the HSBC Holdings Savings-Related Share Option Plan: International.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 31 Contingent liabilities

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and are generally extended over the year of the facility. These commitments and contingent liabilities have off-balance sheet credit risk. Only origination fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expired. The possibility of any outflow in settlement is remote.

The contractual amounts of commitments and contingent liabilities are set out below.

	2022	2021	2020
	MUR'000	MUR'000	MUR'000
<b>Bank (Total)</b>			
Guarantees on account of customers	2,482,759	3,290,926	3,043,051
Letters of credit and other obligations	163,738	392,997	591,590
	<b>2,646,497</b>	<b>3,683,923</b>	<b>3,634,641</b>
<b>Segment A</b>			
Guarantees on account of customers	1,171,080	1,137,650	1,206,347
Letters of credit and other obligations	163,738	212,246	270,220
	<b>1,334,818</b>	<b>1,349,896</b>	<b>1,476,567</b>
<b>Segment B</b>			
Guarantees on account of customers	1,311,679	2,153,276	1,836,704
Letters of credit and other obligations	-	180,751	321,370
	<b>1,311,679</b>	<b>2,334,027</b>	<b>2,158,074</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 32 Commitments

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Bank (Total)</b>			
Undrawn credit facilities	9,647,576	7,968,663	8,574,018
<b>Segment A</b>			
Undrawn credit facilities	5,423,837	5,650,947	6,029,326
<b>Segment B</b>			
Undrawn credit facilities	4,223,739	2,317,716	2,544,692

#### 33 Analysis of cash and cash equivalents

	2022 MUR'000	2021 MUR'000	2020 MUR'000
<b>Bank (Total)</b>			
Cash and cash equivalents (Note 17)	7,068,916	6,643,354	6,443,248
Other borrowed funds	-	-	(1,244)
Investment securities less than three months	149,235	-	-
	7,218,151	6,643,354	6,442,004

#### 34 Related party transactions

##### Key management personnel

The total remuneration and transactions entered by the members of senior management with the bank as listed in the statement of corporate governance practices is disclosed below:

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Loans	26,354	38,341	32,407
Interest income	370	469	547
Deposits	38,032	40,681	54,335
Interest expense	36	20	42
<b>Key management compensation</b>			
Short-term employee benefits	96,403	90,908	81,482
Share based payments	-	1,940	-
Other long-term benefits	9,127	10,250	14,364
Key management exposure (MUR'000)	28,361	41,332	38,162
% of Tier 1 capital	1.6	1.8	2.3

None of the facilities granted to related parties were non-performing.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 34 Related party transactions (continued)

##### Group Companies

The Bank is a branch of The Hongkong and Shanghai Banking Corporation Limited ("HSBC Hongkong") and has a related party relationship with it. The Bank has also a related party relationship with other group companies under HSBC Holdings plc, the ultimate holding company. The Bank has bank accounts (nostro) with the above related parties and the latter also hold bank accounts (vostro) with the Bank. Interests, fees and commissions were paid and/or received in relation to these bank accounts. During the year, the Bank also paid group support costs to its Head Office, HSBC Bank Middle East and HSBC India. The following table summarises the transactions during the year and the balances at year-end with related parties.

MUR'000

	31-Dec-22					
	HSBC Ltd*	HSBC Bank (Mauritius) Ltd	HSBC Bank Plc*	HSBC Bank USA	Other related parties	Total
<i>Statement of financial position:</i>						
Assets						
Intercompany bank accounts	432,707	657	525,459	2,054,871	571,825	3,585,519
Balances and placements with banks	100,930	352,975	21	-	468	454,394
Liabilities						
Intercompany deposits	-	442,974	-	-	-	442,974
Intercompany bank accounts	346,326	143,700	169,809	10	4,572	664,417
Other liabilities	28,227	1,151	-	-	-	29,378
<i>Statement of comprehensive income:</i>						
Other interest receivable	6,131	3,594	407	7,159	42	17,333
Other interest payable	1	14,356	4,905	-	-	19,262
Fee and commission receivable	4,323	-	-	219	-	4,542
Fee and commission payable	206	5	123	1,732	996	3,062
Other income	-	188,036	-	408	-	188,444
Other expenses	317,621	15,413	-	-	34,684	367,718
Profit remittance	280,682	-	-	-	-	280,682

\* HSBC Ltd and HSBC Bank Plc includes their international branches.



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 34 Related party transactions (continued)

	31-Dec-21					
MUR'000	HSBC Ltd*	HSBC Bank (Mauritius) Ltd	HSBC Bank Plc*	HSBC Bank USA	Other related parties	Total
<i>Statement of financial position:</i>						
Assets						
Intercompany bank accounts	111,607	891	1,357,823	849,148	523,727	2,843,196
Balances and placements with banks	1,187,087	460,014	109	-	460	1,647,670
Liabilities						
Intercompany deposits	-	1,075,938	-	-	-	1,075,938
Intercompany bank accounts	62,658	58,595	359,637	42	2,054	482,986
Other liabilities	16,959	39	-	-	7,499	24,497
<i>Statement of comprehensive income:</i>						
Other interest receivable	3,795	2,719	-	-	-	6,514
Other interest payable	3,853	2,008	2,131	-	-	7,992
Fee and commission receivable	2,070	-	-	308	-	2,378
Fee and commission payable	185	5	579	1,065	710	2,544
Other income	-	176,225	-	-	453	176,678
Other expenses	229,119	14,459	305	-	83,971	327,854

\* HSBC Ltd and HSBC Bank Plc includes their international branches.

	31-Dec-20					
MUR'000	HSBC Ltd*	HSBC Bank (Mauritius) Ltd	HSBC Bank Plc*	HSBC Bank USA	Other related parties	Total
<i>Statement of financial position:</i>						
Assets						
Intercompany bank accounts	68,957	159	550,701	724,616	519,502	1,863,935
Balances and placements with banks	1,279,360	583,134	61	-	367	1,862,922
Liabilities						
Other borrowed funds	3,246,558	1,970,750	-	-	-	5,217,308
Intercompany bank accounts	7,107	32,115	138,930	1,281	434	179,867
Other liabilities	29,673	1,411	-	-	1,439	32,523
<i>Statement of comprehensive income:</i>						
Other interest receivable	8,746	7,933	172	-	0	16,851
Other interest payable	43,213	22,925	1,762	-	-	67,900
Fee and commission receivable	1,814	-	-	226	-	2,040
Fee and commission payable	113	11	214	947	507	1,792
Other income	-	190,668	-	42	314	191,024
Other expenses	243,694	13,970	148	-	54,584	312,396

\* HSBC Ltd and HSBC Bank Plc includes their international branches.

None of the facilities granted to Group companies were non-performing.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **35 Financial Risk Management**

##### **(a) Introduction and overview**

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks (including interest rate and foreign currency risks)

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital. The measurement of ECL under IFRS 9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed separately in note 35(b)(iii).

##### **Risk management framework**

The Board of Directors of the Head Office has overall responsibility for the establishment and oversight of the Bank's risk management framework.

The Bank has established the Assets and Liabilities Committee ('ALCO') and Risk Management Meeting ('RMM') committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

The Group Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

The credit risk management framework of the Bank includes RMM, which provides a holistic forum for oversight of the different aspects of risk management. The RMM reviews the risk profile of the Bank on a monthly basis and highlights risk issues across all businesses at an early stage. The Bank's information system, has been designed such that unauthorised excesses, overdue loan repayments and pending documentation are tracked and addressed in a timely manner. In addition, regular reporting on credit risk is made to the parent, The Hongkong and Shanghai Banking Corporation Limited, incorporated in Hong Kong, and to the Bank of Mauritius.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **35 Financial Risk Management (continued)**

##### **(a) Introduction and overview (continued)**

##### **Risk management framework (continued)**

##### **(b) Credit risk**

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

The Bank generally accepts security as collateral for advances extended to its corporate customer base. The acceptable forms of tangible security are agreed every year by way of area lending guidelines which are prepared by the Credit Risk Management function and approved by the regional credit function in Hong Kong before being circulated to relationship managers for guidance and adherence. Credit derivatives, haircuts and on and off-balance sheet netting are not used in respect of credit risk mitigation.

For risk management purposes, credit risk arising on trading assets is managed independently; and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk.

##### **(i) Management of credit risk**

The Global Risk function, headed by the Group Chief Risk Officer, has functional responsibility for the management of the Bank's credit risk, including:

- formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities;
- reviewing and assessing credit risk in excess of designated limits;
- reviewing and limiting concentrations of exposure to counterparties, geographies and industries and product types;
- developing and maintaining the Bank's risk rating systems; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout HSBC Group in the management of credit risk.

Each business unit within the Group is required to implement HSBC Group credit policies and procedures, with credit approval authorities delegated from the HSBC Group Credit Committee. Each business unit has a Chief Risk Officer who is responsible for the implementation of the HSBC Group's credit policies and procedures and for monitoring and controlling all credit risks in its portfolios.

For rating assignment at individually significant customer level, businesses adopt an internal ratings-based ("IRB") approach and maintain risk rating methodologies incorporating the PD and the attribution of EAD and LGD values at facility level.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

###### (i) Management of credit risk (continued)

PD reflects the likelihood of the obligor default within the next 12 months or the life of the instrument, and is assigned to all corporate and other judgmentally assessed obligors, reviewed at least annually.

LGD, is an estimate of the severity of the loss that the Bank is likely to incur in the event that the borrower defaults, expressed as a percentage of exposure at default and applied as a rating at facility level. The use of EAD and LGD ensure the Bank complies with Group and local regulatory parameters to evaluate the severity of loss associated with judgmentally assessed credit exposures.

Regular audits of business units and HSBC Group Credit processes are undertaken by the Internal Audit function.

The Bank 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 IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2. The five credit quality classifications defined below, each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. As at 31 December 2022, the Bank has not classified any of its financial assets as having low credit risk. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

	Debt securities and other bills	Wholesale lending		Retail lending	
	External credit rating	Internal credit rating	12-month Basel Probability of default %	Internal credit rating	12-month Probability-weighted PD %
<b>Credit quality classification</b>					
<b>Strong</b>	A- and above	CRR1 to CRR2	0.000–0.169	Band 1 and 2	0.000–0.500
<b>Good</b>	BBB+ to BBB-	CRR3	0.170–0.740	Band 3	0.501–1.500
<b>Satisfactory</b>	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914	Band 4 and 5	1.501–20.000
<b>Sub-standard</b>	B- to C	CRR6 to CRR8	4.915–99.999	Band 6	20.001–99.99
<b>Credit-impaired</b>	Default	CRR9 to CRR10	100	Band 7	100

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (ii) Credit Quality of financial instruments

2022

	Gross carrying/nominal amount					Total	Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired			
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Loans and advances to customers at amortised cost	5,918,258	2,938,316	2,584,073	607,755	138,267	12,186,669	(63,071)	12,123,598
– Personal	5,707,610	245,638	166,268	-	68,442	6,187,958	(36,766)	6,151,192
– corporate and commercial	210,648	2,692,678	2,099,805	441,272	69,825	5,514,228	(26,083)	5,488,145
– non-bank financial institutions	-	-	318,000	166,483	-	484,483	(222)	484,261
Loans and advances to banks at amortised cost	200,930	-	-	-	-	200,930	(573)	200,357
Other financial assets measured at amortised cost	10,303,355	110,962	103,489	-	-	10,517,806	(1,791)	10,516,015
– cash and cash equivalents*	6,849,334	-	-	-	-	6,849,334	-	6,849,334
– investment securities	1,310,887	-	-	-	-	1,310,887	(1,764)	1,309,123
– acceptance and endorsement	8,228	67,328	83,032	-	-	158,588	(27)	158,561
– mandatory balances with central bank	2,069,555	-	-	-	-	2,069,555	-	2,069,555
– accrued income and other assets	65,351	43,634	20,457	-	-	129,442	-	129,442
Investment securities measured at FVOCI	6,541,686	-	-	-	-	6,541,686	(4,062)	6,537,624
Trading assets measured at FVPL	5,530	-	-	-	-	5,530	-	5,530
<b>Total gross carrying amount on balance sheet</b>	<b>22,969,759</b>	<b>3,049,278</b>	<b>2,687,562</b>	<b>607,755</b>	<b>138,267</b>	<b>29,452,621</b>	<b>(69,497)</b>	<b>29,383,124</b>
Loan and other credit related commitments	2,203,721	5,656,572	1,396,566	391,000	-	9,647,859	(283)	9,647,576
Financial guarantee and similar contracts	980,651	1,288,125	366,932	12,053	-	2,647,761	(1,264)	2,646,497
<b>Total nominal amount off-balance sheet</b>	<b>3,184,372</b>	<b>6,944,697</b>	<b>1,763,498</b>	<b>403,053</b>	<b>-</b>	<b>12,295,620</b>	<b>(1,547)</b>	<b>12,294,073</b>
<b>At 31 December 2022</b>	<b>26,154,131</b>	<b>9,993,975</b>	<b>4,451,060</b>	<b>1,010,808</b>	<b>138,267</b>	<b>41,748,241</b>	<b>(71,044)</b>	<b>41,677,197</b>

