The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch

Annual Report 2018

HSBC

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Annual Report
for the year ended 31 December 2018

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for the year ended 31 December 2018

Contents

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 HSBC Centre, 18 CyberCity, Ebène, Mauritius. The Bank is primarily involved in corporate, treasury and retail banking.

The Management is pleased to present the Annual Report of The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch for the year ended 31 December 2018.

The financial statements on pages 63 to 179 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.

In preparing the financial statements, management is required to:

- select suitable accounting policies and then apply them consistently;
- make judgments and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards ("IFRS") have been followed, subject to any material departures disclosed and explained in the financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Bank will continue in business.

Management has authorised the issue of this annual report on 29 March 2019 and it does not have the power to amend the financial statements after issue.

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.

Financial Review

Outlook

The Bank continues to operate in a challenging economic environment characterized by headwinds in the global economy. Global growth forecasts for 2019 and 2020 have been revised downwards and most advanced economies central banks have adopted very accommodative monetary policies to support economic growth. The domestic market has continued to experience lower direct investment flows, lower exports and tourist visits particularly from Europe. Excess liquidity has continued in the Banking sector resulting in increased competition in lending to domestic corporates and retail customers. Headline inflation closed at 3.2% as at 31 December 2018. In the foreign currency markets, increased competition and margin compression due to regulatory measures by the central bank have been experienced and expected to remain for 2019. In light of all these developments, the Bank expects a challenging operating environment in the foreseeable future and expects to at least maintain profitability at current levels.

Performance against objectives

Objectives for 2018	Performance for 2018	Objectives for 2019
1. Return on Equity ("ROE")		
Deliver ongoing ROE above the HSBC Group ROE target of 10%.	**Following an increase in profit for the year, ROE increased from 9.6% in 2017 to 10.0% in 2018.**	**Deliver ongoing ROE above the HSBC Group ROE target of 10%.**

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives (continued)

Objectives for 2018	Performance for 2018	Objectives for 2019
2. Revenue growth		
Low interest rates are expected to continue for the major part of the year, thus the Bank is expecting modest revenue growth for 2018.	Due to an increase in loans and advances to customers in 2018, revenue has increased by 6.2%.	Low interest rates are expected to continue for the major part of the year, thus the Bank is expecting modest revenue growth for 2019.
3. Expense growth		
To maintain positive Jaws in line with HSBC Group target.	The cost efficiency ratio of the Bank was 75.3% (2017:74.4%) and a negative Jaws of 1.3%.	To maintain positive Jaws in line with HSBC Group target.
4. Portfolio quality		
To maintain asset quality and minimise impairment charges through sound underwriting policies and robust portfolio monitoring processes.	Impairment charges decreased to MUR4.3m (2017: MUR4.9m).	As per 2018 objective.
5. Capital and Liquidity risk management		
• To maintain capital above the regulatory requirement as per Basel III.	• Total capital adequacy ratio was 16.0% and the Tier 1 ratio was 14.2% under Basel III against minimum requirements of 12% and 8% respectively.	As per 2018 objective.
• To meet Bank of Mauritius' new liquidity risk management guidelines.	• Liquidity Coverage Ratio (LCR) stood at 453% which is well above the regulatory limit of 70%.	As per 2018 objective.
6. Return on average assets		
Given the current market conditions, the Bank aims to achieve a return on assets within the range of 1.0% - 1.2%.	A return on average assets of 1.1% was achieved for 2018 which is within the target range of 1.0% - 1.2%.	As per 2018 objective.

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives (continued)

- During the financial year 2018, the Bank recorded a profit before tax of MUR315.3m (2017: MUR307.1m), representing an increase of 2.7% over 2017.

- A Return on Equity of 10.0% (2017: 9.6%) was achieved.

- Net interest income, which accounts for 47.8% (2017: 47.5%) of total operating income, increased by MUR39.7m to MUR617.2m, driven by higher loans and advances to customers which increased by 15.3%.

- Net trading income, which mainly consists of foreign exchange trading, decreased by 17.0% to MUR143.6m (2017: MUR173.1m) due to lower trade volumes and compressed margins compared to prior year.

- Other operating income increased to MUR368.0m (2017: MUR320.9m) mainly on account of an increase in intercompany management fees.

- Net Expected Credit Losses ("ECLs") on financial assets decreased to MUR4.3m (2017: MUR4.9m) mainly due to a release of ECLs during the year.

- Operating expenses, which consist of staff costs and administrative expenses, increased by 7.4% to MUR972.0m (2017 – MUR904.7m), due to an increase in the staff costs and group allocated charges.

- Cash and cash equivalents increased by 2.1% to MUR4.5bn (2017: MUR4.4bn) predominantly due to an increase in nostro balances of MUR1.6bn compared to MUR1.4bn in 2017, increase in placements with maturity less than 3 months of MUR0.7bn compared to MUR0.4bn in 2017, partially offset by a decrease in cash and balances at central banks to MUR2.2bn from MUR2.6bn in 2017.

- Loans and advances to banks decreased by 36.5% to MUR 0.4bn (2017: MUR0.6bn) attributable to a decrease in placements with other banks.

- Customer loans and advances increased by 15.3% to MUR15.0bn (2017: MUR13.0bn) following new loan disbursements to some major corporate customers.

- Investment securities increased by 6.4% to MUR6.6bn (2017: MUR6.2bn). The increase is due to surplus of local currency commercial being invested in local treasury bills/notes.

- Customer deposit balances decreased by 4.4% to MUR18.9bn (2017: MUR19.7bn) mainly due to a decrease in corporate customer deposits.

- Deposits from banks increased to MUR0.6bn (2017: MUR0.3bn) due to an increase in balances with correspondent banks.

- Total capital adequacy ratio remains strong at 16.0% (2017: 14.2%) under Basel III against a minimum requirement of 12%.

Review by lines of business

The HSBC Group divides its activities into five segments: Retail Banking and Wealth Management (RBWM); Wholesale Banking (WSB); Global Banking and Markets (GB&M); Global Private Banking (GPB); and Coporate Centre (CC). The segments are responsible for developing, implementing and managing their business propositions consistently across the HSBC Group.

The Bank is only involved in four segments, namely: RBWM, WSB, GB&M and CC.

Retail Banking and Wealth Management (RBWM)

	2018 MURm	2017 MURm	2016 MURm
Total operating income	**421.7**	380.5	396.8
Total expenses	**(362.2)**	(340.2)	(340.3)
Net impairment loss on financial assets	**(8.4)**	(5.7)	(15.5)
Profit/(Loss) before tax	**51.1**	34.6	41.0

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

Total operating income increased by around 10.8% compared to last year, mainly on net interest income and on account of higher interest margins while total expenses increased by a lesser proportion. Overall, RBWM recorded a 47.7% rise in profit before tax to MUR51.1m from MUR34.6m.

Wholesale Banking

WSB aims to be the international bank of choice for Global Business Companies and 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.

	2018 MURm	2017 MURm	2016 MURm
Total operating income	**311.7**	291.7	254.2
Total expenses	**(164.9)**	(149.8)	(176.8)
Net impairment release on financial assets	**4.8**	0.6	0.1
Profit before tax	**151.6**	142.5	77.5

WSB recorded a 6.4% growth in profit before tax compared to 2017 mainly due to an increase in net interest income and a release in ECLs on financial assets.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Financial Review (continued)

Review by lines of business (continued)

Global Banking and Markets

	2018 MURm	2017 MURm	2016 MURm
Total operating income	**120.0**	245.2	294.8
Total expenses	**(75.2)**	(104.8)	(105.7)
Net impairment release/(loss) on financial assets	**0.1**	0.3	(0.1)
Profit before tax	**44.9**	140.7	189.0

The Bank arranges its GB&M 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 institution entities. 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 GB&M's profit before tax decreased by 68.1% which is explained by the implementation of the wholesale banking model during the end of year 2017, where certain GB&M clients were moved to WSB.

Financial Review (continued)

Key Ratios

	2018 %	2017 %	2016 %
Net interest margin	**2.3**	2.3	2.4
Return on average assets	**1.1**	1.2	1.3
Cost / Income ratio	**75.3**	74.4	73.6

	2018 MUR'm	2017 MUR'm	2016 MUR'm
Assets			
Cash and cash equivalents	**4,485.2**	4,392.5	3,509.6
Loan and advances to banks	**384.0**	604.4	563.6
Loan and advances to customers	**14,987.0**	13,004.0	12,404.0
Investment securities	**6,572.1**	6,175.7	5,705.0
Total	**26,428.3**	24,176.6	22,182.2
Liabilities			
Deposits from customers	**18,855.6**	19,718.4	19,542.9
Deposits from banks	**578.7**	268.7	188.5
Other borrowed funds	**5,519.1**	2,887.0	1,264.4
Total	**24,953.4**	22,874.1	20,995.8

Net Interest Income analysis

	2018 MUR'm	2017 MUR'm	2015 MUR'm
Interest income			
Cash and cash equivalents	**32.7**	27.9	26.5
Loans and advances to banks	**3.6**	4.2	3.2
Loans and advances to customers	**619.0**	557.4	614.4
Investment securities	**222.7**	199.1	193.1
Other	**0.4**	0.8	0.8
Total	**878.4**	789.4	838.0
Interest expense			
Deposits from banks	**(2.3)**	(1.3)	(1.5)
Deposits from customers	**(180.1)**	(202.4)	(231.4)
Other borrowed funds	**(78.8)**	(8.2)	(4.0)
Total	**(261.2)**	(211.9)	(236.9)
Net interest income	**617.2**	577.5	601.1

The increase of 11.3% in interest income for the Bank is in line with the increase in the average balance of term lending and overdrafts compared to prior period. Interest expense, mainly on other borrowed funds, increased by 23.3% to MUR261.2m reflecting an increase in other borrowed funds to support loan growth in foreign currency.

As a result, net interest income for the Bank increased by 6.9% compared to the prior year.

Management discussion and analysis (continued)

Financial Review (continued)

Non-interest income

	2018 MUR'm	2017 MUR'm	2016 MUR'm
Net fee and commission income	**162.9**	145.1	160.0
Net trading income	**143.6**	173.1	168.2
Other operating income	**368.0**	320.9	301.1
Total	**674.5**	639.1	629.3

Non-interest income increased by 5.5% to MUR674.5m (2017: MUR639.1m) mainly on account of higher net fee and commission income and higher other operating income which consists mainly of intercompany management fees received.

ECLs/ Impairment losses

	2018 MUR'm	2017 MUR'm	2016 MUR'm
Net ECLs/ impairment loss on financial assets	**(4.3)**	(4.9)	(15.6)

Net ECLs/ impairment loss of MUR4.3m in 2018 (2017: MUR4.9m) represents the charge for the year. A description of the methodology and computation of the ECLs under IFRS 9 is given in the *Credit Impairment* section on page 13.

Non-interest expense

	2018 MUR'm	2017 MUR'm	2016 MUR'm
Personnel expenses	**(413.5)**	(363.0)	(346.3)
Operating lease expenses	**(38.6)**	(45.4)	(41.0)
Depreciation	**(13.2)**	(11.4)	(12.0)
Other expenses	**(506.6)**	(484.9)	(506.0)
Total	**(971.9)**	(904.7)	(905.3)

Non-interest expense increased by 7.4% to MUR971.9m (2017:MUR904.7m) mainly due to higher personnel expenses.

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 as follows:

Credit Exposures denominated Mauritian Rupee
- Aggregate credit exposure to any single customer shall not exceed 25 per cent of the Bank's Tier 1 capital;
- 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.

For credit exposure in currencies other than the Mauritian Rupee, there is no limit vis-à-vis the capital base of the Bank.