\*Cash and cash equivalents exclude cash in hand and foreign currency notes and coins.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (ii) Credit Quality of financial instruments

	Gross carrying/nominal amount					Total	Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	MUR'000	MUR'000	MUR'000
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Loans and advances to customers at amortised cost	5,194,026	1,972,253	2,417,414	1,043,186	321,656	10,948,535	(140,400)	10,808,135
– Personal	4,944,739	1,407	25,526	-	207,117	5,178,789	(67,146)	5,111,643
– corporate and commercial	249,287	1,970,836	2,246,888	955,362	114,539	5,536,912	(73,250)	5,463,662
– non-bank financial institutions	-	10	145,000	87,824	-	232,834	(4)	232,830
Loans and advances to banks at amortised cost	378,649	-	-	-	-	378,649	(18)	378,631
Other financial assets measured at amortised cost	8,698,936	785,209	200,724	25,498	2,499	9,712,866	(11)	9,712,855
– cash and cash equivalents*	6,405,261	-	-	-	-	6,405,261	-	6,405,261
– investment securities	148,183	-	-	-	-	148,183	(10)	148,173
– acceptance and endorsement	70,753	769,885	181,942	17,393	-	1,039,973	(1)	1,039,972
– mandatory balances with central bank	1,958,117	-	-	-	-	1,958,117	-	1,958,117
– accrued income and other assets	116,622	15,324	18,782	8,105	2,499	161,332	-	161,332
Investment securities measured at FVOCI	10,600,736	-	-	-	-	10,600,736	(221)	10,600,515
Trading assets measured at FVPL	11,019	-	255	718	-	11,992	-	11,992
Total gross carrying amount on balance sheet	24,883,366	2,757,462	2,618,393	1,069,402	324,155	31,652,778	(140,650)	31,512,128
Loan and other credit related commitments	3,467,652	1,956,071	986,408	1,558,477	55	7,968,663	(122)	7,968,541
Financial guarantee and similar contracts	2,111,697	833,235	566,770	172,015	207	3,683,924	(946)	3,682,978
Total nominal amount off-balance sheet	5,579,349	2,789,306	1,553,178	1,730,492	262	11,652,587	(1,068)	11,651,519
At 31 December 2021	30,462,715	5,546,768	4,171,571	2,799,894	324,417	43,305,365	(141,718)	43,163,647

\*Cash and cash equivalents exclude cash in hand and foreign currency notes and coins.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (ii) Credit Quality of financial instruments

2020

	Gross carrying/nominal amount					Total	Allowance for ECL	Net
	Strong	Good	Satisfactory	Sub-standard	Credit impaired			
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Loans and advances to customers at amortised cost	13,752,367	2,522	37,185	168,210	1,007,544	14,967,828	(633,974)	14,333,854
– Personal	4,893,988	2,508	37,185	168,210	88,148	5,190,039	(98,856)	5,091,183
– corporate and commercial	4,895,642	14	-	-	919,396	5,815,052	(534,642)	5,280,410
– non-bank financial institutions	3,962,737	-	-	-	-	3,962,737	(476)	3,962,261
Loans and advances to banks at amortised cost	264,827	-	-	-	-	264,827	(775)	264,052
Other financial assets measured at amortised cost	8,429,896	32,486	235	68,413	5,541	8,536,571	(33)	8,536,538
– cash and cash equivalents*	6,110,262	-	-	-	-	6,110,262	-	6,110,262
– acceptance and endorsement	631,558	32,470	-	67,350	-	731,378	(33)	731,345
– mandatory balances with central bank	1,567,270	-	-	-	-	1,567,270	-	1,567,270
– accrued income and other assets	120,806	16	235	1,063	5,541	127,661	-	127,661
Investment securities measured at FVOCI	8,324,946	-	-	-	-	8,324,946	(11,936)	8,313,010
Trading assets measured at FVPL	8	6,054	-	-	-	6,062	-	6,062
Total gross carrying amount on balance sheet	30,772,044	41,062	37,420	236,623	1,013,085	32,100,234	(646,718)	31,453,516
Loan and other credit related commitments	3,602,643	2,958,829	1,106,958	901,668	4,629	8,574,727	(709)	8,574,018
Financial guarantee and similar contracts	2,378,550	584,865	376,716	264,129	31,655	3,635,915	(1,274)	3,634,641
Total nominal amount off-balance sheet	5,981,193	3,543,694	1,483,674	1,165,797	36,284	12,210,642	(1,983)	12,208,659
At 31 December 2020	36,753,237	3,584,756	1,521,094	1,402,420	1,049,369	44,310,876	(648,701)	43,662,175

\*Cash and cash equivalents exclude cash in hand and foreign currency notes and coins.

**The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

Notes to and forming part of the financial statements  
for the year ended 31 December 2022 (continued)

**35 Financial Risk Managements (continued)**

**(b) Credit risk (continued)**

(ii) Credit Quality of financial instruments (continued)

Total loans and advances at amortised cost by portfolio stage distribution

<u>2022</u>	<u>Gross carrying amount</u>				<u>Allowance for ECL</u>			
	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000
<b><u>By portfolio</u></b>								
<b>Personal lending</b>	<b>5,953,248</b>	<b>166,268</b>	<b>68,442</b>	<b>6,187,958</b>	<b>(12,556)</b>	<b>(11,119)</b>	<b>(13,091)</b>	<b>(36,766)</b>
Residential mortgages	4,590,120	130,584	64,738	4,785,442	(2,382)	(3,929)	(11,065)	(17,376)
Other personal lending	1,363,128	35,684	3,704	1,402,516	(10,174)	(7,190)	(2,026)	(19,390)
- other	1,117,490	34,943	2,138	1,154,571	(6,581)	(6,616)	(1,795)	(14,992)
- credit cards	245,638	741	1,566	247,945	(3,593)	(574)	(231)	(4,398)
<b>Wholesale</b>	<b>4,241,801</b>	<b>1,888,015</b>	<b>69,825</b>	<b>6,199,641</b>	<b>(914)</b>	<b>(1,590)</b>	<b>(24,374)</b>	<b>(26,878)</b>
Corporate and commercial	3,972,871	1,471,532	69,825	5,514,228	(340)	(1,369)	(24,374)	(26,083)
Non-bank financial institutions	68,000	416,483	-	484,483	(1)	(221)	-	(222)
Bank	200,930	-	-	200,930	(573)	-	-	(573)
				-				
<b>At 31 December 2022</b>	<b>10,195,049</b>	<b>2,054,283</b>	<b>138,267</b>	<b>12,387,599</b>	<b>(13,470)</b>	<b>(12,709)</b>	<b>(37,465)</b>	<b>(63,644)</b>



**The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

**Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

**35 Financial Risk Managements (continued)**

**(b) Credit risk (continued)**

**(ii) Credit Quality of financial instruments (continued)**

Total loans and advances at amortised cost by portfolio stage distribution

2021	Gross carrying amount				Allowance for ECL			
	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000
<u>By portfolio</u>								
Personal lending	4,945,194	149,850	83,745	5,178,789	(24,715)	(22,254)	(20,177)	(67,146)
Residential mortgages	3,970,821	121,571	76,322	4,168,714	(8,672)	(14,595)	(14,834)	(38,101)
Other personal lending	974,373	28,279	7,423	1,010,075	(16,043)	(7,659)	(5,343)	(29,045)
- other	743,838	26,872	6,277	776,987	(11,519)	(6,139)	(4,660)	(22,318)
- credit cards	230,535	1,407	1,146	233,088	(4,524)	(1,520)	(683)	(6,727)
<u>Wholesale</u>	3,792,564	2,241,293	114,538	6,148,395	(26)	(26)	(73,220)	(73,272)
Corporate and commercial	3,268,905	2,153,469	114,538	5,536,912	(8)	(22)	(73,220)	(73,250)
Non-bank financial institutions	145,010	87,824	-	232,834	-	(4)	-	(4)
Bank	378,649	-	-	378,649	(18)	-	-	(18)
				-				
At 31 December 2021	8,737,758	2,391,143	198,283	11,327,184	(24,741)	(22,280)	(93,397)	(140,418)

**The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

**Notes to and forming part of the financial statements**  
for the year ended 31 December 2022 (continued)

**35 Financial Risk Managements (continued)**

**(b) Credit risk (continued)**

(ii) Credit Quality of financial instruments (continued)

Total loans and advances at amortised cost by portfolio stage distribution

2020	Gross carrying amount				Allowance for ECL			
	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000
<u>By portfolio</u>								
Personal lending	4,893,987	207,904	88,148	5,190,039	(52,751)	(25,898)	(20,207)	(98,856)
Residential mortgages	3,957,234	160,934	75,109	4,193,277	(32,919)	(15,768)	(13,424)	(62,111)
Other personal lending	936,753	46,970	13,039	996,762	(19,832)	(10,130)	(6,783)	(36,745)
- other	679,823	44,462	10,950	735,235	(15,976)	(8,375)	(6,107)	(30,458)
- credit cards	256,930	2,508	2,089	261,527	(3,856)	(1,755)	(676)	(6,287)
<u>Wholesale</u>	7,735,559	1,387,661	919,396	10,042,616	(1,667)	(1,629)	(532,597)	(535,893)
Corporate and commercial	3,849,444	1,046,212	919,396	5,815,052	(851)	(1,194)	(532,597)	(534,642)
Non-bank financial institutions	3,621,288	341,449	-	3,962,737	(41)	(435)	-	(476)
Bank	264,827	-	-	264,827	(775)	-	-	(775)
At 31 December 2020	12,629,546	1,595,565	1,007,544	15,232,655	(54,418)	(27,527)	(552,804)	(634,749)

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (ii) Credit Quality of financial instruments (continued)

#### Personal lending - credit risk profile by internal PD band for loans and advances to customers at amortised cost

2022	PD range %	Gross carrying amount				Allowance for ECL				ECL coverage %
		Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	
<b>Residential mortgages</b>		<b>4,590,120</b>	<b>130,584</b>	<b>64,738</b>	<b>4,785,442</b>	<b>(2,382)</b>	<b>(3,929)</b>	<b>(11,065)</b>	<b>(17,376)</b>	<b>0.36</b>
Band 1	0.000 to 0.250	4,590,120	-	-	4,590,120	(2,382)	-	-	(2,382)	0.05
Band 2	0.251 to 0.500	-	-	-	-	-	-	-	-	0.00
Band 3	0.501 to 1.500	-	-	-	-	-	-	-	-	0.00
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	0.00
Band 5	5.001 to 20.000	-	130,584	-	130,584	-	(3,929)	-	(3,929)	3.01
Band 6	20.001 to 99.999	-	-	-	-	-	-	-	-	0.00
Band 7	100	-	-	64,738	64,738	-	-	(11,065)	(11,065)	17.09
<b>Other personal lending</b>		<b>1,363,128</b>	<b>35,684</b>	<b>3,704</b>	<b>1,402,516</b>	<b>(10,174)</b>	<b>(7,190)</b>	<b>(2,026)</b>	<b>(19,390)</b>	<b>1.38</b>
Band 1	0.000 to 0.250	1,117,490	-	-	1,117,490	(6,582)	-	-	(6,582)	0.59
Band 2	0.251 to 0.500	-	-	-	-	-	-	-	-	0.00
Band 3	0.501 to 1.500	245,638	-	-	245,638	(3,592)	-	-	(3,592)	1.46
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	0.00
Band 5	5.001 to 20.000	-	35,684	-	35,684	-	(7,190)	-	(7,190)	20.15
Band 6	20.001 to 99.999	-	-	-	-	-	-	-	-	0.00
Band 7	100	-	-	3,704	3,704	-	-	(2,026)	(2,026)	54.70
<b>At 31 December 2022</b>		<b>5,953,248</b>	<b>166,268</b>	<b>68,442</b>	<b>6,187,958</b>	<b>(12,556)</b>	<b>(11,119)</b>	<b>(13,091)</b>	<b>(36,766)</b>	<b>0.59</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (ii) Credit Quality of financial instruments (continued)

##### Personal lending - credit risk profile by internal PD band for loans and advances to customers at amortised cost

2021	PD range	Gross carrying amount				Allowance for ECL				ECL coverage
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	%
Residential mortgages		3,970,821	121,571	76,322	4,168,714	(8,672)	(14,595)	(14,834)	(38,101)	0.91
Band 1	0.000 to 0.250	60,072	-	-	60,072	-	-	-	-	0.00
Band 2	0.251 to 0.500	3,910,749	-	-	3,910,749	(8,672)	-	-	(8,672)	0.22
Band 3	0.501 to 1.500	-	-	-	-	-	-	-	-	0.00
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	0.00
Band 5	5.001 to 20.000	-	-	-	-	-	-	-	-	0.00
Band 6	20.001 to 99.999	-	121,571	-	121,571	-	(14,595)	-	(14,595)	12.01
Band 7	100	-	-	76,322	76,322	-	-	(14,834)	(14,834)	19.44
Other personal lending		974,373	28,279	7,423	1,010,075	(16,043)	(7,659)	(5,343)	(29,045)	2.88
Band 1	0.000 to 0.250	772,418	-	-	772,418	(15,585)	-	-	(15,585)	2.02
Band 2	0.251 to 0.500	201,955	-	-	201,955	(458)	-	-	(458)	0.23
Band 3	0.501 to 1.500	-	1,407	-	1,407	-	-	-	-	0.00
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	0.00
Band 5	5.001 to 20.000	-	25,714	-	25,714	-	(7,523)	-	(7,523)	29.26
Band 6	20.001 to 99.999	-	1,158	-	1,158	-	(136)	-	(136)	11.74
Band 7	100	-	-	7,423	7,423	-	-	(5,343)	(5,343)	71.98
At 31 December 2021		4,945,194	149,850	83,745	5,178,789	(24,715)	(22,254)	(20,177)	(67,146)	1.30

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (ii) Credit Quality of financial instruments (continued)

##### Personal lending - credit risk profile by internal PD band for loans and advances to customers at amortised cost

2020	PD range	Gross carrying amount				Allowance for ECL				ECL coverage
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	%
Residential mortgages		3,957,234	160,934	75,109	4,193,277	(32,919)	(15,768)	(13,424)	(62,111)	1.48
Band 1	0.000 to 0.250	25,678	-	-	25,678	(214)	-	-	(214)	0.83
Band 2	0.251 to 0.500	3,931,556	-	-	3,931,556	(32,705)	-	-	(32,705)	0.83
Band 3	0.501 to 1.500	-	-	-	-	-	-	-	-	-
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	-	-	-	-	-	-	-	-
Band 6	20.001 to 99.999	-	160,934	-	160,934	-	(15,768)	-	(15,768)	9.80
Band 7	100	-	-	75,109	75,109	-	-	(13,424)	(13,424)	17.87
Other personal lending		936,753	46,970	13,039	996,762	(19,832)	(10,130)	(6,783)	(36,745)	3.69
Band 1	0.000 to 0.250	791,076	-	-	791,076	(18,351)	-	-	(18,351)	2.32
Band 2	0.251 to 0.500	145,677	-	-	145,677	(1,481)	-	-	(1,481)	1.02
Band 3	0.501 to 1.500	-	2,509	-	2,509	-	-	-	-	-
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	37,185	-	37,185	-	(9,369)	-	(9,369)	25.20
Band 6	20.001 to 99.999	-	7,276	-	7,276	-	(761)	-	(761)	10.46
Band 7	100	-	-	13,039	13,039	-	-	(6,783)	(6,783)	52.02
At 31 December 2020		4,893,987	207,904	88,148	5,190,039	(52,751)	(25,898)	(20,207)	(98,856)	1.90

# **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

## **Notes to and forming part of the financial statements**

for the year ended 31 December 2022 (continued)

### **35 Financial Risk Managements (continued)**

#### **(b) Credit risk (continued)**

(ii) Credit Quality of financial instruments (continued)

Wholesale lending - credit risk profile by obligor grade for loans and advances at amortised cost

2022		Gross carrying amount				Allowance for ECL				ECL coverage %		
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total			
		PD range %	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000		MUR'000	
Corporate and Commercial			3,972,871	1,471,532	69,825	5,514,228	(340)	(1,369)	(24,374)	(26,083)	(0.47)	
CRR1	0.000 to 0.053		-	-	-	-	-	-	-	-	-	
CRR2	0.054 to 0.169		210,647	-	-	210,647	(2)	-	-	(2)	(0.00)	
CRR3	0.170 to 0.740		2,290,230	402,448	-	2,692,678	(120)	(278)	-	(398)	(0.01)	
CRR4	0.741 to 1.927		1,038,811	420,953	-	1,459,764	(85)	(69)	-	(154)	(0.01)	
CRR5	1.928 to 4.914		433,183	206,858	-	640,041	(133)	(62)	-	(195)	(0.03)	
CRR6	4.915 to 8.860		-	350,545	-	350,545	-	(425)	-	(425)	(0.12)	
CRR7	8.861 to 15.000		-	-	-	-	-	-	-	-	-	
CRR8	15.001 to 99.999		-	90,728	-	90,728	-	(535)	-	(535)	(0.59)	
CRR9/10	100.000		-	-	69,825	69,825	-	-	(24,374)	(24,374)	(34.91)	
Non bank financial institutions			68,000	416,483	-	484,483	-	(1)	(221)	-	(222)	(0.05)
CRR1	0.000 to 0.053		-	-	-	-	-	-	-	-	-	
CRR2	0.054 to 0.169		-	-	-	-	-	-	-	-	-	
CRR3	0.170 to 0.740		-	-	-	-	-	-	-	-	-	
CRR4	0.741 to 1.927		-	-	-	-	-	-	-	-	-	
CRR5	1.928 to 4.914		68,000	250,000	-	318,000	(1)	(36)	-	(37)	-	
CRR6	4.915 to 8.860		-	-	-	-	-	-	-	-	-	
CRR7	8.861 to 15.000		-	166,483	-	166,483	-	(185)	-	(185)	-	
CRR8	15.001 to 99.999		-	-	-	-	-	-	-	-	-	
CRR9/10	100.000		-	-	-	-	-	-	-	-	-	
Banks			200,930	-	-	200,930	(573)	-	-	(573)	(0.29)	
CRR1	0.000 to 0.053		-	-	-	-	-	-	-	-	-	
CRR2	0.054 to 0.169		200,930	-	-	200,930	(573)	-	-	(573)	(0.29)	
CRR3	0.170 to 0.740		-	-	-	-	-	-	-	-	-	
CRR4	0.741 to 1.927		-	-	-	-	-	-	-	-	-	
CRR5	1.928 to 4.914		-	-	-	-	-	-	-	-	-	
CRR6	4.915 to 8.860		-	-	-	-	-	-	-	-	-	
CRR7	8.861 to 15.000		-	-	-	-	-	-	-	-	-	
CRR8	15.001 to 99.999		-	-	-	-	-	-	-	-	-	
CRR9/10	100.000		-	-	-	-	-	-	-	-	-	
At 31 December 2022			4,241,801	1,888,015	69,825	6,199,641	(914)	(1,590)	(24,374)	(26,878)	(0.43)	

# **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

## **Notes to and forming part of the financial statements**

for the year ended 31 December 2022 (continued)

### **35 Financial Risk Managements (continued)**

#### **(b) Credit risk (continued)**

##### (ii) Credit Quality of financial instruments (continued)

##### **Wholesale lending - credit risk profile by obligor grade for loans and advances at amortised cost**

	PD range	Gross carrying amount				Allowance for ECL				ECL coverage
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	
Corporate and Commercial		3,268,905	2,153,469	114,538	5,536,912	(8)	(14)	(73,220)	(73,242)	(0.01)
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	249,288	-	-	249,288	-	-	-	-	0.00
CRR3	0.170 to 0.740	1,949,310	21,526	-	1,970,836	(4)	-	-	(4)	(0.00)
CRR4	0.741 to 1.927	166,220	527,696	-	693,916	-	-	-	-	-
CRR5	1.928 to 4.914	904,087	648,885	-	1,552,972	(4)	(2)	-	(6)	(0.00)
CRR6	4.915 to 8.860	-	591,255	-	591,255	-	(5)	-	(5)	(0.00)
CRR7	8.861 to 15.000	-	287,872	-	287,872	-	-	-	-	-
CRR8	15.001 to 99.999	-	76,235	-	76,235	-	(7)	-	(7)	(0.00)
CRR9/10	100.000	-	-	114,538	114,538	-	-	(73,220)	(73,220)	(0.64)
Non bank financial institutions		145,010	87,824	-	232,834	-	(4)	-	(4)	(0.00)
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	-	-	-	-	-	-	-	-	-
CRR3	0.170 to 0.740	10	-	-	10	-	-	-	-	-
CRR4	0.741 to 1.927	-	-	-	-	-	-	-	-	-
CRR5	1.928 to 4.914	145,000	-	-	145,000	-	-	-	-	-
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	-
CRR7	8.861 to 15.000	-	87,824	-	87,824	-	(4)	-	(4)	(0.00)
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
Banks		378,649	-	-	378,649	-	(18)	-	(18)	(0.00)
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	378,649	-	-	378,649	(18)	-	-	(18)	-
CRR3	0.170 to 0.740	-	-	-	-	-	-	-	-	-
CRR4	0.741 to 1.927	-	-	-	-	-	-	-	-	-
CRR5	1.928 to 4.914	-	-	-	-	-	-	-	-	-
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	-
CRR7	8.861 to 15.000	-	-	-	-	-	-	-	-	-
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
At 31 December 2021		3,792,564	2,241,293	114,538	6,148,395	(26)	(18)	(73,220)	(73,264)	(0.01)

# **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

## **Notes to and forming part of the financial statements**

for the year ended 31 December 2022 (continued)

### **35 Financial Risk Managements (continued)**

#### **(b) Credit risk (continued)**

#### (ii) Credit Quality of financial instruments (continued)

#### **Wholesale lending - credit risk profile by obligor grade for loans and advances at amortised cost**

	PD range	Gross carrying amount				Allowance for ECL				ECL coverage %
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	
Corporate and Commercial		3,849,444	1,046,212	919,396	5,815,052	(851)	(1,194)	(532,597)	(534,642)	(0.09)
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	413,110	-	-	413,110	(16)	-	-	(16)	0.00
CRR3	0.170 to 0.740	1,423,292	55,937	-	1,479,229	(45)	(1)	-	(46)	(0.00)
CRR4	0.741 to 1.927	437,211	-	-	437,211	(6)	-	-	(6)	(0.00)
CRR5	1.928 to 4.914	1,575,831	150,330	-	1,726,161	(784)	(35)	-	(819)	(0.00)
CRR6	4.915 to 8.860	-	21,688	-	21,688	-	(11)	-	(11)	(0.00)
CRR7	8.861 to 15.000	-	170,797	-	170,797	-	(417)	-	(417)	(0.00)
CRR8	15.001 to 99.999	-	647,460	-	647,460	-	(730)	-	(730)	(0.00)
CRR9/10	100.000	-	-	919,396	919,396	-	-	(532,597)	(532,597)	(0.58)
Non bank financial institutions		3,621,289	341,449	-	3,962,738	(41)	(435)	-	(476)	(0.00)
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	43,329	-	-	43,329	-	-	-	-	-
CRR3	0.170 to 0.740	3,375,524	-	-	3,375,524	(41)	-	-	(41)	(0.00)
CRR4	0.741 to 1.927	75	-	-	75	-	-	-	-	-
CRR5	1.928 to 4.914	202,361	-	-	202,361	-	-	-	-	-
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	-
CRR7	8.861 to 15.000	-	341,449	-	341,449	-	(435)	-	(435)	(0.00)
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
Banks		264,827	-	-	264,827	(775)	-	-	(775)	(0.00)
CRR1	0.000 to 0.053	264,827	-	-	264,827	(775)	-	-	(775)	(0.00)
CRR2	0.054 to 0.169	-	-	-	-	-	-	-	-	-
CRR3	0.170 to 0.740	-	-	-	-	-	-	-	-	-
CRR4	0.741 to 1.927	-	-	-	-	-	-	-	-	-
CRR5	1.928 to 4.914	-	-	-	-	-	-	-	-	-
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	-
CRR7	8.861 to 15.000	-	-	-	-	-	-	-	-	-
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
At 31 December 2020		7,735,560	1,387,661	919,396	10,042,617	(1,667)	(1,629)	(532,597)	(535,893)	(0.05)



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

###### (ii) Credit risk measurement and analysis

###### (A) *Expected credit loss measurement*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. A description of how the Bank determines when a significant increase in credit risk has occurred is given below.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. A description of how the Bank defines credit-impaired and default is given below.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is given below.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. An explanation of how the Bank has incorporated this in its ECL models is given below.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

###### (B) *Explanation of inputs, assumptions and estimation techniques*

In general, the Bank calculates ECL using three main components, a PD, a LGD, and the EAD. The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the lifetime. 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 end of the reporting period to the default event together with any expected drawdowns of committed facilities. The LGD represents expected losses on the EAD given the event of default, taking into account, among other attributes, the mitigating effect of collateral value at the time it is expected to be realised and the time value of money.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iii) Credit risk measurement and analysis (continued)

##### (B) *Explanation of inputs, assumptions and estimation techniques (continued)*

The measurement of ECL needs to take into account forecast of future economic conditions. This could be incorporated into the measurement of ECL in more than one way. In theory, forecast economic conditions could be expanded into full credit risk variables. These variables are incorporated into the risk parameters (PDs, LGDs and EADs) used to determine IFRS 9 stage allocation and ECL measurement. This is possible if the risk parameters are calculated using an economic response model. The projection of future economic conditions relies on point in time statistical models supplemented by judgement or based entirely on judgement where there is insufficient data and correlations to develop statistically based models. Where PDs are adjusted on a systemised basis, stage allocation is determined using PDs which are calculated on a probability weighted basis. The ECL is then measured on a probability weighted basis based on this stage allocation. In practice, methods that put less pressure on calculations performed during the reporting periods may be used, for example, the use of scalars provided that these methods meet the measurement objective. Simplified approaches which rely on the judgement of credit risk managers are applied where models do not support a systemised approach, e.g. the use of discounted cash flow models.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

#### Change in credit quality since initial recognition

Change in credit quality since initial recognition		
Stage 1	Stage 2	Stage 3
(Initial recognition)	(Significant increase in credit risk since initial recognition)	(Credit-impaired assets)
12-month expected credit losses	Lifetime expected credit losses	Lifetime expected credit losses

#### Stage 1 and 2

IFRS 9 credit risk models (IFRS 9 models) produce a number of risk component estimates that are used to measure ECL allowances and provisions for Stage 1 and 2 instruments. These models must be developed, implemented and maintained in line with approved global model standards. Stage 1 and 2 ECL allowances and provisions must be measured on either up to 12 months or lifetime ECL basis (depending on stage allocation) in a way that is unbiased and probability-weighted and incorporates forecasts of future economic conditions.