The Bank's credit concentration risk stood at 346% (2017: 276%) of its Tier 1 capital. As at 31 December 2018, the Bank is in compliance with the Bank of Mauritius *Guideline of Credit Concentration Risk.*

Management discussion and analysis (continued)

Credit exposure and quality (continued)

Gross customer advances by industry sector

	2018 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	726,956	4.8	726,956	6.3	-	-
Manufacturing	3,545,053	23.5	3,545,053	30.6	-	-
Tourism	135,611	0.9	135,611	1.2	-	-
Construction	4,403,195	29.2	4,338,255	37.4	64,940	1.9
Traders	505,556	3.4	505,556	4.4	-	-
Information communications and technology	340	-	340	-	-	-
Financial & business services	3,742,035	24.9	819,310	7.1	2,922,725	84.3
Global business license holders	475,352	3.2	-	-	475,352	13.7
Public non-financial corporations	341,773	2.3	341,773	2.9		-
Personal	1,178,503	7.8	1,174,043	10.1	4,460	0.1
Education	-	-	-	-	-	-
Media, entertainment & recreational activities	1,052	-	1,052	-	-	-
Total gross customer advances	15,055,426	100.0	11,587,949	100.0	3,467,477	100.0

	2017 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	1,742,577	13.4	1,742,577	13.5	-	-
Manufacturing	4,263,331	32.7	4,263,331	32.9	-	-
Tourism	160,961	1.2	160,961	1.2	-	-
Construction	4,231,803	32.5	4,182,868	32.2	48,935	92.9
Traders	638,970	4.9	638,970	4.9	-	-
Information communications and technology	301	-	301	-	-	-
Financial & business services	510,063	3.9	510,063	3.9	-	-
Global business license holders	296,956	2.3	296,956	2.3	-	-
Public non-financial corporations	41,538	0.3	41,538	0.3	-	-
Personal	1,145,230	8.8	1,141,509	8.8	3,721	7.1
Education	11	-	11	-	-	-
Media, entertainment & recreational activities	1,013	-	1,013	-	-	-
Total gross customer advances	13,032,754	100.0	12,980,098	100.0	52,656	100.0

Management discussion and analysis (continued)

Credit exposure and quality (continued)

Customer advances by industry sector (continued)

	2016 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	881,944	7.1	881,944	7.1	-	-
Manufacturing	3,678,804	29.6	3,678,804	29.7	-	-
Tourism	437,450	3.5	437,450	3.5	-	-
Construction	4,275,633	34.4	4,217,507	34.2	58,126	97.6
Traders	743,814	6.0	743,814	6.0	-	-
Information communications and technology	345	-	345	-	-	-
Financial & business services	378,806	3.0	378,806	3.1	-	-
Global business license holders	921,221	7.4	921,221	7.4	-	-
Public non-financial corporations	50,769	0.4	50,769	0.4	-	-
Personal	1,065,890	8.6	1,064,470	8.6	1,420	2.4
Media, entertainment & recreational activities	1,050	-	1,050	-	-	-
Total gross customer advances	12,435,726	100.0	12,376,180	100.0	59,546	100.0

Management discussion and analysis (continued)

Credit exposure and quality (continued)

Off-balance sheet foreign exchange trading contracts by industry sector

	31-Dec-18		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Banks - HSBC Group	594,920	81.2	-	-	594,920	92.4
Banks - Non HSBC Group	48,850	6.7	-	-	48,850	7.6
Agriculture & fishing	-	-	-	-	-	-
Manufacturing	89,283	12.1	89,283	100.0	-	-
Tourism	-	-	-	-	-	-
Traders	-	-	-	-	-	-
Financial & Business Services	-	-	-	-	-	-
Total	733,053	100.0	89,283	100.0	643,770	100.0

	31-Dec-17		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Banks - HSBC Group	2,400,498	90.0	-	-	2,400,498	99.6
Banks - Non HSBC Group	9,423	0.4	-	-	9,423	0.4
Agriculture & fishing	-	-	-	-	-	-
Manufacturing	78,818	3.0	78,818	30.9	-	-
Tourism	-	-	-	-	-	-
Traders	163,766	6.1	163,766	64.2	-	-
Financial & business services	12,429	0.5	12,429	4.9	-	-
Total	2,664,934	100.0	255,013	100.0	2,409,921	100.0

	31-Dec-16		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Banks - HSBC Group	1,519,203	77.9	-	-	1,519,203	95.6
Banks - Non HSBC Group	106,164	5.4	36,025	10.0	70,139	4.4
Agriculture & fishing	-	-	-	-	-	-
Manufacturing	45,080	2.3	45,080	12.5	-	-
Tourism	-	-	-	-	-	-
Traders	261,253	13.4	261,253	72.2	-	-
Financial & business services	19,246	1.0	19,246	5.3	-	-
Total	1,950,946	100.0	361,604	100.0	1,589,342	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 2018, 2017 and 2016 year ends is provided below:

MURm	Agriculture& fishing	Manufacturing	Tourism	Construction	Traders	Financial & business services	Global business licence holders	Public non financial corporations	Personal	Media, entertainment recreational activities	Other	TOTAL
2018												
Total advances	**727**	**3,545**	**136**	**4,403**	**506**	**3,742**	**475**	**343**	**1,178**	-	-	**15,055**
Non performing advances	-	-	-	**50**	-	-	-	-	**10**	-	-	**60**
As a % of total advances	-	-	-	**1.14**	-	-	-	-	**0.85**	-	-	**0.40**
Stage 3 provisions	-	-	-	**21**	-	-	-	-	**6**	-	-	**27**
Stage 1 & 2 provisions	**1**	**1**	-	**18**	-	-	-	-	**21**	-	-	**41**
As a % of Total Advances	**0.14**	**0.03**	-	**0.89**	-	-	-	-	**2.29**	-	-	**0.45**
Stage 3 as a % of NPA's	-	-	-	**42.00**	-	-	-	-	**60.00**	-	-	**45.00**
2017												
Total advances	1,743	4,263	161	4,232	639	510	297	42	1,145	1	-	13,033
Non performing advances	-	-	-	45	-	-	-	-	14	-	-	59
As a % of total advances	-	-	-	1.06	-	-	-	-	1.22	-	-	0.45
Total specific provisions	-	-	-	-	-	-	-	-	17	-	-	17
As a % of total advances	-	-	-	-	-	-	-	-	1.48	-	-	0.13
As a % of NPA's	-	-	-	-	-	-	-	-	28.81	-	-	28.81
2016												
Total advances	882	3,679	437	4,276	744	379	921	51	1,066	1	-	12,436
Non performing advances	-	-	-	-	-	-	-	-	63	-	-	63
As a % of total advances	-	-	-	-	-	-	-	-	5.9	-	-	0.51
Total specific provisions	-	-	-	-	-	-	-	-	17	-	-	17
As a % of total advances	-	-	-	-	-	-	-	-	1.59	-	-	0.14
As a % of NPA's	-	-	-	-	-	-	-	-	26.98	-	-	26.98

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Credit Quality (continued)

Restructured Credits

There were no significant non-performing loans which were restructured during the year. Stage 3 ECLs held on those restructured loans amounted to MUR3.5m as at 31 December 2018 (2017: MUR4.3m).

Credit Impairment

An analysis of individually assessed credit impairment provisions for the year by industry sector together with amount of loans written off is given in the table below.

	Total	Commercial	Personal	Mortgages
	MUR'000	MUR'000	MUR'000	MUR'000
Closing Balance - 31 Dec 2017	**16,694**	-	3,009	13,685
Adjustment – IFRS 9	**(2,388)**	-	2,063	(4,451)
Opening Balance - 01 Jan 2018	**14,306**	-	5,072	9,234
IFRS 9 – ECLs	**12,797**	-	1,274	11,523
Loans written off	**-**	-	-	-
Closing balance - 31 Dec 18	**27,103**	-	6,346	20,757

A general banking reserve of MUR142.3m (2017: MUR156.6m) 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 MUR41.3m compared to MUR54.2m at 1st January 2018.

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.

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.

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk		
Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	▪ Credit risk arises principally 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.	Credit risk is: ▪ measured as the amount which could be lost if a customer or counterparty fails to make repayments; ▪ monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and ▪ managed by dealing with counterparties of good credit standing and when appropriate, obtain collateral.
Liquidity and funding risk		
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.	▪ Liquidity risk arises from mismatches in the timing of cash flows. ▪ Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	Liquidity and funding risk is: ▪ measured using a range of metrics including liquidity coverage ratio and net stable funding ratio; ▪ assessed through the internal liquidity adequacy assessment process; and ▪ monitored against the Bank's liquidity and BoM's Liquidity Risk Management framework which is in line with Basel III.
Market risk		
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.	Exposure to market risk is separated into two portfolios: ▪ Trading portfolios ▪ Non-trading portfolios	Market risk is: ▪ 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; ▪ monitored using VaR, stress testing and other measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and ▪ managed using risk limits approved by the Risk Management Meeting (RMM) for the Bank and the various global businesses.
Interest rate risk		
Interest rate risk is the risk that arises from fluctuating interest rates.	▪ 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. ▪ 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.	▪ Risk management activities are aimed at optimising net interest income consistent with the Bank's business strategies.

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Currency risk		
Currency risk arises from the change in price of one currency in relation to another.	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 measurement 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.	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 Guideline and Management of Market Risk. 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.
Operational risk		
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.	▪ Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of the Bank's business. ▪ Regulatory compliance risk and financial crime risk are discussed below.	Operational risk is: ▪ measured using the risk and control assessment process, which assesses the level of risk and effectiveness of controls; ▪ monitored using key indicators and other internal control activities; and ▪ 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. The RMM oversees the operational risk management framework of the Bank and amongst others, is mandated to: ▪ set the Bank's risk appetite for operational risk; ▪ review appropriate Key Performance Indicators, including operational loss and near miss figures, as well as specific operational risk incidents; and ▪ identify any unfavourable trend and escalate as required to Bank of Mauritius and the Management.
Regulatory compliance risk		
Regulatory compliance risk is the risk that the Bank fails to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to its business as a consequence.	▪ Regulatory compliance risk is part of operational risk, and arises from the risks associated with the Bank breaching its duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory requirements.	Regulatory compliance risk is: ▪ measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of our regulatory compliance teams; ▪ 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 defense functions, and the results of internal and external audits and regulatory inspections; and ▪ managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Financial crime risk		
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 ("HSBC").	▪ Financial crime risk is part of operational risk and arises from day-to-day banking operations.	Financial crime risk is: ▪ measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of the Bank's Financial Crime Risk teams; ▪ monitored against the Bank's financial crime risk appetite statements and metrics, the results of the monitoring and control activities of the second line of defense functions, and the results of internal and external audits and regulatory inspections; and ▪ managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to assure their observance. Proactive risk control and/or remediation work is undertaken where required.
Other material risks		
Reputational risk		
Reputational risk is the risk of failure to meet stakeholders' expectations as a result of any event, behaviour, action or inaction, either by HSBC itself, 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 action or inaction by HSBC, its employees or associated parties that are not the consequence of another type of risk. Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks.	Reputational risk is: ▪ measured by reference to the Bank's reputation as indicated by its dealings with all relevant stakeholders, including media, regulators, customers and employees; ▪ monitored through a reputational risk management framework that is integrated into the Bank's broader risk management framework; and ▪ 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.
Pension risk		
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: ▪ measured in terms of the schemes' ability to generate sufficient ▪ funds to meet the cost of their accrued benefits; and ▪ managed through the appropriate pension risk governance structure.

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Sustainability risk		
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: ▪ measured assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high risk transactions; ▪ monitored by the RMM.