#### Stage 3

The ECL allowance assessment for financial instruments graded CRR 9/10 (i.e. Stage 3) must be determined on a Lifetime ECL basis.

Furthermore, expected credit losses of any financial instrument should also be measured in a way that reflects:

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iii) Credit risk measurement and analysis (continued)

##### (B) *Explanation of inputs, assumptions and estimation techniques (continued)*

Stage 3 (continued)

- a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;
- b) the time value of money; and
- c) reasonable and supportable information that is available without undue cost or effort at the end of the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL under stage 3 is determined on an individual basis using a discounted cash flow (“DCF”) methodology. The expected future cash flows are based on the credit risk officer’s estimates as at the end of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate.

##### (C) *Significant increase in credit risk (“SICR”)*

An assessment of whether credit risk has increased significantly since initial recognition is performed at the end of 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 end of the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, 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 for both retail and wholesale. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iii) Credit risk measurement and analysis (continued)

##### (C) *Significant increase in credit risk (SICR)(continued)*

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime PD which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significant trigger – PD to increase by
CRR 0.1 – 1.2	15bps
CRR 2.1 – 3.3	30bps
Greater than CRR 3.3 and not impaired	2 times

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. For these loans, the quantitative comparison is supplemented with additional CRR deterioration based thresholds as set out in the table below:

Origination CRR	Number notches in the band	Additional significance criteria – Number of CRR grade notches of deterioration required to identify as
0.1	1 notch	5 notches
1.1 – 4.2	9 notches	4 notches
4.3 – 5.1	2 notches	3 notches
5.2 – 7.1	5 notches	2 notches
7.2 – 8.2	3 notches	1 notch
8.3	1 notch	0 notch

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iii) Credit risk measurement and analysis (continued)

##### (D) *Period over which ECL is measured*

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the 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.

Under IFRS 9, the scope of impairment now covers amortised cost of financial assets, loan commitments and financial guarantees, as well as debt instruments measured at FVOCI. Impairment is calculated in three stages and financial instruments are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase in credit risk between its first recognition and the relevant reporting period. After the allocation, the measurement of ECL, which is the product of PD, LGD and EAD, will reflect the change in risk of default occurring over the remaining life of the instruments.

##### (E) *Definition of default and credit-impaired assets*

IFRS 9 requires an assessment of the extent of increase in credit risk of a financial instrument since initial recognition. This assessment is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument. As a result, the definition of default is important.

IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and consider qualitative factors where appropriate. In addition, IFRS 9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iii) Credit risk measurement and analysis (continued)

##### (E) *Definition of default and credit-impaired assets*

In addition, default is defined under Basel for regulatory reporting purposes. The Basel regulation provides a clear definition by referring to the number of days past due and criteria for unlikelihood to pay. The criteria for unlikelihood to pay are similar to the definition of credit-impaired under IFRS 9 and in general, default for regulatory reporting purposes does not occur later than when a financial asset is 90 days past due as well.

In view of the above, the Bank has decided to align the IFRS 9 definition of default and Basel definition of 'default' whenever possible. The Bank has decided not to rebut the presumption introduced by IFRS 9, that is, default does not occur later than when a financial asset is 90 days past due. The use of the same default definition ensures that a single and consistent view of credit risk is applied for internal risk management, regulatory capital, and impairment calculations. In addition, since the criteria for credit-impaired under IFRS 9 can be interpreted consistently with the accounting default definition, all accounting defaults are considered to be credit-impaired and all credit-impaired assets are considered to be defaulted for accounting purposes.

##### (F) *Movement between stages*

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

###### (iii) Credit risk measurement and analysis (continued)

###### (G) *Write-off policy*

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Bank's RMM determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. A total amount of MUR14.2m (2021: MUR233.3m) was written off during the year, which is still subject to enforcement activity. The Bank is complying with BoM *Guideline on Write-Off of Non-Performing Assets* issued in July 2019.

###### (H) *Collaterals*

Although collateral can be an important mitigant of credit risk, it is the Bank's general practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. 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 use the collateral as a source of repayment. There has been no change in the Bank's collateral policy for the year and there are no financial instruments for which the underlying collaterals would have resulted in no impairment allowance.

The Bank holds collateral against loans and advances to customers in the form of mortgage on property, deposit and securities under lien and charge on plant and machinery. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated every 3 years and every year when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2022, 31 December 2021 and 31 December 2020. Additional information on collaterals is available in note 35 (b)(iv).

###### (I) *Modification of financial assets*

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (iii) Credit risk measurement and analysis (continued)

##### (I) Modification of financial assets (continued)

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for a minimum period of one year or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

##### (J) *Renegotiated loans and forbearance*

The following table shows the gross carrying amounts of the Bank's holdings of renegotiated loans and advances to customers by industry sector and by stages. The Bank does not hold any wholesale renegotiated loans as at 31 December 2022, however those renegotiated loans are to be classified as stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of nonpayment 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.

#### Renegotiated loans and advances to customers at amortised costs by stage allocation

	Stage 3		
	MUR'000	MUR'000	MUR'000
	2022	2021	2020
<b><u>Gross carrying amount</u></b>			
Personal lending	61,190	37,265	27,972
– Residential mortgages	59,052	37,265	27,972
– Other personal lending	2,138	-	-
<b>At 31 December</b>	<b>61,190</b>	<b>37,265</b>	<b>27,972</b>
<b><u>Allowance for ECL</u></b>			
Personal lending	(6,272)	(1,196)	(664)
– Residential mortgages	(4,910)	(1,196)	(664)
– Other personal lending	(1,362)	-	-
<b>At 31 December</b>	<b>(6,272)</b>	<b>(1,196)</b>	<b>(664)</b>



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Managements (continued)

##### (b) Credit risk (continued)

##### (iii) Credit risk measurement and analysis (continued)

##### (K) *Forward looking economic inputs*

The recognition and measurement of expected credit loss (“ECL”) is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

The HSBC group has adopted the use of four economic scenarios, which are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a ‘most likely outcome’, (the Central scenario) and two, less likely, ‘Outer’ scenarios on either side of the Central, referred to as an ‘Upside’ and a ‘Downside’ scenario respectively. The HSBC group has chosen to use a fourth scenario to represent their view of severe downside risks. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%. This weighting scheme is deemed as appropriate for the computation of unbiased ECL in most economic environments. Setting key scenario assumptions using the average of forecasts from external economists helps to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the Central scenario, key assumptions such as GDP growth rate and inflation are set using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies or market prices. An external vendor’s global macro model, which is conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This vendor model is subject to HSBC’s risk governance framework with oversight by a specialist internal unit.

The Upside and Downside scenarios are designed to be cyclical in that GDP growth and inflation usually revert back to the Central scenario after the first three years for major economies.

The HSBC Group determines the maximum divergence of GDP growth from the Central scenario using the 10<sup>th</sup> and the 90<sup>th</sup> percentile of the entire distribution of forecast outcomes for major economies. Using externally available forecast distributions ensures independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, the Group also aligns the overall narrative of the scenarios to the macroeconomic risks described in HSBC’s Top and Emerging Risks. This ensures that scenarios remain consistent with the more qualitative assessment of risks captured in the Top and Emerging Risks. The HSBC Group projects additional variable paths using the external vendor’s global macro model.

Management have incorporated the forward economic guidance “FEG” in the impairment model and as at 31 December 2022, the impact of the FEG was insignificant.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

*for the year ended 31 December 2022 (continued)*

#### **35 Financial Risk Managements (continued)**

##### **(b) Credit risk (continued)**

##### **(iii) Credit risk measurement and analysis (continued)**

##### *Critical accounting estimates and judgements*

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. The most significant are set out below:

- Defining what is considered to be a significant increase in credit risk.
- Determining the lifetime and point of initial recognition of overdrafts and credit cards.
- Selecting and calibrating the PD, LGD and EAD models, which support the calculations, including making reasonable and supportable judgements about how models react to current and future economic conditions.
- Selecting model inputs and economic forecasts, including determining whether sufficient and appropriately weighted economic forecasts are incorporated to calculate unbiased expected loss.
- Making management adjustments to account for late-breaking events, model and data limitations and deficiencies, and expert credit judgements.
- Selecting applicable recovery strategies for certain wholesale credit-impaired loans.

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

### 35 Financial Risk Managements (continued)

#### (b) Credit risk (continued)

##### (iv) Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL.

The following tables analyse all financial assets which represents the concentration of exposures in which how credit risks are managed.

	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000 2022	MUR'000 2022	MUR'000 2021	MUR'000 2021	MUR'000 2020	MUR'000 2020
<b>Loans and advances to customers at amortised cost:</b>	<b>12,186,669</b>	<b>(63,071)</b>	10,948,535	(140,400)	14,967,828	(633,974)
- Personal	6,187,958	(36,766)	5,178,789	(67,146)	5,190,039	(98,856)
- Corporate and Commercial	5,514,228	(26,083)	5,536,912	(73,250)	5,815,052	(534,642)
- Non-bank financial institutions	484,483	(222)	232,834	(4)	3,962,737	(476)
<b>Loans and advances to banks at amortised cost:</b>	<b>200,930</b>	<b>(573)</b>	378,649	(18)	264,827	(775)
<b>Other financial assets at amortised costs:</b>	<b>10,517,806</b>	<b>(1,791)</b>	9,712,866	(11)	8,536,571	(33)
- cash and cash equivalents	6,849,334	-	6,405,261	-	6,110,262	-
- investment securities	1,310,887	(1,764)	148,183	(10)		
- acceptance and endorsement	158,588	(27)	1,039,973	(1)	731,378	(33)
- mandatory balances with central bank	2,069,555	-	1,958,117	-	1,567,270	-
- accrued income and other assets	129,442	-	161,332	-	127,661	-
<b>Total gross carrying amount on balance sheet</b>	<b>22,905,405</b>	<b>(65,435)</b>	21,040,050	(140,429)	23,769,226	(634,782)
Loan and other credit related commitments	9,647,859	(283)	7,968,663	(122)	8,574,018	(709)
Financial guarantee and similar contracts	2,647,761	(1,264)	3,683,924	(946)	3,634,641	(1,274)
<b>Total nominal amount off-balance sheet</b>	<b>12,295,620</b>	<b>(1,547)</b>	11,652,587	(1,068)	12,208,659	(1,983)
<b>At 31 December</b>	<b>35,201,025</b>	<b>(66,982)</b>	32,692,637	(141,497)	35,977,885	(636,765)
	<b>Gross carrying amount</b>	<b>Allowance for ECL</b>	<b>Gross carrying amount</b>	<b>Allowance for ECL</b>	<b>Gross carrying amount</b>	<b>Allowance for ECL</b>
	<b>MUR'000 2022</b>	<b>MUR'000 2022</b>	<b>MUR'000 2021</b>	<b>MUR'000 2021</b>	<b>MUR'000 2020</b>	<b>MUR'000 2020</b>
<b>At 31 December</b>	<b>6,547,216</b>	<b>(4,062)</b>	10,612,728	(221)	8,331,008	(11,936)
Investment securities measured at FVOCI (Stage 1)	6,541,686	(4,062)	10,600,736	(221)	8,324,946	(11,936)
Trading assets measured at FVPL	5,530	-	11,992	-	6,062	-

# **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

## **Notes to and forming part of the financial statements**

for the year ended 31 December 2022 (continued)