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 2018 were as follows:

Customer Group	Total MUR'm	% of Total Corporate exposure	% of CET1 Capital (Under Basel III)
Customer Group 1	703	20.6	34.4
Customer Group 2	507	14.9	24.8
Customer Group 3	437	12.8	21.4
Customer Group 4	374	11.0	18.3
Customer Group 5	292	8.6	14.3
Customer Group 6	292	8.6	14.3

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 2018, the top 6 customer groups exposures accounted for 76.5% (2017 – 56.6%) of total advances extended to corporates.

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 1capital;
(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.

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 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 Tier 1 Capital
1. HSBC Hong-Kong	7,965.6	389%
2. HSBC Bank Plc, GP Treasury London	4,898.2	239%
3. HSBC Bank (Mauritius)	2,097.5	103%
4. HSBC Singapore	1,746.4	85%
5. HSBC Bank (China) Co Ltd	984.8	48%
6. HSBC Bank Plc	132.9	6%

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 2018.

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	2018 Basel III	2017 Basel III	2016 Basel III
CET1 Capital			
Assigned capital	**300,000**	239,265	239,265
Statutory reserve	**279,380**	243,185	243,185
Retained earnings*	**1,511,499**	1,516,703	1,368,257
CET1 before regulatory adjustments	**2,090,879**	1,999,153	1,850,707
Other intangible assets	**-**	-	-
Deferred tax	**(45,168)**	(89,067)	(53,014)
Total regulatory adjustments to CET1	**(45,168)**	(89,067)	(53,014)
CET1 Capital (T1)	**2,045,711**	1,910,086	1,797,693
Tier 2 Capital			
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	**91,533**	87,900	81,880
General Banking Reserve	**113,666**	144,584	138,299
Portfolio Provisions	**42,401**	12,029	14,211
Tier 2 Capital (T2)	**247,600**	244,513	234,390
Total Capital Base (T1 + T2)	**2,293,311**	2,154,599	2,032,083

* *including audited profits for the year*

Basel III disclosures (continued)

Capital Adequacy

The Asset and Liability Management Committee (ALCO) reviews the capital adequacy ratios under the local regulatory capital requirement on a monthly basis and ensures compliance with the requirement. Projections of regulatory capital ratios are also reviewed by ALCO at least annually.

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.

Sovereign, Central Bank and bank risk weights are based on the credit assessments of recognised external rating agencies with each category of borrower having a specific risk weight structure.

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 any of the above mentioned recognised rating agencies. A standard risk weight of 75% is applied to retail exposures who 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 specific provision to the outstanding amount of the exposure.

With on balance sheet total risk weighted assets of MUR11.8bn (2017: MUR12.8bn), 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 2018 was MUR1.4bn (2017: MUR1.4bn). Risk weighted assets of MUR654.4m (2017: MUR480.4m) for market and non-market related off balance sheet exposures and MUR52.7m (2017: MUR39.0m) for market risk foreign currency exposure, generated further capital requirement of MUR84.9m (2017: MUR57.8m).

Risk weighted assets for Operational Risk in accordance with the Basic Indicator Approach which, based on the average gross income per annum for the last three years and amounting to MUR1.21bn (2017: MUR1.18bn), gave a capital charge for operational risk of MUR181.8m (2017: MUR177.1m).

Total risk weighted asset capital requirement therefore stood at MUR1.8bn (2017: MUR1.7bn) as compared to the Bank's capital base of MUR2.3bn (2017: MUR2.2bn).

The regulatory limits applicable to the Bank were as follows:

	2018	2017	2016
	%	%	%
CET 1 capital adequacy ratio*	**14.2**	12.6	12.9
Regulatory Limit - Minimum CET 1 CAR	***6.5***	*6.5*	*6.5*
Tier 1 capital adequacy ratio	**14.2**	12.6	12.9
Regulatory Limit - Minimum Tier 1 CAR	***8.0***	*8.0*	*8.0*
Total capital adequacy ratio*	**16.0**	14.2	14.6
Regulatory Limit - Minimum Total CAR	***12.0***	*11.1*	*10.0*

* *including audited profits for the year*

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;
- Insurance risks reinsured - that the reinsurance counterparty will be unwilling or unable to meet its commitments;
- 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. This has served the Bank well, through successive economic cycles and strategic plan periods, and remains valid today. This culture is determined and underpinned by the disciplined credit risk control environment which the Bank has put in place to govern and manage credit risk, and which is embodied in the formal policies and procedures within which the bank must operate. These extend from the overall strategic approach to the daily actions of management, demonstrated in:

- 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 inter-action 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 Bank's lending guidelines further give an indication of the local management's current view of the business development priorities. The 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 guidelines are reviewed on an annual basis.

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.

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures

Total Segment A gross credit risk exposures as at 31 December 2018 stood as follows:

Fund based:

Items	31-Dec-18 MUR'000
Claims on sovereigns	6,593,066
Claims on central banks	3,310,944
Claims on banks	594,716
Claims on domestic PSEs ("Public sector entities")	445,989
Claims on corporates	5,655,789
Claims included in regulatory retail portfolio	945,957
Claims Secured by residential property	4,436,088
Claims Secured by commercial real estate	23,662
Total	**22,006,211**

Non fund based:

Items	31-Dec-18 MUR'000
Direct credit substitute	509,049
Transaction-related contingent items	808,221
Trade related contingencies	205,320
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	6,229,956
Foreign exchange contracts	89,283
Total	**7,841,829**

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:

Fund based:

Items	31-Dec-18 MUR'000
Sovereign	6,593,066
Financial institutions	3,905,660
Corporates	6,125,440
Individuals	5,382,045
Total	**22,006,211**

Non fund based:

Items	31-Dec-18 MUR'000
Financial institutions	5,589
Corporates	6,833,329
Individuals	1,002,911
Total	**7,841,829**

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

Items		Amount MUR000's						
(No Months)	Total	0-3m	3-6m	6-12m	12-24m	24-36m	36-60m	> 60m
Claims on sovereigns	**6,593,066**	888,608	1,370,046	1,702,762	896,134	697,228	1,038,288	-
Claims on central banks	**3,310,944**	3,160,044	22,767	79,613	24,530	13,222	10,768	-
Claims on banks	**594,716**	417,840	164,094	7,630	5,152	-	-	-
Claims on domestic PSEs	**445,989**	310,292	-	-	-	50,018	33,228	2,451
Claims on corporates	**5,655,789**	1,478,821	456,201	308,999	2,586,438	335,671	240,936	248,723
Claims included in regulatory retail portfolio	**945,957**	4,901	9,632	351,762	52,355	80,922	410,701	35,684
Claims secured by commercial real estate	**23,662**	4,004	-	1,609	-	-	9,005	9,044
Claims secured by residential mortgage	**4,436,088**	388	1,529	5,154	17,937	43,210	182,072	4,185,798
TOTAL	**22,006,211**	**6,264,898**	**2,024,269**	**2,457,529**	**3,582,546**	**1,220,271**	**1,974,998**	**4,481,700**

Non fund based:

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	**509,049**	57,081	159,677	99,346	65,003	60	127,203	679
Transaction-related contingent items	**808,221**	95,185	5,194	296,536	114,588	261,755	6,229	28,734
Trade related contingencies	**205,320**	204,460	860	-	-	-	-	-
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	**6,229,956**	4,431,128	430,173	1,208,068	1,572	175	1,763	157,077
Foreign exchange contracts	**89,283**	72,093	17,190	-	-	-	-	-
TOTAL	**7,841,829**	**4,859,947**	**613,094**	**1,603,950**	**181,163**	**261,990**	**135,195**	**186,490**

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

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 assessment institutions (ECAIs) that are recognised by national supervisors as eligible for regulatory capital purposes, to determine the risk weights on their credit exposures.

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 claims in all market segments. Claims on sovereigns, claims on Central Banks and international institutions, claims on banks and, claims on corporates are the major market segments where the Bank makes use of the above referred credit agencies rating data.

Apart from the above 3 referred ECAIs, the Bank of Mauritius *Guideline on the Recognition and Use of External Credit Assessment Institutions* allows the use of the following agencies to risk weight claims on corporates only:

- 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 2018 were as follows:

Fund Based:

Items	Exposures Before CRM MUR'000	Exposures After CRM MUR'000	Risk Weight %	RWA MUR'000
Cash in hand	287,214	287,214	0	-
	56,528	56,528	20	11,306
Claims on Sovereigns	6,593,066	6,593,066	0	-
Claims on Central Banks	1,573,516	1,573,516	0	-
	1,737,428	1,737,428	50	868,714
Claims on Banks	590,989	590,989	20	118,198
	3,727	3,727	50	1,864
Claims on Domestic PSE	135,697	135,697	0	-
	310,292	310,292	100	310,292
Claims on Corporate	5,655,789	5,630,209	100	5,630,209
Claims included in Regulatory Retail Portfolio	945,957	923,123	75	692,342
Claims Secured by Residential Property	2,220,427	2,220,265	35	777,093
	284,349	284,349	75	213,262
	53,849	53,849	100	53,849
	1,877,463	1,876,743	125	2,345,929
Claims secured by commercial real estate	23,662	23,662	100	23,662
Past due claims	2,695	2,695	50	1,348
	42,440	42,440	100	42,440
	5,042	5,042	125	6,303
	1,815	1,815	150	2,723
Other assets	733,843	731,367	100	731,367
Total	**23,135,788**	**23,084,016**		**11,830,901**

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 MUR'000	Exposures After CRM MUR'000	Credit Conversion Factor %	Credit Equivalent Amount MUR'000	RWA MUR'000
Direct Credit Substitute	509,049	443,870	100	443,870	440,065
Transaction-related Contingent Items	808,221	593,688	50	296,844	199,029
Trade Related Contingencies	205,320	71,672	20	14,334	14,334
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	6,229,956	6,229,956	-	-	-
Total	7,752,546	7,339,186		755,048	653,428

Non - Fund Based:

Items	Notional principal amount MUR'000	Credit conversion factor %	Potential future exposure MUR'000	Current exposure MUR'000	Credit equivalent amount MUR'000	RWA MUR'000
Foreign Exchange Contract	89,283	1	893	111	1,004	1,004

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
- Letters of Comfort
- Registered mortgages
- Fixed and floating charge on all assets

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 Risk Management Meeting ("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 2018 stood at MUR52.7m (2017: MUR39.0m), giving a capital requirement of MUR6.3m (2017: MUR4.3m).

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.

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 securities held at fair value through other comprehensive income ("FVOCI").

The Bank's capital requirement for operational risk as at 31 December 2018, based on total Segment A operating income, stood as follows:

		Financial Year Ended 2018 MUR'000	Financial Year Ended 2017 MUR'000	Financial Year Ended 2016 MUR'000
	Annual Gross Income	**1,267,735**	1,177,051	1,192,193
(1)	Number of Years with positive income	**3**		
(2)	Average Gross Income	**1,212,326**		
(3)	Capital charge for Operational Risk	**181,849**		

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 2018 in the trading book by time buckets is disclosed in note 35 of these financial statements.

Aseem Mathur

Aseem Mathur
Acting Chief Executive Officer

Lukas Mandangu
Head of Finance

Date : 29/3/19

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, board, 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 Hongkong and Shanghai Banking Corporation Limited, Mauritius Branch (the "Bank") 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 2018, 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
Principle 1: Governance Structure
Principle 2: The Structure of the Senior Management and its Committees
Principle 3: Senior Management Appointment Procedures
Principle 4: Senior Management Duties, Remuneration and Performance
Principle 5: Risk Governance and Internal Controls
Principle 6: Reporting with Integrity
Principle 7: Audit
Principle 8: 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 we interact 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.

Group Values, Charter and Code of Conduct (continued)

The Bank's values are:

Dependable and doing the right thing

- Stand firm for what is right, deliver on commitments, be resilient and trustworthy
- Take personal accountability, be decisive, use judgement and common sense, empower others

Open to different ideas and cultures

- Communicate openly, honestly and transparently, value challenge, learn from mistakes
- Listen, treat people fairly, be inclusive, value different perspectives

Connected with our customers, communities, regulators and each other

- Build connections, be externally focused, collaborate across boundaries
- Care about individuals and their progress, show respect, be supportive and responsive

All employees, should act with courageous integrity, standing firm for what is right.

The Bank's Charter 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.

Management of conduct is a critical component of all our business activities, including the Bank's strategy and business model, our culture and behaviours, our interaction with customers, our financial markets operations, and our 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 Ethics. 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 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 of Ethics by all the employees of the Bank.

1. Governance Structure

1.1 Shareholding Structure

As at 31 December 2018, the Bank's assigned capital was MUR 300,000,000, solely held by The Hongkong and Shanghai Banking Corporation Limited.

1.2 Responsibilities of the Board of the Company

The Company 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 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, through the Executive Committee of the Bank.

1. Governance Structure (continued)

1.2 Responsibilities of the Board of the Company (continued)

The Board through the Executive 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

1.3 Responsibilities of the Management of the Bank

The Management is responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2018, 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.

It is also responsible for safeguarding the assets of the Bank and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The 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.

The 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 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.

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

2.1 Executive Committee (continued)

Frequency	Monthly		Attendance
Composition	Christopher Murray	Chief Executive Officer (Chairman)	10/12
	Dean Lam	Head of Commercial Banking	10/12
	Jennifer Hau	Chief Operating Officer	10/12
	Lukas Mandangu	Head of Finance (Secretary)	12/12
	Nitin Ramlugon	Head of Retail Banking & Wealth Management	11/12
	Saku Jayanetti	Head of Human Resources	9/12
	Vassan Caleemootoo	Head of Global Markets	10/12
	Aseem Mathur	Head of Strategic Projects and Remediation	10/12
	Annick Meerun	Communications Manager	10/12
	Dwitil Mahimkar	Country Head of Global Liquidity and Cash Management	7/12
	Gerard Walsh/Laura Steer*	Chief Risk Officer	12/12
	Brent Estrella/Ashish Gowreesunker**	Head of Financial Crime Compliance & Regulatory Compliance	10/12
	Roshanraj Seetahul***	General Counsel	6/12
Purpose	The Executive Committee, which meets on a monthly basis, has the responsibility for business development initiatives, human resources & internal management structure, IT & operational issues, approval of major capital expenditure projects, social matters such as education & environmental protection, monitoring of annual budget and any other relevant issues. 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.		
Main Responsibilities	The key responsibilities of the Executive Committee include: (i) Monitoring actual performance against budgets and providing planning and budgeting guidance where appropriate; (ii) Managing profitability and revenue growth and profile, optimising the allocation and utilisation of all resources; (iii) Resolving inter-departmental issues that have impacts on business performance; and (iv) Making tactical decisions, based on the information presented and analysing business strategies of the Bank.		

* Gerard Walsh resigned from the management with effect from 8 August 2018 and Laura Steer replaced Gerard Walsh with effect from 8 August 2018.

**Brent Estrella resigned with effect from 3 October 2018 and Ashish Gowreesunker replaced Brent Estrella with effect from 1 January 2019.

*** Roshanraj Seetahul resigned from the Bank with effect from 17 October 2018.

In addition the following committees are in operation:

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 meets monthly. It is responsible for the overall Bank's strategy, 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.

Frequency	Monthly		Attendance
Composition	Lukas Mandangu	Head of Finance (Chairman)	12/12
	Christopher Murray	Chief Executive Officer	9/12
	Dean Lam	Head of Commercial Banking	9/12
	Nitin Ramlugon	Head of Retail Banking & Wealth Management	10/12
	Shoba Thancanamootoo	Head of Balance Sheet Management	11/12
	Vassan Caleemootoo	Head of Global Markets	10/12
	Farook Maudhoo	Head of Assets and Liabilities Capital Management (ALCM) and Business Finance	9/12
	Dwitil Mahimkar	Country Head of Global Liquidity and Cash Management	9/12
	Gerard Walsh/Laura Steer*	Chief Risk Officer	11/12
Main Responsibilities	The key responsibilities of the Asset and Liability Committee include: (i) providing direction and ensure tactical follow-through to performance objectives within prescribed risk parameters; (ii) reviewing all risks facing the bank and ensure their prudent management, including, but not limited to: - structural interest rate risk; - structural foreign exchange risk; - liquidity and funding risk; - regulatory changes; (iii) providing a forum for discussing ALCO issues; (iv) facilitating teamwork between different businesses/ departments; (v) resolving departmental inter-face issues such as transfer pricing and resource allocation; (vi) reviewing overall sourcing and allocation of funding; and (vii) determining the most likely banking environment for asset/liability forward planning and review contingency scenarios		

* Gerard Walsh resigned from the management with effect from 8 August 2018 and Laura Steer replaced Gerard Walsh with effect from 8 August 2018.

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.

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

2.3 Risk Management Meeting

Risk Management Meeting (RMM) 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.

<table>
<tr><td>Frequency</td><td colspan="2">Monthly</td><td>Attendance</td></tr>
<tr><td rowspan="11">Composition</td><td>Gerard Walsh/Laura Steer*</td><td>Chief Risk Officer (CRO) (Chairperson)</td><td>11/11</td></tr>
<tr><td>Christopher Murray</td><td>Chief Executive Officer (CEO)</td><td>10/11</td></tr>
<tr><td>Dean Lam</td><td>Head of Commercial Banking</td><td>9/11</td></tr>
<tr><td>Lukas Mandangu</td><td>Head of Finance</td><td>8/11</td></tr>
<tr><td>Jennifer Hau</td><td>Chief Operating Officer(COO)</td><td>10/11</td></tr>
<tr><td>Vassan Caleemoothoo</td><td>Head of Global Markets</td><td>10/11</td></tr>
<tr><td>Brent Estrella / Ashish Gowreensunker**</td><td>Head of Financial Crime Compliance and Regulatory Compliance</td><td>6/11</td></tr>
<tr><td>Aseem Mathur</td><td>Head of Strategic Projects and Remediation</td><td>10/11</td></tr>
<tr><td>Saku Jayanetti</td><td>Head of Human Resources</td><td>8/11</td></tr>
<tr><td>Annick Meerun</td><td>Communications Manager</td><td>8/11</td></tr>
<tr><td>Nitin Ramlugon</td><td>Head of Retail Banking and Wealth Management</td><td>10/11</td></tr>
<tr><td>Main Responsibilities</td><td colspan="3">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. Its key responsibilities include:

The key responsibilities of the Risk Management Meeting include:

(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 prior to onward submission for Board approval where appropriate
(ii) reviewing the Bank enterprise risk reports (including risk appetite profile, risk map and top and emerging risks report), covering all key risks including strategic risk, financial risk, operational risk and compliance risk
(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
(iv) reviewing relevant reports and updates pertaining to the key risks and issues in the three Lines of Defence ("3LOD"); and
(v) reviewing appropriate Key Performance Indicators, including operational loss and near miss figures, as well as specific operational risk incidents</td></tr>
</table>

* Gerard Walsh resigned from the management with effect from 8 August 2018 and Laura Steer replaced Gerard Walsh with effect from 8 August 2018.

**Brent Estrella resigned with effect from 3 October 2018 and Ashish Gowreesunker replaced Brent Estrella with effect from 1 January 2019.

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

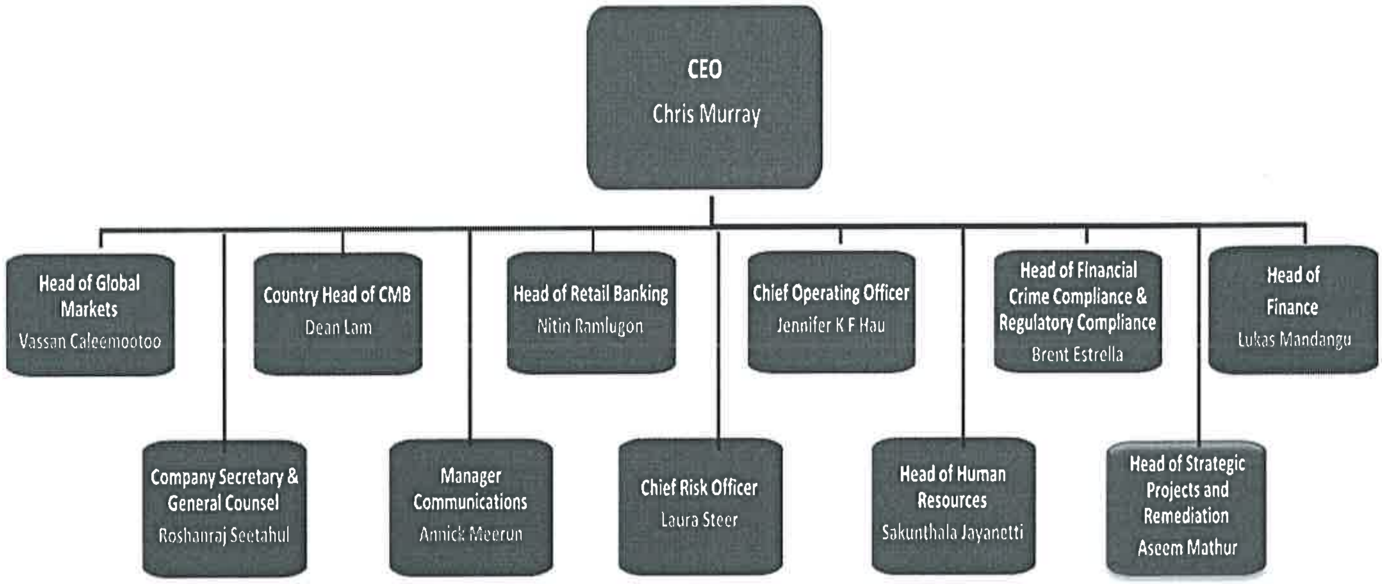
Statement on corporate governance practices (continued)

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

2.4 Senior Management's Profile

The Bank is headed by its Chief Executive Officer **Christopher J.K Murray.**

The organisation chart of the Bank is as follows:



Note: Brent Estrella resigned with effect from 3 October 2018 and Ashish Gowreesunker replaced Brent Estrella with effect from 1 January 2019.
Roshanraj Seetahul resigned from the Bank with effect from 17 October 2018.

Christopher J.K Murray - Chief Executive Officer (Resident)

Mr. Murray joined HSBC in 1978 and has been appointed in a number of senior leadership roles since his joining. He has more than 40 years of experience in banking spanning across various geographies in Europe, Asia, and the Middle East. During his career with HSBC, he was also appointed Country Head and Deputy Chairman of Dar Essalaam Investment Bank (Iraq). Prior to being appointed as CEO, Mr. Murray held the position of Chief Risk Officer in HSBC Thailand.

The Chief Executive Officer is supported in the day to day running of the business by a team of executives composed of the following business heads:

Lukas Mandangu – Head of Finance (Resident)

Mr. Mandangu joined HSBC GB&M Finance in October 2010 and prior to this, held various finance roles in Societe Generale and external audit roles at PwC in Zimbabwe, Channel Islands and London at senior management level. Through these various roles, he has built up a strong commercial awareness and has gained significant experience in product and financial control, regulatory reporting, internal controls, capital planning and business partnering. He previously worked as Business Finance Partner, Global Banking/Principal Investments and Strategic Innovation Investments based in London prior to his appointment as country Head of Finance for HSBC Mauritius. Mr. Mandangu is a Chartered Accountant and a Chartered Financial Analyst.