### **35 Financial Risk Managements (continued)**

#### **(b) Credit risk (continued)**

#### **(iv) Summary of credit risk**

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

2022	Gross carrying/ notional amount						Allowance/ provision for ECL						ECL coverage %					
	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Gross carrying/ notional amount	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Allowance/ provision for ECL	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total ECL coverage %
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000						
Loans and advances to customers at amortised cost:	9,994,119	2,054,283	75,996	13,031	138,267	12,186,669	(12,897)	(12,709)	(9)	(8)	(37,465)	(63,071)	0.1%	0.6%	0.0%	0.1%	27.1%	0.5%
- Personal	5,953,248	166,268	75,996	13,031	68,442	6,187,958	(12,556)	(11,119)	(9)	(8)	(13,091)	(36,766)	0.2%	6.7%	0.0%	0.1%	19.1%	0.6%
- Corporate and Commercial	3,972,871	1,471,532	-	-	69,825	5,514,228	(340)	(1,369)	-	-	(24,374)	(26,083)	0.0%	0.1%	0.0%	0.0%	34.9%	0.5%
- Non-bank financial institutions	68,000	416,483	-	-	-	484,483	(1)	(221)	-	-	-	(222)	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Loans and advances to banks at amortised cost:	200,930	-	-	-	-	200,930	(573)	-	-	-	-	(573)	0.3%	0.0%	0.0%	0.0%	0.0%	0.3%
Other financial assets measured at amortised cost	10,453,431	64,375	-	-	-	10,517,806	(1,764)	(27)	-	-	-	(1,791)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan and other credit related commitments:	8,928,601	719,258	-	-	-	9,647,859	(53)	(230)	-	-	-	(283)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial guarantee and similar contracts	2,469,123	178,638	-	-	-	2,647,761	(1,219)	(45)	-	-	-	(1,264)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
At 31 December	32,046,204	3,016,554	75,996	13,031	138,267	35,201,025	(16,506)	(13,011)	(9)	(8)	(37,465)	(66,982)	0.1%	0.4%	0.0%	0.1%	27.1%	0.2%

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

### 35 Financial Risk Managements (continued)

#### (b) Credit risk (continued)

##### (iv) Summary of credit risk

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

	Gross carrying/ notional amount						Allowance/ provision for ECL						ECL coverage %					
	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Gross carrying/ notional amount	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Allowance/ provision for ECL	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total ECL coverage %
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000						
<b>2021</b>																		
Loans and advances to customers at amortised cost:	8,359,110	2,391,142	52,406	18,733	198,283	10,948,535	(24,723)	(22,280)	-	-	(93,397)	(140,400)	0.3%	0.9%	0.0%	0.0%	47.1%	1.3%
- Personal	4,945,195	149,849	52,406	18,733	83,745	5,178,789	(24,715)	(22,254)	-	-	(20,177)	(67,146)	0.5%	14.9%	0.0%	0.0%	24.1%	1.3%
- Corporate and Commercial	3,268,905	2,153,469	-	-	114,538	5,536,912	(8)	(22)	-	-	(73,220)	(73,250)	0.0%	0.0%	0.0%	0.0%	63.9%	1.3%
- Non-bank financial institutions	145,010	87,824	-	-	-	232,834	-	(4)	-	-	-	(4)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances to banks at amortised cost:	378,649	-	-	-	-	378,649	(18)	-	-	-	-	(18)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other financial assets measured at amortised cost	9,596,484	116,397	-	-	-	9,712,881	(11)	-	-	-	-	(11)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan and other credit related commitments:	5,308,657	2,616,111	-	-	43,895	7,968,663	(81)	(41)	-	-	-	(122)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial guarantee and similar contracts	2,875,331	807,754	-	-	838	3,683,923	(738)	(208)	-	-	-	(946)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
At 31 December	26,518,231	5,931,404	52,406	18,733	243,016	32,692,651	(25,571)	(22,529)	-	-	(93,397)	(141,497)	0.1%	0.4%	0.0%	0.0%	38.4%	0.4%

# **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

## **Notes to and forming part of the financial statements**

for the year ended 31 December 2021 (continued)

### **35 Financial Risk Managements (continued)**

#### **(b) Credit risk (continued)**

##### **(iv) Summary of credit risk**

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

	Gross carrying/ notional amount						Allowance/ provision for ECL						ECL coverage %					
	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Gross carrying/ notional amount	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Allowance/ provision for ECL	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total ECL coverage %
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000						
<b>2020</b>	12,364,719	1,595,565	131,318	43,480	1,007,544	14,967,828	(53,643)	(27,527)	(11,011)	(5,715)	(552,804)	(633,974)	0.4%	1.7%	8.4%	13.1%	54.9%	4.2%
<b>Loans and advances to customers at amortised cost:</b>																		
- Personal	4,893,987	207,904	129,929	43,480	88,148	5,190,039	(52,751)	(25,898)	(11,011)	(5,715)	(20,207)	(98,856)	1.1%	12.5%	8.5%	13.1%	22.9%	1.9%
- Corporate and Commercial	3,849,444	1,046,212	1,389	-	919,396	5,815,052	(851)	(1,194)	-	-	(532,597)	(534,642)	0.0%	0.1%	0.0%	0.0%	57.9%	9.2%
- Non-bank financial institutions	3,621,288	341,449	-	-	-	3,962,737	(41)	(435)	-	-	-	(476)	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
<b>Loans and advances to banks at amortised cost:</b>	264,827	-	-	-	-	264,827	(775)	-	-	-	-	(775)	0.3%	0.0%	0.0%	0.0%	0.0%	0.3%
<b>Other financial assets measured at amortised cost</b>	8,469,371	67,200	-	-	-	8,536,571	(4)	(29)	-	-	-	(33)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
<b>Loan and other credit related commitments:</b>	7,655,875	903,100	-	-	15,752	8,574,727	(382)	(31)	-	-	(296)	(709)	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%
<b>Financial guarantee and similar contracts</b>	2,900,081	703,190	-	-	32,644	3,635,915	(157)	(98)	-	-	(1,019)	(1,274)	0.0%	0.0%	0.0%	0.0%	3.1%	0.0%
<b>At 31 December</b>	31,654,873	3,269,055	131,318	43,480	1,055,940	35,979,868	(54,961)	(27,685)	(11,011)	(5,715)	(554,119)	(636,765)	0.2%	0.8%	8.4%	13.1%	52.5%	1.8%

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

###### (iv) Summary of credit risk (continued)

##### Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Bank has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
	MUR'000	MUR'000	MUR'000	MUR'000
<b>Credit-impaired assets</b>				
Loans to customers				
<i>Personal</i>				
- Mortgages	64,738	(11,065)	53,673	44,766
- Credit cards	1,566	(231)	1,335	-
- Other personal lending	2,138	(1,795)	343	3,152
<i>Wholesale</i>	69,825	(24,374)	45,451	-
<b>Total credit-impaired assets</b>	<b>138,267</b>	<b>(37,465)</b>	<b>100,802</b>	<b>47,918</b>

As at 31 December 2022, the Bank did not have any repossessed collateral (2021: nil, 2020: nil).

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iv) Summary of credit risk (continued)

##### Collateral and other credit enhancements (continued)

The following table shows the distribution of LTV ratios for the Bank's mortgage credit-impaired

<b>Mortgage portfolio - LTV distribution</b>	<b>Credit-impaired (Gross carrying amount)</b>
	<b>MUR'000</b>
Lower than 50%	<b>16,656</b>
50% to 60%	<b>6,876</b>
60% to 70%	<b>8,924</b>
70% to 80%	<b>16,466</b>
80% to 90%	<b>14,084</b>
90% to 100%	<b>1,732</b>
Higher than 100%	<b>-</b>
<b>Total</b>	<b>64,738</b>

##### 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 loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the year (see note 3(g)(vi)).



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iv) Summary of credit risk (continued)

2022	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January 2022	16,921,747	(25,319)	5,815,007	(22,367)	243,016	(93,800)	22,979,770	(141,486)
Transfers of financial instruments:	(1,838,784)	(23,525)	1,836,132	22,040	2,652	1,485	-	-
- transfers from stage 1 to stage 2	(3,581,207)	2,421	3,581,207	(2,421)	-	-	-	-
- transfers from stage 2 to stage 1	1,739,441	(24,825)	(1,739,441)	24,825	-	-	-	-
- transfers to stage 3	(59)	-	(15,727)	1,539	15,786	(1,539)	-	-
- transfers from stage 3	3,041	(1,121)	10,093	(1,903)	(13,134)	3,024	-	-
Net remeasurement of ECL arising from transfer of stage	-	15,571	-	(14,849)	-	(7)	-	715
Net new and further lending/repayments	2,678,636	(7,379)	-	-	-	-	2,678,636	(7,379)
Changes in risk parameters - credit quality	4,817,619	2,041	(1,501,433)	2,462	96,315	16,904	3,412,501	21,407
Asset derecognised (including final repayment)	(3,128,811)	3,545	1,015,484	3,270	(142,452)	8,893	(2,255,779)	15,708
Changes to model used form ECL calculation	-	20,395	-	(3,485)	-	12,904	-	29,814
Assets written off	-	-	-	-	(14,239)	14,239	(14,239)	14,239
At 31 December 2022	19,450,407	(14,671)	7,165,190	(12,929)	185,292	(39,382)	26,800,889	(66,982)
ECL release/(charge) for the year	-	34,173	-	(12,602)	-	38,694	-	60,265
Recoveries	-	-	-	-	-	-	-	12,723
Foreign exchange difference	-	-	-	-	-	-	-	(48)
Total change in ECL for the year	-	-	-	-	-	-	-	72,940

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iv) Summary of credit risk (continued)

2021	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January 2021	23,185,503	(54,957)	3,201,855	(27,656)	1,055,940	(554,119)	27,443,298	(636,732)
Transfers of financial instruments:	(2,523,009)	(48,823)	2,510,942	46,214	12,067	2,609	-	-
- transfers from stage 1 to stage 2	(4,505,778)	4,522	4,505,778	(4,522)	-	-	-	-
- transfers from stage 2 to stage 1	1,973,154	(49,850)	(1,973,154)	49,850	-	-	-	-
- transfers to stage 3	(3,419)	56	(39,473)	6,765	42,892	(6,821)	-	-
- transfers from stage 3	13,034	(3,551)	17,791	(5,879)	(30,825)	9,430	-	-
Net remeasurement of ECL arising from transfer of stage	-	36,396	-	(12,848)	-	(175)	-	23,373
Net new and further lending/repayments	2,042,545	(9,180)	-	-	-	-	2,042,545	(9,180)
Changes in risk parameters - credit quality	(7,321,434)	4,813	(140,792)	458	(249,168)	77,524	(7,711,394)	82,795
Asset derecognised (including final repayment)	1,538,142	6,197	243,002	1,560	(557,077)	397,207	1,224,067	404,964
Changes to model used form ECL calculation	-	40,235	-	(30,095)	-	(35,592)	-	(25,452)
Assets written off	-	-	-	-	(18,746)	18,746	(18,746)	18,746
At 31 December 2021	16,921,747	(25,319)	5,815,007	(22,367)	243,016	(93,800)	22,979,770	(141,486)
ECL release/(charge) for the year	-	29,638	-	5,289	-	460,319	-	495,246
Recoveries	-	-	-	-	-	-	-	3,593
Write off	-	-	-	-	-	-	-	(233,321)
Foreign exchange difference	-	-	-	-	-	-	-	45,576
Total change in ECL for the year	-	-	-	-	-	-	-	311,094

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (iv) Summary of credit risk (continued)

2020	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January 2020	25,605,421	(17,015)	4,637,816	(20,346)	69,797	(17,722)	30,313,034	(55,083)
Transfers of financial instruments:	2,228,942	(2,502)	(3,104,806)	2,649	875,864	(147)	-	-
- transfers from stage 1 to stage 2	(3,465,587)	2,127	3,465,587	(2,127)	-	-	-	-
- transfers from stage 2 to stage 1	6,538,932	(4,629)	(6,538,932)	4,629	-	-	-	-
- transfers to stage 3	(844,403)	-	(33,141)	147	877,544	(147)	-	-
- transfers from stage 3	-	-	1,680	-	(1,680)	-	-	-
Net remeasurement of ECL arising from transfer of stage	-	333	-	(199)	-	(324,399)	-	(324,265)
Net new and further lending/repayments	396,963	(37,518)	-	-	51,390	10,191	448,353	(27,327)
Changes in risk parameters - credit quality	(1,401,102)	1,410	2,353,601	(3,927)	75,597	(206,139)	1,028,096	(208,656)
Asset derecognised (including final repayment)	(3,644,721)	335	(684,756)	(5,833)	(613)	192	(4,330,090)	(5,306)
Changes to model used form ECL calculation	-	-	-	-	-	-	-	-
Assets written off	-	-	-	-	(16,095)	(16,095)	(16,095)	(16,095)
At 31 December 2020	23,185,503	(54,957)	3,201,855	(27,656)	1,055,940	(554,119)	27,443,298	(636,732)
ECL release/(charge) for the year	-	(37,942)	-	(7,310)	-	(536,397)	-	(581,649)
Recoveries	-	-	-	-	-	-	-	5,598
Write off	-	-	-	-	-	(16,095)	-	(16,095)
Total change in ECL for the year	-	-	-	-	-	-	-	(592,146)

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (v) Credit exposure

##### Maximum exposure to credit risk

The Bank's credit exposure is spread across a broad range of asset classes, including trading assets, loans and advances to customers, loans and advances to banks. The following table presents the maximum exposure to credit risk from 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 balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay 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 committed facilities. Total exposure to credit risk remained broadly unchanged in 2022 with loans and advances continuing to be the largest element.