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

2.4 Senior Management's Profile (continued)

Gerard Walsh – Chief Risk Officer (Resident)

Mr. Walsh joined the HSBC Group in 2007, in the South African operation, where he held the roles of credit analyst and credit manager. He was appointed to the role of Chief Risk Officer for HSBC Mauritius in March 2014. Prior to joining HSBC, Mr. Walsh held a variety of managerial roles with Nedbank, a local South African Bank, in both the Commercial Banking and Africa credit fields, as well as Citibank, responsible for coverage of Africa Financial Institutional counterparties.

Mr. Walsh resigned from the management with effect from 8 August 2018.

Dean Lam Kin Teng – Head of Commercial Banking (Resident)

Mr. Lam joined the HSBC Group in August 2000 in the capacity of 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 degree in Accounting and Finance from the London School of Economics and Political Science.

Laura Steer – Chief Risk Officer (Resident)

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.

Ms. Steer was appointed as Chief Risk Officer with effect from 8 August 2018.

Nitin Ramlugon – Head of Retail Banking and Wealth Management (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.

Saku Jayanetti – Senior Manager Human Resources (Resident)

Mrs. Jayanetti has been with the HSBC Group since 1999 and held positions in diverse functions, including Personal Financial Services, Operations and Human Resources. She has worked for HSBC in different geographies including Sri Lanka, Maldives, Hong Kong and currently in Mauritius. She moved to Mauritius as Head of Human Resources in August 2014. Prior to this move, she held the position of Senior Human Resources Manager, in the HSBC Regional office in Hong Kong. Mrs. Jayanetti has a Banking as well as a Human Resources professional education background and holds an International General MBA from the Edith Cowan University in Australia.

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

2.4 Senior Management's Profile (continued)

Roshan Seetahul – General Counsel (Resident)

Mr Seetahul joined HSBC Mauritius in January 2013 and is a qualified Barrister being called to the Bar in both England as well as Mauritius. Before joining HSBC Mauritius, Mr Seetahul was the Group Head of Legal of a local conglomerate and has also worked within corporate law as well as banking. Prior to embarking on a career within the legal profesion, Mr. Seetahul worked within inflight catering logistics. He holds legal qualifications from The College of Law, UK and City University UK also holds a BSc (Hons) degree in Hotel & Catering Management from the University of Surrey, UK.
Mr. Seetahul resigned from the management with effect from 17 October 2018.

Jennifer Hau – Chief Operating Officer (Resident)

Mrs Hau has more than 22 years of experience in banking, of which 16 years are at middle and senior management level. She started her career with HSBC in 1993 and acquired extensive experience in the Corporate and Retail Banking businesses as well as branch operations before she moved to undertake key responsibilities in the Global Business function for almost seven years. Since January 2014, she is the Country Chief Operating Officer and a senior member of the management team. Her main areas of responsibility span from Operations, Services, Corporate Real Estate, Procurement and Technology.

Vassan Calleemootoo –Head of Global Markets (Resident)

Mr. Vassan 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, Vassan was Head of Marketing for GM since 2006. Vassan holds a BSc in Accounting.

Brent Estrella – Head of Regulatory Compliance and Financial Crime Compliance (Resident)

Mr. Estrella started off his career with HSBC in the Phillipines and moved to the current role in March 2016. Prior to taking up the role in Mauritius, Mr. Estrella was working with HSBC in Dubai.
Mr. Estrella resigned from the management with effect from 3 October 2018.

Aseem Mathur - Head of Strategic Projects and Remediation (Resident)

Mr.Mathur has been with HSBC Group since 2007 and has held positions in diverse businesses and functions including Card and Retail Services, Commercial Banking and HSBC International. He has worked for HSBC in different geographies including the United States, Kingdom of Saudi Arabia, Hong Kong and currently Mauritius. Prior to his current role as Head of Strategic Projects and Remediation for HSBC Mauritius, Mr.Mathur worked as a Senior Manager within the HSBC International team based in Hong Kong managing divestment projects in Asia-Pacific. Prior to HSBC Group, Mr.Mathur worked as a consultant with The Boston Consulting Group. He holds a Post Graduate Diploma in Management from the Indian Institute of Management Calcutta and a MBA degree from the Wharton School at the University of Pennsylvania.

Annick Meerun – Manager Communications (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 as Communications Manager before taking up her job in the Communications Department at HSBC in 2012.

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

2.4 Senior Management's Profile (continued)

Dwitil Mahimkar – Country Head of Payment and Cash Management (PCM) (Resident)

Mr. Mahimkar is a Chartered Accountant with professional career span over 10 years. He joined HSBC in 2011, as Head of Sales with remit covering both HSS and PCM sales before taking over as Country Head of PCM in August 2014. Prior to joining HSBC, Mr. Mahimkar spent four years with the leading Hedge Fund Administrator in Mauritius and had gained valuable exposure in the fields of compliance, regulatory, structuring and administration.

Ashish Gowreesunker – Head of Regulatory Compliance, Financial Crime Compliance and Financial Crime Threat Mitigation (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. Over the last two years, Mr Gowreesunker has been a key pillar within our Mauritius Remediation Office and has helped steer the Bank through to completion of the various remediation initiatives.

Ashiti Prosand - Head of Legal and Company Secretary (Resident)

Mrs Prosand is a Chartered Secretary & Associate of the Institute of Chartered Secretaries & Administrators. She is also holder of a Masters in Law, LLM in International Business Law from the University of Manchester, UK and a Bachelor of Law, LLB from the University of Mauritius. With a rich working experience in the field of Legal/Company Secretary, Mrs Prosand has worked for Standard Chartered Bank and MauBank prior to joining HSBC.

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. Senior Management Appointments Procedures (continued)

3.4 Continuous Training & Development

Continuous training is essential to cope with the constant changes in the business environment. Management has 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 attend regular mandatory trainings for all staff, as well as, specific trainings that are critical to their roles.

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.
Country Head of Commercial 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.
Head of Regulatory & Financial Crime Compliance	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 Strategic Projects & Remediation	Responsible for designing, building and maintaining an integrated Financial Crime Risk (FCR) Remediation Programme for the Bank.
Head of Retail Banking and Wealth Management	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 Global Markets	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.

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.

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 scrutinized by Management and discussed at the Executive Committee meeting.

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.

A comprehensive Enterprise-wide Risk Management Framework 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 framework fosters continuous monitoring of the risk environment, and an integrated evaluation of risks and their interactions. It also ensures a consistent approach to monitoring, managing and mitigating the risks the Bank accepts and incurs in its activities.

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

Key Components of HSBC Enterprise-wide Risk Management Framework

Risk Governance	Non-Executive Risk Governance	The Management approves the Bank's risk appetite, plans and performance target. It sets the 'tone from the top' and is advised by the Risk Management Meeting
	Executive Risk Governance	The Risk Management Meeting (RMM) is responsible for the enterprise-wide risk management of the Bank. It is accountable to the Management through the CRO
Roles and Responsibilities	Three Lines of Defence Model	The Three Lines of Defence Model defines roles and responsibilities for risk management.
Processes and Tools	Risk Appetite	The Risk Appetite Statement, Risk Map, Top and Emerging risks and Stress Testing are the key enterprise-wide risk tools used to ensure active risk management through identification and assessment, monitoring, management and reporting.
	Enterprise–wide Risk Management Tools – Risk Appetite Statement, Risk Map, Top and Emerging Risks, Stress Testing	
	Identification and Assessment; Monitoring; Management; Reporting	
Internal Controls	Policies and Procedures	Policies and procedures define the minimum requirements for the controls required to manage our risks
	Control Activities	The operational risk management framework defines minimum standards and processes for managing operational risks and internal controls
	Systems and Infrastructure	Systems and / or processes that support the identification, capture and exchange of information to support risk management activities

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

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

All Bank employees are responsible for identifying and managing risk within the scope of their role as part of the Three Lines of Defence Model.

This model is an organisational structure which outlines the division of roles and responsibilities, defined by the activities performed. It is applicable to all individuals and to all risk types. The Three Lines of Defence are summarised below:

- The First Line of Defence owns the risks and is responsible for identifying, recording, reporting and managing them, and ensuring that the right controls and assessments are in place to mitigate them
- The Second Line of Defence sets the policy and guidelines for managing specific risk areas, provides advice and guidance in relation to the risk, and challenges the First Line of Defence on effective risk management
- The Third Line of Defence is the Group Internal Audit function, which provides independent and objective assurance of the adequacy of the design and operational effectiveness of the Bank's risk management framework and control governance process

There should be a clear segregation between risk ownership (the First Line of Defence), risk oversight (the Second Line of Defence) and independent assurance (the Third Line of Defence) to support the Bank in effective identification, assessment, monitoring, management and reporting of risks.

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.

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: defined as the type and quantum of risks which the Bank is willing to accept in achieving its medium and long-term strategic goals. Risk Appetite therefore provides the anchor between the businesses, strategy, risk and finance, enabling senior management to optimally allocate capital to finance strategic growth within tolerated risk levels. The Bank's Risk Appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process. Furthermore, it is integrated with other key risk management tools to help ensure consistency in risk management practices.

  The Risk Appetite Statement is a written articulation of the aggregate level and types of risk that the Bank is willing to accept in order to achieve its business objectives. It provides a baseline for decisions based on balancing risk and return.

- Risk Map: the Risk Map provides a point-in-time view of the Bank's risk profile across the Bank's risk taxonomy. It assesses the potential for these risks to have a material impact on the Bank's financial results, reputation and sustainability of its business. 'Current' and 'projected' 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.

- Top and Emerging Risks: the Top and Emerging Risks process provides a forward-looking view of issues with the potential to threaten the execution of the Bank's strategy or operations over the medium to long term. The Bank proactively assesses the internal and external risk environment, and reviews themes or trends identified, for any risks that may require escalation, updating the Top and Emerging Risks as necessary.

  A 'top risk' is defined as a thematic issue which may form and crystallise in between six months and one year, and which has the potentially to materially affect the Bank's financial results, reputation or business model.

  An 'emerging risk' is defined as a thematic issue which large unknown components which may form and crystallise beyond a one-year time horizon. If it were to materialise, it could have a material effect on the Bank's long-term strategy, profitability and / or reputation.

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 2018, the following risks were identified by the Bank as top and emerging risks;

- People Risk – the Bank continue to focus on resourcing and employee development to meet increasing requirements beyond day-to-day tasks, as well as to maintain and enhance both capacity and succession planning.
- Cyber Threat and Unauthorised Access to Systems – the Bank continue to strengthen its cyber control framework and implement initiatives to improve its resilience and cybersecurity capabilities, including threat detection and analysis, access control, payment systems controls, data protection and backup and recovery.
- Financial Crime Risk Environment – the Bank continue to develop and enhance its Financial Crime Risk function and augment its risk management capabilities to further improve its financial crime detection and compliance capabilities.

5. Risk Governance and Internal Controls (continued)

5.3 Risk Roles and Responsibilities (continued)

- Outsourcing and Third Party Services – Management has strengthened essential governance processes and relevant policies relating to how we identify, assess, mitigate and manage risk across the range of third parties with which we do business.

Please refer to the Management Discussion and Analysis section forming part of this Annual report, for other relevant areas of risks.

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.

- The enterprise-wide risk management tools, such as the Risk Appetite, Risk Map, Top and Emerging Risks Report and Stress Testing, 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.

5. Risk Governance and Internal Controls (continued)

5.5 Whistleblowing and HSBC Confidential (continued)

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.

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 2018, 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 are disclosed as per note 34 to the financial statements.

6.5 Health & safety

The maintenance of appropriate health and safety standards throughout HSBC remains a key responsibility of all managers and The Bank is committed to managing actively all health and safety risks associated with its business. The Bank's objectives are to identify, remove, reduce or control material risks of fires and of accidents or injuries to employees and visitors.

Statement on corporate governance practices (continued)

7. Audit

7.1 Internal audit

The Global Internal Audit function, which is centrally controlled, provides independent and objective assurance of the design and operating effectiveness of the Bank's framework of risk management, control and governance processes, focusing on high risk areas and activities. The Group Head of Internal Audit reports to the Chairman of the Group Audit Committee and frequent meetings are held between them during the year. Executive management is responsible for ensuring that issues raised by the Global Internal Audit function are addressed within an appropriate and agreed timetable.

The management assists the Bank 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. The management reviews the internal financial controls and its internal control and risk management systems and is assisted in these duties by the Internal Audit, Compliance and Risk Functions. The Compliance and Risk Functions undertake both regular and ad-hoc reviews of risk management controls, procedures, compliance with laws and regulations in line with Audit and Compliance plans reviewed and approved by the Audit Committee of the Company.

The Bank does not have a locally based internal audit function and in line with the HSBC group policy, falls under the purview of Regional internal audit function based in Hong Kong. The Group's internal audit approach is risk based and the audit coverage is driven by the annual risk assessment results and regulatory expectations identified for the Bank. The internal audit function has direct access to the Audit Committee of the Company and management of the Bank and has no restrictions to access the employees or management of the Bank. For the year under review, the Internal Audit had an opportunity to discuss matters directly with the management of the Bank and the Chairman of the Audit Committee of the Company. The 2019 Internal Audit plan will be presented to the Audit Committee of the Company and the management of the bank during the financial year 2019.

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. The proposal to re-appoint 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. Effective financial year ending 2020, the Bank will need to appoint another audit firm in accordance with the Bank of Mauritius regulations, whereby external auditors are required to rotate after every five years. The Bank follows HSBC Group policy together with the applicable local regulations to appoint external auditors.

For 2018, 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:

	2018 **MUR'000**	2017 MUR'000	2016 MUR'000
Audit fees for statutory audit	**3,760**	3,194	2,591
Fees for other services (Note a)	**925**	479	389
	4,685	3,673	2,980

7. Audit (continued)

7.2 External auditors (continued)

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 2018 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 principal area of non-audit fees performed by PwC relates to tax compliance work.

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).

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.

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.1 Information for Key Stakeholders (continued)

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.

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 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. Relationship with shareholders and key stakeholders (continued)

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.

8.5 Third Party Management Agreement

No third party management agreement presently exists.

8.6 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. Furthermore, the HSBC Group has committed to cut its annual employee carbon emissions by one ton, from 3.5 to 2.5 tons, by 2020.

Regarding the Bank's community role, disadvantaged children, disability and fighting school failure have been a major focus in 2018. The Bank has thus partnered with various organisations that cater for school drop-outs, abandoned children as well as physically and mentally challenged children. The Bank is working in partnership with local grassroots NGOs to develop model projects for children in regions exposed to high school failure rates. The aim will be to give these children not only a better chance to succeed in school but also a better overall well-being. In addition to sustaining communities, the Bank is deeply involved in environmental sustainability, supporting programmes to save the unique biodiversity of Mauritius from extinction.

Furthermore, in 2018 the Bank has launched, in collaboration with the Central Water Authority, the Lions Club of Quatre Bornes and the Mouvement pour l'Autosuffisance Alimentaire, a project to provide potable water to the deprived village of Le Morne. This is part of the global HSBC Water Programme.

8. Relationship with shareholders and key stakeholders (continued)

8.6 Corporate Social Responsibility and Donations (continued)

The Bank donated MUR 6.5m (2017: MUR12.9m) to charities in Mauritius for the year 2018. This amount was paid in full during the year. It included MUR 2,932,030 as per statutory requirements and which were paid in full during the year. There were no political donations made for the year 2018. As per each year, we have gone well beyond our legal obligations. We have done so, not only in terms of funding, but also by giving our time, energy, focus and committed efforts to the causes we firmly believe in.

There were no political donations during the year.

HSBC Mauritius is fully committed to helping the communities in which we operate to develop. Our donations are designed to be long-term community investments, focusing on education, environmental and health programmes. 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. Our commitment to sustainability will continue throughout 2019 and beyond as we support organisations in their endeavours to make Mauritius a better place. Mauritius remains important to HSBC and we are dedicated to creating a sustainable and enabling business environment for the best interest of all our stakeholders.

HSBC Group is committed to high standards of Corporate Governance Practices.

Aseem Mathur

Aseem Mathur
Acting Chief Executive Officer

Lukas Mandangu
Head of Finance

Date : 29/3/19

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 2018

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).

Aseem Mathur

Aseem Mathur
Acting Chief Executive Officer

Lukas Mandangu
Head of Finance

Date : 29/3/19

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.

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.

Aseem Mathur

Aseem Mathur
Acting Chief Executive Officer

Lukas Mandangu
Head of Finance

Date : 29/3/19

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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 2018, 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 63 to 179 comprise:

- the statement of financial position as at 31 December 2018;
- the statement of profit or 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, comprising 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 Ethics Standards Board for Accountants' Code of Ethics for Professional Accountants (IESBA Code). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

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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 year. 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*
Impairment of loans and advances The Bank has adopted IFRS 9 'Financial Instruments' which requires the recognition of expected credit losses ('ECL') rather than incurred credit losses. This represents a fundamentally new and highly judgemental approach to impairment computation, and relies on complex modelling and the use of a number of data points. Some of these data are sourced from a number of systems that have not been used previously for the preparation of the accounting records. This increases the risk around completeness and accuracy of certain data used to create assumptions and operate the models. Management is required to determine the ECL that may occur over either a 12-month period or the remaining life of a financial asset, depending on the categorisation of the individual asset. This categorisation is determined by an assessment of whether there has been a significant increase in credit risk of the borrower since loan origination.	Given the complexity of the models used for the ECL calculation, specialist teams assisted us in performing certain procedures. Model performance monitoring and validation controls were tested, including periodic policy and independent model reviews, back testing of performance, and approval of model changes. We also performed risk based substantive testing of models, including independently re-building certain assumptions. We tested the review and challenge of multiple economic scenarios by an expert panel and internal governance committee, and assessed the reasonableness of the multiple economic scenarios and variables using our economic experts.

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	How our audit addressed the key audit matter
Impairment of loans and advances (continued) Management has relied on models designed at group level, and calibrated specifically to each region, and which take into account data sourced from local systems. Management is also required to make forward looking assumptions. Management has adopted a proxy approach, whereby the model used for ECL computation, incorporates forward economic guidance and other inputs, relating to similar locations.	We tested controls over the inputs of critical data into source systems and over the flow and transformation of data between source systems to the impairment calculation system. We also performed substantive testing over the critical data used in the year-end ECL calculation. We observed the management challenge forum to assess the ECL output and approval of any post model adjustments. We assessed the appropriateness of using a proxy approach with data relating to other similar locations, especially with respect to the use of forward economic guidance. We tested, on a sample basis, the key inputs, assumptions and discounted cash-flows that support impairment on credit-impaired loans.

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.

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 (Continued)

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.

In addition to the responsibilities described above and our work undertaken in the course of the audit, the Mauritian Financial Reporting Act 2004 requires us to report certain matters as described below.

Corporate Governance Report

Our responsibility under the Mauritian Financial Reporting Act 2004 is to report on the compliance with the Code of Corporate Governance (the "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.

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 intends 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.

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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

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. 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 management.
- Conclude on the appropriateness of the management's 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.

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)

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.

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 and tax advisor;

(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.

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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 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 the 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.

PricewaterhouseCoopers

Michael Ho Wan Kau, licensed by FRC

29 March 2019

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of profit or loss and other comprehensive income
for the year ended 31 December 2018

	Note	2018 MUR'000	2017 MUR'000	2016 MUR'000
Interest income		**878,362**	789,429	838,046
Interest expense		**(261,206)**	(211,945)	(236,936)
Net interest income	8	**617,156**	577,484	601,110
Fee and commission income		**192,053**	188,458	193,193
Fee and commission expense		**(29,147)**	(43,325)	(33,154)
Net fee and commission income	9	**162,906**	145,133	160,039
Net trading income	10	**143,587**	173,088	168,202
		923,649	895,705	929,351
Other operating income	11	**367,977**	320,937	301,122
Total operating income		**1,291,626**	1,216,642	1,230,473
Net impairment loss on financial assets	12	**(4,312)**	(4,853)	(15,556)
Personnel expenses	13	**(413,549)**	(363,021)	(346,258)
Operating lease expenses	14	**(38,625)**	(45,398)	(40,995)
Depreciation	22	**(13,229)**	(11,402)	(12,029)
Other expenses	15	**(506,570)**	(484,918)	(506,013)
Total expenses		**(971,973)**	(904,739)	(905,295)
Profit before income tax		**315,341**	307,050	309,622
Income tax expense	16	**(75,186)**	(86,883)	(85,455)
Profit for the year		**240,155**	220,167	224,167
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit liabilities	29	**(83,394)**	(112,584)	(84,691)
Related tax on remeasurements of defined benefit liabilities		**(50,163)**	48,978	12,704
Gain / (Loss) on revaluation of land and buildings		**16,150**	15,442	(28,711)
Related tax on gain on revaluation of land and buildings		**(1,555)**	(1,274)	2,788
		(118,962)	(49,438)	(97,910)
Items that may be reclassified to profit or loss				
Net change in fair value of financial assets at FVOCI	21	**(36,221)**	953	106,233
		(36,221)	953	106,233
Other comprehensive income for the year		**(155,183)**	(48,485)	8,323
Total comprehensive income for the year		**84,972**	171,682	232,490

The notes on pages 68 to 179 form part of these financial statements.

Statement of financial position
at 31 December 2018

	Note	2018 MUR'000	2017 MUR'000	2016 MUR'000
ASSETS				
Cash and cash equivalents	17	4,485,191	4,392,528	3,509,555
Trading assets	18	570	800	694
Loans and advances to banks	19	383,993	604,380	563,557
Loans and advances to customers	20	14,986,995	13,004,031	12,404,036
Investment securities	21	6,572,059	6,175,741	5,705,028
Other assets	24	1,904,357	1,924,534	2,060,873
Property, plant and equipment	22	312,332	248,766	233,996
Deferred tax assets	23	45,168	89,067	53,014
Total assets		28,690,665	26,439,847	24,530,753

The notes on pages 68 to 179 form part of these financial statements.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of financial position (continued)
at 31 December 2018

	Note	2018 MUR'000	2017 MUR'000	2016 MUR'000
LIABILITIES				
Deposits from banks	25	578,740	268,725	188,531
Deposits from customers	26	18,855,589	19,718,435	19,542,948
Trading liabilities	18	2,130	9,443	6,400
Other borrowed funds	27	5,519,060	2,887,037	1,264,409
Current tax liabilities	16	48,184	47,003	54,846
Other liabilities	28	1,249,101	1,120,718	1,251,509
Total liabilities		26,252,804	24,051,361	22,308,643
Shareholder's funds				
Assigned capital	30	300,000	239,265	239,265
Retained earnings	30	1,511,499	1,516,703	1,368,257
Other reserves	30	626,362	632,518	614,588
Total shareholder's funds		2,437,861	2,388,486	2,222,110
Total liabilities and shareholder's funds		28,690,665	26,439,847	24,530,753

Approved on 29 MAR 2019

Aseem Mathur

Aseem Mathur
Acting Chief Executive Officer

Lukas Mandangu
Head of Finance

Date : 29/3/19

The notes on pages 68 to 179 form part of these financial statements.