		2022	2021	2020
	Note	MUR'000	MUR'000	MUR'000
Cash and cash equivalents	(A)	6,849,334	6,405,261	6,110,262
Trading assets	(B)	5,530	11,992	6062
Loans and advances to banks	(C)	200,357	378,631	264,052
Loans and advances to customers	(C)	12,123,598	10,808,135	14,333,854
Investment securities - fair value through other comprehensive income	(D)	6,537,624	10,600,515	8,313,010
Investment securities - Amortised cost	(D)	1,309,123	148,173	-
Other assets	(E)	2,357,558	3,159,421	2,426,275
Financial guarantees and other credit-related contingent liabilities	(F)	2,646,497	3,682,978	3,634,641
Loan and other credit-related commitments	(G)	9,647,576	7,968,541	8,574,018
		<b>41,677,197</b>	<b>43,163,647</b>	<b>43,662,174</b>

The Bank does not hold any collaterals against its financial assets other than loans and advances to customers.

##### (A) Cash and cash equivalents

The Bank held cash and cash equivalents of MUR6.8bn (2021: MUR6.4bn) which represents its maximum credit exposure on these assets, which excludes cash in hand and foreign currency notes and coins.

##### (B) Trading Assets

The Bank held trading assets of MUR5.5m at 31 December 2022 (2021: MUR12.0m). An analysis of the credit quality of the maximum credit exposure is as follows:

		2022	2021	2020
		MUR'000	MUR'000	MUR'000
Derivatives assets:				
- Bank counterparties	18	5,509	11019	8
- Non-bank counterparties	18	21	973	6054
		<b>5,530</b>	<b>11,992</b>	<b>6062</b>

The derivatives assets are with Group banks and local corporates, with a strong credit rating.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (v) Credit exposure (continued)

##### Maximum exposure to credit risk (continued)

(C) Loans & advances neither past due nor impaired

Loans and advances are summarized as follows:

	Loans and advances to customers			Loans to banks		
	2022	2021	2020	2022	2021	2020
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Neither past due nor impaired	11,729,700	10,773,669	13,785,484	200,930	378,649	264,827
Past due but not impaired	318,702	134,097	174,800	-	-	-
Individually impaired	138,267	40,769	1,007,544	-	-	-
<b>Gross</b>	<b>12,186,669</b>	<b>10,948,535</b>	<b>14,967,828</b>	<b>200,930</b>	<b>378,649</b>	<b>264,827</b>
Less: allowance for impairment	(63,071)	(140,400)	(633,974)	(573)	(18)	(775)
<b>Net</b>	<b>12,123,598</b>	<b>10,808,135</b>	<b>14,333,854</b>	<b>200,357</b>	<b>378,631</b>	<b>264,052</b>

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

	Loans and advances to customers			Loans to banks		
	2022	2021	2020	2022	2021	2020
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
CRR 1	5,587,805	-	804,067	200,930	378,649	264,827
CRR 2	210,648	248,484	4,489,600	-	-	-
CRR 3	2,938,302	1,970,836	4,854,752	-	-	-
CRR 4	1,349,907	693,917	437,286	-	-	-
CRR 5	1,035,282	1,697,870	1,943,060	-	-	-
CRR 6	350,545	591,255	97,013	-	-	-
CRR 7	166,483	375,696	512,246	-	-	-
CRR 8	90,728	5,195,611	647,460	-	-	-
<b>Total</b>	<b>11,729,700</b>	<b>10,773,669</b>	<b>13,785,484</b>	<b>200,930</b>	<b>378,649</b>	<b>264,827</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (v) Credit exposure (continued)

#### Maximum exposure to credit risk (continued)

##### (C) Loans and advances past due but not impaired

Loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Bank.

Gross amount of loans and advances that were past due but not impaired were as follows:

	Loans and advances to customers		
	2022 MUR'000	2021 MUR'000	2020 MUR'000
Past due up to 30 days	305,671	112,339	135,675
Past due 30 - 60 days	8,375	19,895	27,833
Past due 60 - 90 days	4,656	1,863	11,291
Total	318,702	134,097	174,799

##### Loans and advances individually impaired

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are graded 6 to 7 (CRR 8 to 9) in the Bank's internal credit risk grading system.

The table below shows the gross amount of individually impaired assets.

	2022 MUR'000	2021 MUR'000	2020 MUR'000
Gross amount	138,267	40,769	1,007,544
Individual allowance	37,465	93,539	552,804

##### (D) Investment securities

Investment securities amounting to MUR6.5bn (2020: MUR10.6bn) as at 31 December 2022 consist mainly of Treasury Bill / Notes held with the Bank of Mauritius. Investment securities at amortised cost amounting to MUR1.3bn (2021: MUR0.1bn) comprise consist mainly of Treasury Bill / Notes held with the Bank of Mauritius and corporate bonds.

##### (E) Other assets

Other assets consisted mainly of mandatory balance of MUR2.1bn (2021: MUR2.0bn) held with the Bank of Mauritius.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (v) Credit exposure (continued)

##### Maximum exposure to credit risk (continued)

##### *(F) Financial guarantees and other credit-related contingent liabilities*

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. As at 31 December 2022, the Bank held MUR2.6bn (2021: MUR3.7bn) financial guarantees mainly with corporate customers.

##### *(G) Loan commitments*

As at 31 December 2022, the Bank held MUR9.6bn (2021: MUR8.0bn) as undrawn credit facilities with both retail and corporate customers.

##### *(vi) Concentration of credit risk*

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below. The tables below show the concentration of credit risk by sector.

Prepayments amounting to MUR3.2m (2021: MUR4.5m) and have been excluded from other assets.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

##### (vi) Concentration of credit risk (continued)

2022 (MUR '000)	Retail	Corporate	Sovereign	Bank	Other	Total
Cash & cash equivalents	-	-	3,335,211	3,514,123	-	6,849,334
Loans & advances to customers	6,097,935	6,088,734	-	-	-	12,186,669
Loans & advances to banks	-	-	-	200,930	-	200,930
Financial assets held for trading	-	5,509	-	21	-	5,530
Investment securities - FVOCI	-	-	6,537,624	-	-	6,537,624
Investment securities - Amortised cost	-	299,947	1,009,176	-	-	1,309,123
Other assets	-	289,354	2,069,555	47,604	-	2,406,513
<b>As at 31 December 2022</b>	<b>6,097,935</b>	<b>6,683,544</b>	<b>12,951,566</b>	<b>3,762,678</b>	<b>-</b>	<b>29,495,723</b>
Undrawn Commitments	1,008,735	8,638,841	-	-	-	9,647,576
Financial guarantees and other credit related contingencies	730	1,475,452	-	1,170,315	-	2,646,497
	<b>1,009,465</b>	<b>10,114,293</b>	<b>-</b>	<b>1,170,315</b>	<b>-</b>	<b>12,294,073</b>
2021 (MUR '000)						
Cash & cash equivalents	-	-	2,319,893	4,085,368	-	6,405,261
Loans & advances to customers	5,111,643	5,696,492	-	-	-	10,808,135
Loans & advances to banks	-	-	-	378,631	-	378,631
Financial assets held for trading	-	973	-	11,019	-	11,992
Investment securities - FVOCI	-	-	10,600,515	-	-	10,600,515
Investment securities - Amortised cost	-	-	148,173	-	-	148,173
Other assets	-	1,039,972	1,958,117	1,265	160,067	3,159,421
<b>As at 31 December 2021</b>	<b>5,111,643</b>	<b>6,737,437</b>	<b>15,026,698</b>	<b>4,476,283</b>	<b>160,067</b>	<b>31,512,128</b>
Undrawn Commitments	962,740	7,005,801	-	-	-	7,968,541
Financial guarantees and other credit related contingencies	930	2,692,276	-	989,771	-	3,682,977
	<b>963,670</b>	<b>9,698,077</b>	<b>-</b>	<b>989,771</b>	<b>-</b>	<b>11,651,518</b>
2020 (MUR '000)						
Cash & cash equivalents	-	-	2,634,004	3,476,258	-	6,110,262
Loans & advances to customers	5,091,183	8,440,525	802,146	-	-	14,333,854
Loans & advances to banks	-	-	-	264,052	-	264,052
Financial assets held for trading	-	6,054	-	8	-	6,062
Investment securities	-	-	8,313,010	-	-	8,313,010
Other assets	-	731,344	1,567,270	462	127,199	2,426,275
<b>As at 31 December 2020</b>	<b>5,091,183</b>	<b>9,177,923</b>	<b>13,316,430</b>	<b>3,740,780</b>	<b>127,199</b>	<b>31,453,515</b>
Undrawn Commitments	915,851	7,658,167	-	-	-	8,574,018
Financial guarantees and other credit related contingencies	1,130	2,923,736	-	709,775	-	3,634,641
	<b>916,981</b>	<b>10,581,903</b>	<b>-</b>	<b>709,775</b>	<b>-</b>	<b>12,208,659</b>



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2021 (continued)

#### 35 Financial Risk Management (continued)

##### (b) Credit risk (continued)

###### (vi) Concentration of credit risk (continued)

The tables below show the concentration of credit risk by region and country.

2022 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	2,253,508	515,161	466,565	25,916	3,588,184	6,849,334
Loans & advances to customers	3,631	8,999	22,065	21,136	12,130,838	12,186,669
Loans & advances to banks	-	-	100,000	-	100,930	200,930
Financial assets held for trading	-	21	-	-	5,509	5,530
Investment securities - FVOCI	-	-	-	-	6,537,624	6,537,624
Investment securities - Amortised cost	-	-	-	-	1,309,123	1,309,123
Other assets	-	-	66,602	-	2,339,911	2,406,513
<b>As at 31 December 2022</b>	<b>2,257,139</b>	<b>524,181</b>	<b>655,232</b>	<b>47,052</b>	<b>26,012,119</b>	<b>29,495,723</b>
Undrawn Commitments		26	2,480,029	1,314,962	5,852,559	9,647,576
Financial guarantees and other credit related contingencies	14,095	160,218	1,114,336	23,030	1,334,818	2,646,497
	<b>14,095</b>	<b>160,244</b>	<b>3,594,365</b>	<b>1,337,992</b>	<b>7,187,377</b>	<b>12,294,073</b>
<b>2021 (MUR '000)</b>						
Cash & cash equivalents	953,621	1,351,817	1,564,226	23,190	2,512,407	6,405,261
Loans & advances to customers	4,754	11,838	21,568	25,707	10,744,268	10,808,135
Loans & advances to banks	-	-	111,131	-	267,500	378,631
Financial assets held for trading	-	10797	-	-	1,195	11,992
Investment securities - FVOCI	-	-	-	-	10,600,515	10,600,515
Investment securities - Amortised cost	-	-	-	-	148,173	148,173
Other assets	-	-	70,750	769,885	2,318,786	3,159,421
<b>As at 31 December 2021</b>	<b>958,375</b>	<b>1,374,452</b>	<b>1,767,675</b>	<b>818,782</b>	<b>26,592,844</b>	<b>31,512,128</b>
Undrawn Commitments	-	392	1,471,019	522,009	5,975,121	7,968,541
Financial guarantees and other credit related contingencies	13,850	284,942	2,033,721	-	1,350,464	3,682,977
	<b>13,850</b>	<b>285,334</b>	<b>3,504,740</b>	<b>522,009</b>	<b>7,325,585</b>	<b>11,651,518</b>
<b>2020 (MUR '000)</b>						
Cash & cash equivalents	783,930	541,025	1,710,155	25,931	3,049,221	6,110,262
Loans & advances to customers	4,927	11,576	3,230,138	97,983	10,989,230	14,333,854
Loans & advances to banks	-	-	96910	-	167,142	264,052
Financial assets held for trading	-	8	-	-	6054	6062
Investment securities	-	-	-	-	8,313,010	8,313,010
Other assets	-	-	1276	630323	1,794,676	2,426,275
<b>As at 31 December 2020</b>	<b>788,857</b>	<b>552,609</b>	<b>5,038,479</b>	<b>754,237</b>	<b>24,319,333</b>	<b>31,453,515</b>
Undrawn Commitments	394	443	1,552,751	480,418	6,540,012	8,574,018
Financial guarantees and other credit related contingencies	12,684	350,285	1,795,105	-	1,476,567	3,634,641
	<b>13,078</b>	<b>350,728</b>	<b>3,347,856</b>	<b>480,418</b>	<b>8,016,579</b>	<b>12,208,659</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

###### (i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Markets Treasury ("MKTY") receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. MKTY accordingly maintains a portfolio of short-term liquid assets, largely loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

The Bank relies on deposits from customers and borrowings from banks as its primary sources of funding. Deposits from customers generally have short maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk. Borrowing from banks have longer term maturities. The Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

###### (ii) Exposure to liquidity risk

Risk is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

HSBC uses the Liquidity Coverage Ratio ("LCR") framework as the basis for its liquidity management and ensures that an adequate stock of unencumbered high-quality liquid assets ("HQLA"), that can be converted easily and immediately in private markets into cash to meet the liquidity needs for a 30 calendar day liquidity stress scenario, are maintained. The LCR is calculated as a percentage of the stock of HQLA over net cash outflows over a 30-day time period and is tracked and reported to senior management daily and to ALCO on a monthly basis. At 31 December 2022, the Bank maintained an LCR ratio of 550% against a set limit of 100% for BoM reporting.