Statement of changes in equity

for the year ended 31 December 2018

			Other Reserves					
	Assigned capital MUR'000	Retained earnings MUR'000	Reserves for own shares MUR'000	Revaluation reserve MUR'000	Statutory reserve MUR'000	General banking reserve MUR'000	Fair value reserve MUR'000	Total equity MUR'000
Balance at 01 January 2016	239,265	1,305,057	23,814	209,155	243,185	157,817	(91,789)	2,086,504
Total comprehensive income								
Profit for the year	-	224,167	-	-	-	-	-	224,167
Other comprehensive income								
Net change in fair value	-	-	-	-	-	-	106,233	106,233
Realisation of revaluation reserve to retained earnings	-	1,277	-	(1,277)	-	-	-	-
Remeasurements of defined benefit liabilities	-	(84,691)	-	-	-	-	-	(84,691)
Revaluation of land and buildings	-	-	-	(28,711)	-	-	-	(28,711)
Tax on other comprehensive income	-	12,704	-	2,788	-	-	-	15,492
Total other comprehensive income	-	(70,710)	-	(27,200)	-	-	106,233	8,323
Total comprehensive income	-	153,457	-	(27,200)	-	-	106,233	232,490
Transactions with owner of the Bank								
Other movements during the period	-	1,608	2,157	-	-	-	-	3,765
Net change in fair value of share-based payment liabilitiy	-	-	(3,249)	-	-	-	-	(3,249)
Profit remittance to Head office	-	(97,400)	-	-	-	-	-	(97,400)
Transactions with owner of the Bank	-	(95,792)	(1,092)	-	-	-	-	(96,884)
Transfer (from)/to general banking reserve	-	5,535	-	-	-	(5,535)	-	-
Balance at 31 December 2016	239,265	1,368,257	22,722	181,955	243,185	152,282	14,444	2,222,110
Total comprehensive income								
Profit for the year	-	220,167	-	-	-	-	-	220,167
Other comprehensive income								
Net change in fair value	-	-	-	-	-	-	953	953
Realisation of revaluation reserve to retained earnings	-	929	-	(929)	-	-	-	-
Remeasurements of defined benefit liabilities	-	(112,584)	-	-	-	-	-	(112,584)
Revaluation of land and buildings	-	-	-	15,442	-	-	-	15,442
Tax on other comprehensive income	-	48,978	-	(1,274)	-	-	-	47,704
Total other comprehensive income	-	(62,677)	-	13,239	-	-	953	(48,485)
Total comprehensive income	-	157,490	-	13,239	-	-	953	171,682
Transactions with owner of the Bank								
Other movements during the period	-	(4,713)	1,241	139	-	-	-	(3,333)
Net change in fair value of share-based payment liability	-	-	(1,973)	-	-	-	-	(1,973)
Transactions with owner of the Bank	-	(4,713)	(732)	139	-	-	-	(5,306)
Transfer to/(from) general banking reserve	-	(4,331)	-	-	-	4,331	-	-
Balance at 31 December 2017	239,265	1,516,703	21,990	195,333	243,185	156,613	15,397	2,388,486
Changes in initial application of IFRS 9	-	(35,665)	-	-	-	-	-	(35,665)
Restated balance at 1 January 2018	239,265	1,481,038	21,990	195,333	243,185	156,613	15,397	2,352,821
Total comprehensive income								
Profit for the year	-	240,155	-	-	-	-	-	240,155
Other comprehensive income								
Net change in fair value	-	-	-	-	-	-	(36,221)	(36,221)
Realisation of revaluation reserve to retained earnings	-	6,671	-	(6,671)	-	-	-	-
Remeasurements of defined benefit liabilities	-	(83,394)	-	-	-	-	-	(83,394)
Revaluation of land and buildings	-	-	-	16,150	-	-	-	16,150
Tax on other comprehensive income	-	(50,163)	-	(1,555)	-	-	-	(51,718)
Total other comprehensive income	-	(126,886)	-	7,924	-	-	(36,221)	(155,183)
Total comprehensive income	-	113,269	-	7,924	-	-	(36,221)	84,972
Transactions with owner of the Bank								
Other movements during the period	60,735	(97,122)	489	150	36,195	-	-	447
Net change in fair value of share-based payment liability	-	-	(379)	-	-	-	-	(379)
Transactions with owner of the Bank	60,735	(97,122)	110	150	36,195	-	-	68
Transfer (from)/to general banking reserve	-	14,314	-	-	-	(14,314)	-	-
Balance at 31 December 2018	300,000	1,511,499	22,100	203,407	279,380	142,299	(20,824)	2,437,861

The notes on pages 68 to 179 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 2018

	Note	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Cash flows from operating activities				
Profit before income tax		**315,341**	307,050	309,622
Adjustments for:				
Depreciation	22	**13,229**	11,402	12,029
(Profit)/Loss on sale of fixed assets	11	**(3,651)**	370	1
Profit on sales of equity securities				
Provision and adjustments to income for impairment losses	12	**4,312**	(2,967)	9,115
Net interest income	8	**(617,156)**	(577,484)	(601,110)
Exchange differences in respect of cash and cash equivalents		**45,048**	120,401	28,243
		(242,877)	(141,228)	(242,100)
Change in:				
Other assets	24	**39,194**	135,613	(84,464)
Other liabilities	28	**30,416**	(237,434)	54,717
Trading assets	18	**230**	(106)	224,919
Trading liabilities	18	**(7,313)**	3,043	4,873
Loans and advances to customers	20	**(2,028,348)**	(597,028)	1,190,508
Loans and advances to banks	19	**220,374**	(40,823)	(255,962)
Deposits from customers	26	**(862,846)**	175,487	(955,402)
Deposits from banks	25	**310,015**	80,194	(461,551)
Interest received		**859,106**	790,155	834,765
Interest paid		**(246,900)**	(218,894)	(253,099)
Other borrowed funds		**4,740,568**	-	(1,326,820)
		2,811,619	(51,021)	(1,027,516)
Tax paid	16	**(75,177)**	(87,373)	(77,219)
Net cash from/(used in) operating activities		**2,736,442**	(138,394)	(1,104,735)
Cash flows from investing activities				
Acquisition of property, plant and equipment	22	**(67,803)**	(11,100)	(8,542)
Proceeds from disposal of property, plant and equipment		**10,809**	-	50
Purchase of investment securities		**(5,418,593)**	(6,504,260)	(2,906,687)
Proceed from sale and maturity of investment securities		**4,985,400**	6,034,500	2,172,000
Net cash used in investing activities		**(490,187)**	(480,860)	(743,179)
Cash flows from financing activities				
Repatriation of profit		**-**	-	(97,400)
Net cash used in financing activities		**-**	-	(97,400)
Net change in cash and cash equivalents		**2,246,255**	(619,254)	(2,187,414)
Cash and cash equivalents at 1 January		**1,505,491**	2,245,146	4,460,803
Exchange differences in respect of cash and cash equivalents		**(45,048)**	(120,401)	(28,243)
Cash and cash equivalents at 31 December	33	**3,706,698**	1,505,491	2,245,146

The notes on pages 68 to 179 form part of these financial statements.

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 HSBC Centre, 18 CyberCity, Ebène, 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 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.

(b) Standards adopted during the year 31 December 2018

In the current year, the Bank has applied all of the new and revised Standards and Interpretations issued by the International Accounting Standards Board ("IASB") and the International Financial Reporting Interpretations Committee ("IFRIC") of the IASB that are relevant to its operations and effective for accounting periods beginning on 1 January 2018.

The nature and the impact of each new standard or amendment are described below:

IFRS 9 'Financial instruments'

The Bank has adopted IFRS 9 as issued by the IASB in July 2014 with a date of transition of 1 January 2018, which resulted in changes in accounting policies and adjustments to the amounts previously recognised in the financial statements. The Bank did not early adopt any of IFRS 9 in previous years.

As permitted by the transitional provisions of IFRS 9, the Bank elected not to restate comparative figures. Any adjustments to the carrying amounts of financial assets and liabilities at the date of transition were recognised in the opening retained earnings and other reserves of the current year.

Consequently, for notes disclosures, the consequential amendments to IFRS 7 'Financial Instruments: Disclosures' disclosures have also only been applied to the current year. The comparative year notes disclosures repeat those disclosures made in the prior year.

The adoption of IFRS 9 has resulted in changes in our accounting policies for recognition, classification and measurement of financial assets and financial liabilities and impairment of financial assets. IFRS 9 also significantly amends other standards dealing with financial instruments such as IFRS 7.

Set out below are disclosures relating to the impact of the adoption of IFRS 9 on the Bank. Further details of the specific IFRS 9 accounting policies applied in the current year (as well as the previous IAS 39 accounting policies applied in the comparative year) are described in more detail in section 3. (g).

2. Basis of preparation (continued)

(b) Standards adopted during the year 31 December 2018 (continued)

IFRS 9 'Financial instruments' (continued)

Impact of adoption of IFRS 9 on the financial statements

IFRS 9 replaces the provisions of IAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting. In accordance with the transitional provisions in IFRS 9, comparative figures have not been restated.

The total impact on the Bank's retained earnings as at 1 January 2018 is as follows:

	2018 MUR'000
Closing retained earnings 31 December 2017	1,516,703
Increase in provision for loans and advances to banks	(346)
Increase in provision for loans and advances to customers	(39,752)
Increase in provision for investment securities at FVOCI	(572)
Increase in provision for other assets	(67)
Increase in provision for off-balance sheet exposure	(1,575)
Increase in deferred tax assets relating to impairment provisions	6,647
Net decrease in retained earnings	(35,665)
Opening retained earnings 1 January 2018	**1,481,038**

(i) Reconciliation of statement of financial position at 31 December 2017 and 1 January 2018

The following tables reconciles the statement of financial position from the previous measurement category in accordance with IAS 39 to the new measurement categories upon transition to IFRS 9 at 1 January 2018:

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

2. Basis of preparation (continued)

(b) Standards adopted during the year 31 December 2018 (continued)

IFRS 9 'Financial instruments' (continued)

Impact of adoption of IFRS 9 on the financial statements (continued)

(i) Reconciliation of statement of financial position at 31 December 2017 and 1 January 2018 (continued)

Assets	IAS 39 Classification and Measurement Category	IFRS 9 Classification and Measurement Category	IAS 39 Carrying Amount as at 31 December 2017 MUR'000	Remeasurement and IFRS 9 Expected Credit Losses MUR'000	IFRS 9 Carrying Amount as at 1 January 2018 MUR'000
Cash and cash equivalents	Loans and receivables - Amortised cost	Amortised cost	4,392,528	-	4,392,528
Trading assets	Fair value through profit or loss ("FVPL")	FVPL	800	-	800
Loans and advances to banks	Loans and receivables - Amortised cost	Amortised cost	604,380	(346)	604,034
Loans and advances to customers	Loans and receivables - Amortised cost	Amortised cost	13,004,031	(39,752)	12,964,279
Investment securities	Available-for-sale	FVOCI	6,175,741	(572)	6,175,169
Other assets	Loans and receivable - Amortised cost	Loans and receivable - Amortised cost	1,924,534	(67)	1,924,467
Equipment	N/A	N/A	248,766	-	248,766
Deferred tax assets	N/A	N/A	89,067	6,647	95,714
Total assets			**26,439,847**	**(34,090)**	**26,405,757**
Liabilities					
Deposits from customers	Amortised cost	Amortised cost	19,718,435	-	19,718,435
Deposits from banks	Amortised cost	Amortised cost	268,725	-	268,725
Trading liabilities	FVPL	FVPL	9,443	-	9,443
Other borrowed funds	Amortised cost	Amortised cost	2,887,037	-	2,887,037
Current tax liabilities	N/A	N/A	47,003	-	47,003
Other liabilities	Amortised cost	Amortised cost	1,120,718	(1,575)	1,119,143
Total liabilities			**24,051,361**	**(1,575)**	**24,049,786**