In addition to regulatory metrics, HSBC enhanced its liquidity framework last year to include an 'internal liquidity metric', which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (c) Liquidity risk (continued)

##### (iii) Maturity analysis for financial assets and financial liabilities

The table below sets out the remaining contractual maturities of the Bank's financial liabilities and financial assets.

<i>In MUR millions</i>	<b>Less than 1 month</b>	<b>1-3 months</b>	<b>3 months to 1 year</b>	<b>1-5 years</b>	<b>More than 5 years</b>	<b>Total</b>
<b>2022</b>						
<i>Non -derivative liabilities</i>						
Deposits from banks	(451)	-	-	-	-	(451)
Deposits from customers	(22,681)	(750)	(1,958)	(1,053)	-	(26,442)
Other borrowed funds	(5)	(2)	(447)	-	-	(454)
Other liabilities	(345)	(59)	(64)	(47)	(13)	(528)
	(23,482)	(811)	(2,469)	(1,100)	(13)	(27,875)
<i>Derivative liabilities</i>						
<i>Trading:</i>						
Outflow	(892)	(91)	-	-	-	(983)
Inflow	889	88	-	-	-	977
	(3)	(3)	-	-	-	(6)
Unrecognised loan commitments	(6,442)	(1,081)	(1,968)	(1)	(156)	(9,648)
Financial guarantees and other credit related contingencies	(301)	(372)	(1,180)	(732)	(61)	(2,646)
<i>Non-derivative assets</i>						
Cash and cash equivalents	6,819	250	-	-	-	7,069
Loans and advances to banks	-	100	101	-	-	201
Loans and advances to customers	4,639	846	204	1,441	5,057	12,187
Investment securities	1,277	2,979	1,470	2,121	-	7,847
Other assets	2,324	57	14	12	-	2,407
	15,059	4,232	1,789	3,574	5,057	29,711
<i>Derivative assets</i>						
<i>Trading:</i>						
Outflow	(59)	(88)	-	-	-	(147)
Inflow	61	91	-	-	-	152
	2	3	-	-	-	5
Net liquidity gap	(15,167)	1,968	(3,828)	1,741	4,827	(10,459)

Other liabilities and other assets include only financial liabilities and financial assets respectively.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (c) Liquidity risk (continued)

##### (iii) Maturity analysis for financial assets and financial liabilities (continued)

<i>In MUR millions</i>	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
2021						
<i>Non-derivative liabilities</i>						
Deposits from banks	(1,177)	-	-	-	-	(1,177)
Deposits from customers	(22,728)	(334)	(1,715)	(1,110)	-	(25,887)
Other borrowed funds	-	(1,076)	-	(8)	-	(1,084)
Other liabilities	(344)	(228)	(733)	(67)	-	(1,372)
	(24,249)	(1,638)	(2,448)	(1,185)	-	(29,520)
<i>Derivative liabilities</i>						
<i>Trading:</i>						
Outflow	(64)	(50)	-	-	-	(114)
Inflow	64	49	-	-	-	113
	-	(1)	-	-	-	(1)
Unrecognised loan commitments	(959)	(4,677)	(2,196)	(136)	-	(7,968)
Financial guarantees and other credit related contingencies	(108)	(597)	(1,938)	-	(1,041)	(3,684)
<i>Non-derivative assets</i>						
Cash and cash equivalents	6,643	-	-	-	-	6,643
Loans and advances to banks	14	88	276	-	-	378
Loans and advances to customers	2,124	2,162	273	1,804	4,446	10,809
Investment securities	900	1,170	5,282	3,397	-	10,749
Other assets	2,120	241	726	38	35	3,160
	11,801	3,661	6,557	5,239	4,481	31,739
<i>Derivative assets</i>						
<i>Trading:</i>						
Outflow	(2,090)	-	-	-	-	(2,090)
Inflow	2,102	-	-	-	-	2,102
	12	-	-	-	-	12
Net liquidity gap	(13,503)	(3,252)	(25)	3,918	3,440	(9,422)

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

### 35 Financial Risk Management (continued)

#### (c) Liquidity risk (continued)

##### (iii) Maturity analysis for financial assets and financial liabilities (continued)

<i>In MUR millions</i>	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
2020						
<i>Non-derivative liabilities</i>						
Deposits from banks	(748)	-	-	-	-	(748)
Deposits from customers	(21,254)	(201)	(787)	(576)	-	(22,818)
Other borrowed funds	(1)	(2,261)	(2,956)	-	-	(5,218)
Other liabilities	(300)	(420)	(292)	(31)	(3)	(1,046)
	(22,303)	(2,882)	(4,035)	(607)	(3)	(29,830)
<i>Derivative liabilities</i>						
<i>Trading:</i>						
Outflow	(165)	-	-	-	-	(165)
Inflow	162	-	-	-	-	162
	(3)	-	-	-	-	(3)
Unrecognised loan commitments	(1,937)	(5,052)	(1,490)	(9)	(86)	(8,574)
Financial guarantees and other credit related contingencies	(152)	(677)	(1,426)	(1,031)	(349)	(3,635)
<i>Non-derivative assets</i>						
Cash and cash equivalents	6,443	-	-	-	-	6,443
Loans and advances to banks	1	2	261	-	-	264
Loans and advances to customers	3,244	4,113	780	1,923	4,274	14,334
Investment securities	374	884	1,712	5,343	-	8,313
Other assets	1,768	430	236	-	-	2,434
	11,830	5,429	2,989	7,266	4,274	31,788
<i>Derivative assets</i>						
<i>Trading:</i>						
Outflow	(177)	-	(20)	-	-	(197)
Inflow	182	-	20	-	-	202
	5	-	-	-	-	5
Net liquidity gap	(12,560)	(3,182)	(3,962)	5,619	3,836	(10,249)

Assets have been shown at carrying amount in the above tables.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (d) Market risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

##### (i) Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Global Banking and Markets unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value

All foreign exchange risk within the Bank is transferred and managed by Global Banking and Markets. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in RMM. Group Market Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

##### (ii) Exposure to market risks – trading portfolios

One of the tools used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified year of time (holding year) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding year. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- 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.
- the use of a one-day holding period for risk management purposes of trading and non-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.

The Bank uses VaR limits for total market risk and specific foreign exchange, interest rate, and equity and other price risks. The overall structure of VaR limits is subject to review and approval by the Bank's ALCO. VaR limits are allocated to trading portfolios. However, PVBP and FX Exposure are more actively used for market risk management and as such no information is disclosed for VaR.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

#### 35 Financial Risk Management (continued)

##### (d) Market risks (continued)

##### (ii) Exposure to market risks – trading portfolios (continued)

Management also uses Present Value of Basis Point (“PVBP”) which is one of the most widely used methods for quantifying outright interest rate risk. It expresses the impact on the present value of a position of a one basis point (1bp) rise in the interest rate used to calculate the present value – for example a change from 5.25% to 5.26%.

PVBP is calculated net within each currency and gross across currencies.

This is a more accurate expression of interest rate sensitivity and exposure than any other method and is the most appropriate method for books where the value of the book is very sensitive to interest rate movements.

PVBP cannot, however, be readily calculated by mental arithmetic, unlike some other forms of limit. The PVBP of a given position is affected not only by the nominal amount of the position and its term but also by any coupon, for example on a bond, and by the actual level of interest rates used to calculate the present value.

A summary of the risk position of the Bank’s trading portfolios as at 31 December is as follows:

	At 31 December	Average	Maximum	Minimum
<i>In MUR Million</i>				
<b>2022</b>				
Interest rate risk (PVBP)	(0.00002)	0.00002	0.00010	-
<b>2021</b>				
Interest rate risk (PVBP)	0.04940	0.05428	0.18147	0.00102
<b>2020</b>				
Interest rate risk (PVBP)	0.0334	0.3016	0.68608	0.016

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (d) Market risks (continued)

##### (iii) Exposure to market risks – Non-trading portfolios

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Global Banking and Markets in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

2022	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
<i>In MUR thousand</i>								
Cash and cash equivalents	17	7,068,916	3,514,123	-	-	-	-	3,554,793
Trading assets	18	5,530	-	-	-	-	-	5,530
Loans and advances to banks	19	200,930	100,000	-	100,930	-	-	-
Loans and advances to customers	20	12,186,669	5,485,263	7,307	196,577	1,441,016	5,056,506	-
Investment securities	21	7,846,747	4,255,477	199,428	1,271,011	2,120,831	-	-
Other assets		2,406,513	-	-	-	-	-	2,406,513
		29,715,305	13,354,863	206,735	1,568,518	3,561,847	5,056,506	5,966,836
Deposits from banks	25	451,231	451,231	-	-	-	-	-
Deposits from customers	26	26,335,817	18,553,650	659,780	1,253,725	1,004,462	-	4,864,200
Trading liabilities	18	6,871	-	-	-	-	-	6,871
Other borrowed funds	27	444,494	6,494	438,000	-	-	-	-
Other liabilities		492,247	28,615	8,011	10,611	10,842	-	434,168
Lease liabilities		35,977	5,332	4,700	7,064	18,881	-	-
		27,766,637	19,045,322	1,110,491	1,271,400	1,034,185	-	5,305,239
Interest sensitivity gap		1,948,668	(5,690,459)	(903,756)	297,118	2,527,662	5,056,506	661,597



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (d) Market risks (continued)

##### (iii) Exposure to market risks – Non-trading portfolios (continued)

2021	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
<i>In MUR thousand</i>								
Cash and cash equivalents	17	6,643,354	3,843,244	-	-	-	-	2,800,110
Trading assets	18	11,992	-	-	-	-	-	11,992
Loans and advances to banks	19	378,631	102,495	-	276,136	-	-	-
Loans and advances to customers	20	10,808,135	4,340,305	2,923	274,009	1,827,169	4,363,729	-
Investment securities	21	10,748,688	2,069,164	1,881,509	3,400,516	3,397,499	-	-
Other assets		3,159,419	-	-	-	-	-	3,159,419
		31,750,219	10,355,208	1,884,432	3,950,661	5,224,668	4,363,729	5,971,521
Deposits from banks	25	1,177,285	1,177,285	-	-	-	-	-
Deposits from customers	26	25,814,918	18,177,963	474,907	1,220,231	1,061,931	-	4,879,886
Trading liabilities	18	1,089	-	-	-	-	-	1,089
Other borrowed funds	27	1,083,503	1,075,938	-	-	7,565	-	-
Other liabilities		1,350,486	33,931	886	2,278	1,982	-	1,311,409
Lease liabilities		21,412	5,265	4,426	3,065	8,322	334	-
		29,448,693	20,470,382	480,219	1,225,574	1,079,800	334	6,192,384
Interest sensitivity gap		2,301,526	(10,115,174)	1,404,213	2,725,087	4,144,868	4,363,395	(220,863)

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements  
for the year ended 31 December 2022 (continued)

### 35 Financial Risk Management (continued)

#### (d) Market risks (continued)

##### (iii) Exposure to market risks – Non-trading portfolios (continued)

2020	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
<i>In MUR thousand</i>								
Cash and cash equivalents	17	6,443,248	4,602,894	-	-	-	-	1,840,354
Trading assets	18	6,062	-	-	-	-	-	6,062
Loans and advances to banks	19	264,052	2,909	-	261,143	-	-	-
Loans and advances to customers	20	14,333,854	13,722,719	128,058	887	92,395	389,795	-
Investment securities	21	8,313,010	1,257,694	801,384	910,256	5,343,676	-	-
Other assets		2,433,580	-	-	-	-	-	2,433,580
		31,793,806	19,586,216	929,442	1,172,286	5,436,071	389,795	4,279,996
Deposits from banks	25	747,792	747,792	-	-	-	-	-
Deposits from customers	26	22,778,413	16,068,491	391,846	1,032,548	965,957	-	4,319,571
Trading liabilities	18	3,220	-	-	-	-	-	3,220
Other borrowed funds	27	5,218,552	1,971,994	290,433	2,956,125	-	-	-
Other liabilities		1,046,443	23,237	30,298	30,298	11,767	1,598	949,245
		29,794,420	18,811,514	712,577	4,018,971	977,724	1,598	5,272,036
Interest sensitivity gap		1,999,386	774,702	216,865	(2,846,685)	4,458,347	388,197	(992,040)

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements  
for the year ended 31 December 2022 (continued)

### 35 Financial Risk Management (continued)

#### (d) Market risks (continued)

(iii) Exposure to market risks – Non-trading portfolios (continued)

PVBP is used by the Bank's treasury trading system to monitor interest rate risk and the outstanding position as at 31 December 2022 in the banking book by time buckets stood as follows:

<b>2022</b>											
<b>USD PVBP</b>	<b>1M</b>	<b>2M</b>	<b>3M</b>	<b>6M</b>	<b>9M</b>	<b>1Y</b>	<b>2Y</b>	<b>3Y</b>	<b>4Y</b>	<b>5Y</b>	<b>7Y</b>
<b>Currency Limit</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>20,000</b>	<b>20,000</b>	<b>-</b>	<b>-</b>
<b>Total Position</b>	<b>(271)</b>	<b>(181)</b>	<b>248</b>	<b>1,007</b>	<b>1,589</b>	<b>307</b>	<b>(934)</b>	<b>1,370</b>	<b>905</b>	<b>-</b>	<b>-</b>
<b>2021</b>											
<b>USD PVBP</b>	<b>1M</b>	<b>2M</b>	<b>3M</b>	<b>6M</b>	<b>9M</b>	<b>1Y</b>	<b>2Y</b>	<b>3Y</b>	<b>4Y</b>	<b>5Y</b>	<b>7Y</b>
<b>Currency Limit</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>30,000</b>	<b>20,000</b>	<b>20,000</b>	<b>-</b>	<b>-</b>
<b>Total Position</b>	<b>(74)</b>	<b>3</b>	<b>(321)</b>	<b>101</b>	<b>(453)</b>	<b>(40)</b>	<b>(1,977)</b>	<b>(2,846)</b>	<b>(121)</b>	<b>-</b>	<b>-</b>
<b>2020</b>											
<b>USD PVBP</b>	<b>1M</b>	<b>2M</b>	<b>3M</b>	<b>6M</b>	<b>9M</b>	<b>1Y</b>	<b>2Y</b>	<b>3Y</b>	<b>4Y</b>	<b>5Y</b>	<b>7Y</b>
<b>Currency Limit</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>	<b>10,000</b>
<b>Total Position</b>	<b>212</b>	<b>210</b>	<b>984</b>	<b>1,637</b>	<b>2,301</b>	<b>1,458</b>	<b>7,679</b>	<b>2,925</b>	<b>5,041</b>	<b>1,285</b>	<b>-</b>

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements

for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (d) Market risks (continued)

###### (iv) Exposure to currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's main foreign transactions are in US Dollar ('USD'). As the currency in which the Bank presents its financial statements is the Mauritian Rupee, the Bank's financial statements are affected by movements in the exchange rates between the foreign currencies and the Mauritian Rupee. The net open position was as follows:

	2022 MUR Million	2021 MUR Million	2020 MUR Million
Pound Sterling	(1)	(1)	(1)
Euro	1	(2)	1
Japanese yen	(1)	(1)	-
USD	80	(17)	23
Other foreign currencies	4	(2)	2
	<b>83</b>	<b>(23)</b>	<b>25</b>

###### (v) Interbank Offer Rates ('IBOR') transition

Throughout 2022, our interbank offered rate ('Ibor') transition programme, which is tasked with the development of new replacement near risk-free rate ('RFR') products and transition from legacy Ibor products, has continued to implement the required IT and operational changes necessary to facilitate an orderly transition from Ibors to RFRs, or alternative benchmarks, such as policy interest rates. These changes have enabled HSBC to meet regulatory endorsed milestones related to product readiness and the clearing house-led transition to RFR discounting.

Business lines, functions and, where appropriate, HSBC entities have identified financial and non-financial risks related to the transition and developed key actions to mitigate the identified risks. These risks include those associated with the continued sale of products referencing Ibor, through 2022. However, HSBC has actively removed certain Ibor referencing products from sale, and implemented processes and controls to manage the continued sale of Ibor products to assist in meeting our clients' needs. As products referencing Ibor continue to be sold, and RFR products are developed, considerations relating to the enforceability of Ibor fallback provisions and the evolution of RFR market conventions have increased legal and compliance risks.

Furthermore, the impact of the Covid-19 outbreak has compressed timelines for client engagement and potentially increased the resilience risks associated with the rollout of new products, transition of legacy contracts, and new RFR product sales.

The Bank is exposed to the effects of USD LIBOR reform on its financial assets. As at 31 December 2022, there is nil (Dec 21 - MUR1,896m) non-derivative financial assets yet to transition to alternative benchmarks.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **35 Financial Risk Management (continued)**

##### **(e) Capital management**

###### *Regulatory capital*

The Bank's lead regulator, the Bank of Mauritius, sets and monitors capital requirements for the whole banking sector in Mauritius.

As per the guideline on scope of application of Basel III and eligible capital issued in June 2014, the Bank of Mauritius adopted Basel III with effect from 01 July 2014.

Basel III is a comprehensive set of reform measures, established by the Basel Committee on Banking Supervision (BCBS), to reinforce the regulation, supervision and risk management of the banking sector. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. Basel III seeks to improve the quality of capital that banks hold and provide a more transparent definition of different types of capital.

The Bank's regulatory capital consists of the sum of the following elements:

- (a) Tier 1 capital, which comprises of Common Equity Tier 1 (CET1)
- (b) Tier 2 capital

For each of the two categories above, there is a single set of criteria described in the guideline that the instruments are required to meet before they are included in the relevant category.

For the purpose of determining the capital adequacy ratio, the capital base is the sum of Tier 1 and Tier 2 capital net of regulatory adjustments applied.

## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022 (continued)

#### 35 Financial Risk Management (continued)

##### (e) Capital management (continued)

###### Regulatory capital (continued)

The Bank's regulatory capital is analysed as follows:

- Tier 1 capital (all qualifies as CET1 capital), which includes ordinary stated capital, statutory reserve, reserves for own shares, fair value reserves and retained earnings reserves.
- Tier 2 capital, which includes general banking reserves.

Regulatory adjustment applicable to CET1 capital which was only is the deferred tax asset as at 31 December 2022.

The Bank's regulatory capital position at 31 December 2022 was as follows:

MUR'000		2022	2021	2020
Reference		Basel III	Basel III	Basel III
<b>Tier 1 capital</b>				
<b>CET1 Capital</b>				
Assigned Capital	A	794,150	794,150	794,150
Other Disclosed Reserves	B	225,231	378,640	306,835
Retained Earnings	C	896,274	1,172,631	707,398
<b>CET1 before regulatory adjustments</b>		<b>1,915,655</b>	<b>2,345,421</b>	<b>1,808,383</b>
Deferred tax assets	D	-	(56,239)	(105,548)
Pension funds assets	G	(103,270)	-	-
<b>Total regulatory adjustments to CET1</b>		<b>-</b>	<b>(56,239)</b>	<b>(105,548)</b>
<b>Tier 1 Capital (T1)</b>		<b>1,812,385</b>	<b>2,289,182</b>	<b>1,702,835</b>
<b>Tier 2 Capital</b>				
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	E	106,716	99,599	93,822
Provisions	F	114,114	103,045	102,273
<b>Tier 2 Capital (T2)</b>		<b>220,830</b>	<b>202,644</b>	<b>196,095</b>
<b>Total Capital (T1 + T2)</b>		<b>2,033,215</b>	<b>2,491,826</b>	<b>1,898,930</b>
		<b>2022</b>	<b>2021</b>	<b>2020</b>
		<b>MUR'000</b>	<b>MUR'000</b>	<b>MUR'000</b>
Total on-balance sheet risk-weighted credit exposures		8,713,201	7,733,392	7,659,096
Total non-market-related off-balance sheet risk-weighted credit exposures		411,026	510,138	514,752
Total market-related off-balance sheet risk-weighted credit exposures		8,481	2,039	7,995
Risk weighted assets for operational risk		1,487,014	1,548,186	1,696,850
Aggregate net open foreign exchange position		83,349	22,927	26,719
<b>Total risk weighted assets</b>		<b>10,703,071</b>	<b>9,816,682</b>	<b>9,905,412</b>
Capital adequacy ratio (%)		<b>19.0%</b>	<b>25.4%</b>	<b>19.2%</b>

# The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

## Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

### 35 Financial Risk Management (continued)

#### (e) Capital management (continued)

Regulatory capital (continued)

Each component of the capital base is mapped by cross reference to a full reconciliation of the Bank's statement of financial position as at 31 December 2022 as described in the table below:

(MUR'000)	As Published	Capital Base under Basel III	Reference
<b>ASSETS</b>			
Cash and cash equivalents	7,068,916		
Trading assets	5,530		
Loans and advances to banks	200,357		
Loans and advances to customers	12,123,598		
of which,			
- Gross loans			
- Stage 3 impairment		25,606	F
- Stage 1&2 impairment			
Investment securities - fair value through other comprehensive income	6,537,624		
Investment securities - Amortised cost	1,309,123		
Intangible assets	2,703		
Property, plant and equipment	390,844		
Deferred tax assets	-	-	D
Other assets	2,513,370	103,270	G
<b>Total assets</b>	<b>30,152,065</b>		
<b>LIABILITIES</b>			
Deposits from banks	451,231		
Deposits from customers	26,335,817		
Trading liabilities	6,871		
Other borrowed funds	444,494		
Current tax liabilities	44,099		
Other liabilities	583,918		
<b>Total liabilities</b>	<b>27,866,430</b>		
<b>Shareholder's funds</b>			
Assigned capital	794,150	794,150	A
Retained earnings	896,274	896,274	C
Other reserves	595,211		
of which,			
- Statutory Reserve	306,835	306,835	B
- Reserves for own shares	13,981	13,981	B
- Fair value reserve	(95,585)	(95,585)	B
- General Banking Reserve	132,833	88,508	F
- Revaluation Reserves	237,147	106,716	E
<b>Total shareholder's funds</b>	<b>2,285,635</b>		
<b>Total liabilities and shareholder's funds</b>	<b>30,152,065</b>		

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements** *for the year ended 31 December 2022 (continued)*

#### **35 Financial Risk Management (continued)**

##### **(e) Capital management (continued)**

###### *Regulatory capital (continued)*

Banks are required to apply a capital conservation buffer which aims at promoting the conservation of capital and build-up of adequate buffers above the minimum during normal times which can be drawn down during stressed period.

The capital conservation buffer had increased to 2.5% as from 01 January 2020. However, in the face of the challenges posed by Covid-19 and its effect on economic activity, the local regulator deferred effectiveness of the revised capital conservation buffer to 1 April 2022.

As from 01 January 2021, banks are required to meet the following new minimum capital requirements in relation to risk-weighted assets (RWAs):

- (a) 6.5% Common Equity Tier 1/RWAs;
- (b) 8.0% Tier 1 capital/RWAs, and
- (c) 12.9% total capital/RWAs.

Moreover, banks are required to apply a capital conservation buffer which aims at promoting the conservation of capital and build-up of adequate buffers above the minimum during normal times which can be drawn down during stressed year.

The bank is required to maintain additional Common Equity Tier 1 Capital (CET1) of 1.00 per cent as additional loss absorbency under BoM Domestic Systemically Important Banks (“DSIB”) framework.

Various limits and minima are applied to elements of the capital base. The restriction applicable to the Bank is on the amount of general banking reserves that may be included as part of tier 2 capital.

The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders’ return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the year.



## The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

### Notes to and forming part of the financial statements for the year ended 31 December 2022(continued)

#### 35 Financial Risk Management (continued)

##### (e) Capital management (continued)

###### *Regulatory capital (continued)*

The Bank's regulatory capital position at 31 December 2022 was as follows:

	2021	2021	2020
	%	%	%
CET 1 capital adequacy ratio*	16.9	23.3	17.2
<i>Regulatory Limit - Minimum CET 1 CAR</i>	10.0	9.4	9.4
Tier 1 capital adequacy ratio	16.9	23.3	17.2
<i>Regulatory Limit - Minimum Tier 1 CAR</i>	11.5	10.9	10.9
Total capital adequacy ratio*	19.0	25.4	19.2
<i>Regulatory Limit - Minimum Total CAR</i>	13.5	12.9	12.9

Management uses regulatory capital ratios in order to monitor its capital base and these capital ratios remain the international standards for measuring capital adequacy.

###### *Main features of capital*

The Bank's assigned capital is at MUR794.2 which is above the minimum capital requirement of MUR400 million for banks as per Section 20 of the Mauritian Banking Act 2004. The main feature of the assigned capital is that it is perpetual and there are no circumstances under which distributions are mandatory.

###### *Capital allocation*

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon HSBC Group Internal Ratings Based Approach ("IRBA"). ALCO then manages the balance between the notional capital allocated to businesses and the actual invested capital to ensure the Bank does not fall below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation and is subject to review by ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by management.

## **The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch**

### **Notes to and forming part of the financial statements**

*for the year ended 31 December 2022 (continued)*

#### **36 Subsequent event**

Management is not aware of any matter or circumstance arising since the end of the financial year to the date of this report which could significantly affect the financial position of the Bank at 31 December 2022.

#### **37 Ultimate holding company**

The Bank is registered in Mauritius as a branch of The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in the United Kingdom is the ultimate holding company and controlling party.