Equity	IAS 39 Carrying Amount as at 31 December 2017 MUR'000	Remeasurement and IFRS 9 Expected Credit Losses MUR'000	IFRS 9 Carrying Amount as at 1 January 2018 MUR'000
Share capital	239,265	-	239,265
Retained earnings	1,516,703	(35,665)	1,481,038
Other reserves	632,518	-	632,518
Total equity	**2,388,486**	**(35,665)**	**2,352,821**

2. Basis of preparation (continued)

(b) *Standards adopted during the year 31 December 2018 (continued)*

IFRS 9 'Financial instruments' (continued)

Impact of adoption of IFRS 9 on the financial statements (continued)

(ii) Reconciliation of impairment allowance balance under IAS 39 and provision under IAS 37 to expected credit losses under IFRS 9

The following table reconciles the prior year's closing impairment allowance measured in accordance with the IAS 39 incurred loss model to the new impairment allowance measured in accordance with the IFRS 9 expected loss model at 1 January 2018:

	Loan loss allowance under IAS 39 at 31 December 2017	Remeasurement Stage 3	Stage 1 and Stage 2	Expected Credit Loss allowance under IFRS 9 at 1 January 2018
	MUR'000	MUR'000	MUR'000	MUR'000
Financial assets at amortised cost				
Loans and advances to banks	-	-	346	346
Loans and advances to customers	28,723	(2,388)	42,140	68,475
Other assets	-	-	67	67
Total	**28,723**	**(2,388)**	**42,553**	**68,888**

	Loan loss allowance under IAS 39 at 31 December 2017	Remeasurement Stage 3	Stage 1 and Stage 2	Expected Credit Loss allowance under IFRS 9 at 1 January 2018
	MUR'000	MUR'000	MUR'000	MUR'000
Financial assets at FVOCI				
Investment securities	-	-	572	572
Total	-	-	**572**	**572**

	Loan loss allowance under IAS 37 at 31 December 2017	Remeasurement Stage 3	Stage 1 and Stage 2	Expected Credit Loss allowance under IFRS 9 at 1 January 2018
	MUR'000	MUR'000	MUR'000	MUR'000
Loan commitments and financial guarantee contracts				
Provisions (loan commitments and financial guarantees)	-	44	1,531	1,575
Total	-	**44**	**1,531**	**1,575**

The pre-tax net impact of additional impairment allowances on adoption of IFRS 9 is MUR42.3m; MUR40.2m in respect of financial assets at amortised cost, MUR0.6m related to financial assets at FVOCI and MUR1.6m related to loan commitments and financial guarantee contracts. Total expected credit loss allowance at 1 January 2018 is MUR69.0m in respect of financial assets at amortised cost, MUR0.6m related to financial assets at FVOCI and MUR1.6m related to loan commitments and financial guarantee contracts.

2. Basis of preparation (continued)

(b) Standards adopted during the year 31 December 2018 (continued)

IFRS 15 'Revenue from contracts with customers'

IFRS 15, 'Revenue from contracts with customers' deals with revenue recognition and establishes principles for reporting useful information to users of financial statements about the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. The standard replaces IAS 18 'Revenue' and IAS 11 'Construction Contracts' and related interpretations. The standard has been adopted by the Bank on 1 January 2018, which have had an insignificant effect on the Bank's financial statements.

(c) New standards and interpretations not yet adopted

(i) IFRS 16 'Leases'

IFRS 16, 'Leases' was issued in January 2016 and has an effective date for annual periods beginning on or after 1 January 2019. It results in lessees accounting for most leases within the scope of the standard in a manner similar to the way in which finance leases are currently accounted for under IAS 17 'Leases'. Lessees will recognise a right of use ('ROU') asset and a corresponding financial liability on the statement of financial position. The asset will be amortised over the length of the lease, and the financial liability will be measured at amortised cost. Lessor accounting remains substantially the same as under IAS 17. At 1 January 2019, the Bank expects to adopt the standard whereby the cumulative effect of initially applying the standard is recognised an adjustment to the opening balance of retained earnings and comparatives are not restated. The implementation is expected to increase assets by approximately MUR162m and increase financial liabilities by the same amount with no effect on net assets or retained earnings.

(ii) Amendment to IAS 12 'Income Taxes'

Amendment to IAS 12 'Income Taxes' was issued in February 2018 as part of the Annual Improvement Cycle. The amendment clarifies that an entity should recognise the tax consequences of dividends where the transactions or events that generated the distributable profits are recognised. This amendment will be effective for annual periods beginning on or after 1 January 2019 and is applied to the income tax consequences of distributions recognised on or after the beginning of the earliest comparative period. The Management has assessed the impact of the amendment and expect that the standard will have no significant effect, when applied, on the financial statements of the Bank.

(d) Basis of measurement

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

- derivative financial instruments are measured at fair value;
- FVOCI financial assets;
- financial instruments at fair value through profit or loss 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.

2. Basis of preparation (continued)

(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 the 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 probability, cash flows and capital resources.

(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.

(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 Public Disclosure of Information*, 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. The financial statements do not purport to comply with the requirements of IFRS 8.

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.

(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.

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.

3. Summary of significant accounting policies (continued)

(b) Interest (continued)

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:

(a) Purchased or originated credit-impaired ('POCI') financial assets, for which the original credit-adjusted effective interest rate is applied to the amortised cost of the financial asset.

(b) Financial assets that are not 'POCI' but 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).

(c) Fees and commission

Fees and commission income and expense that are integral to the effective interest rate on a financial asset or financial liability are included in the measurement of the effective interest rate.

Fees and commission income are earned from a diverse range of services provided by the Bank to its customers.

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, such as loan syndication) and when performance obligation have been fulfilled. 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, account servicing fee). 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 in which a significant portion of the risks and rewards of ownership are not transferred to the Bank as lessee are classified as operating leases. Payments made under operating leases are recognised in profit or loss on a straight-line basis over the term of the lease. Lease incentives received are recognised as an integral part of the total lease expense, over the term of the lease.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

(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.

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.

As per the *Mauritian Finance (Miscellaneous Provisions) Act 2018,* the tax rate will be amended to 7% (2016-17: 17% less the foreign tax credit of 80% for segment B) effective as from 1 July 2020. Management has agreed to amend the deferred income tax asset rate to 7% as from 2018.

3. Summary of significant accounting policies (continued)

(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 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. For POCI financial assets — assets that are credit-impaired (see definition on note 35(b)(iii)) at initial recognition — the Bank calculates the credit-adjusted effective interest rate, which is calculated based on the amortised cost of the financial asset instead of its gross carrying amount and incorporates the impact of expected credit losses in estimated future cash flows.

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.

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

Policy applicable from 1 January 2018

From 1 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- FVPL;
- FVOCI; or
- Amortised cost.

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

Policy applicable from 1 January 2018 (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 group 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.

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

Policy applicable from 1 January 2018 (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.

Policy applicable before 1 January 2018

Under IAS 39, the Bank classified its financial assets in the following categories:

- loans and receivables;
- financial assets at fair value through profit or loss;
- held to maturity investments; and
- available-for-sale financial assets.

The classification depended on the purpose for which the investments were acquired. Management determined the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluates this designation at the end of each reporting period.

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

Policy applicable before 1 January 2018 (continued)

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

(i) those that the Bank intends to sell immediately or in the short-term, which are classified as held-for-trading, and those that the Bank upon initial recognition designates as at FVPL;

(ii) those that the Bank upon initial recognition designates as available-for-sale; or

(iii) those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration.

Loans and receivables are initially recognised at fair value – which is the cash consideration to originate or purchase the loan including any transaction costs – and measured subsequently at amortised cost using the effective interest method.

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment.

Financial assets at fair value through profit or loss

Financial assets are designated to be measured at fair value in the following instances:

- to eliminate or significantly reduce an accounting mismatch that would otherwise arise;
- where the financial assets are managed and their performance evaluated and reported on a fair value basis; and
- where the financial asset contains one or more embedded derivatives that significantly modify the financial asset's cash flows.

Fair value gains and losses are recognised in profit or loss within "net trading income".

Held to maturity investments

Under IAS 39, non-derivative financial assets with fixed or determinable payments and fixed maturities that management has both the positive intent and ability to hold to maturity. These are subsequently measured at amortised cost using the effective interest method with interest recognised in interest income, less any impairment losses which are recognised as part of impairment charges. Directly attributable transaction costs and fees received are capitalised and amortised through interest income as part of the effective interest rate.

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

Policy applicable before 1 January 2018 (continued)

Available-for-sale financial assets

Under IAS 39, available-for-sale financial assets are recognised on the trade date when the Bank enters into contractual arrangements to purchase those instruments, and are normally derecognised when the securities are either sold or redeemed. They are subsequently remeasured at fair value, and changes therein are recognised in other comprehensive income until the assets are either sold or become impaired. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the profit or loss as 'Other operating income'.

(iv) Classification and subsequent measurement of financial liabilities

In both the current and prior period, 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 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, the Bank recognises any expense incurred on the financial liability; and
- 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.

(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.

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(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

Policy applicable from 1 January 2018

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.

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

Policy applicable before 1 January 2018

Under IAS 39, losses for impaired loans are recognised when there is objective evidence that impairment of a loan or portfolio of loans has occurred. Losses which may arise from future events are not recognised.

(i) Individually assessed loans and advances

The factors considered in determining whether a loan is individually significant for the purposes of assessing impairment include the size of the loan, the number of loans in the portfolio, the importance of the individual loan relationship and how this is managed.

Loans that are determined to be individually significant will be individually assessed for impairment, except when volumes of defaults and losses are sufficient to justify treatment under a collective methodology.

Loans considered as individually significant are typically to corporate and commercial customers, are for larger amounts and are managed on an individual basis. For these loans, the bank considers on a case-by-case basis at each balance sheet date whether there is any objective evidence that a loan is impaired.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower;
- an actual breach of contract, such as a default or delinquency in interest or principal payments;
- granting by the lender to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, of a concession that the lender would not otherwise consider;
- a high probability of bankruptcy or other financial reorganisation of the issuer;
- recognition of an impairment loss on that asset in a prior financial reporting period;
- the disappearance of an active market for that financial asset due to financial difficulties; or
- a historical pattern of collections of accounts receivable that indicates that the entire face amount of a portfolio of accounts receivable will not be collected.

The determination of the realisable value of security is based on the most recently updated market value at the time the impairment assessment is performed. The value is not adjusted for expected future changes in market prices, though adjustments are made to reflect local conditions such as forced sale discounts.

Impairment losses on assets measured at amortised cost are calculated by discounting the expected future cash flows of a loan, which include expected future receipts of contractual interest, at the loan's original effective interest rate or an approximation thereof, and comparing the resultant present value with the loan's current carrying amount.

(ii) Collectively assessed loans and advances

Impairment is assessed collectively to cover losses which have been incurred but have not yet been identified on loans subject to individual assessment or for homogeneous groups of loans that are not considered individually significant.

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

Policy applicable before 1 January 2018 (continued)

(iii) Incurred but not yet identified impairment

Individually assessed loans for which no evidence of impairment has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for a collective impairment assessment. This assessment captures impairment losses that the bank has incurred as a result of events occurring before the balance sheet date which the bank is not able to identify on an individual loan basis, and that can be reliably estimated. When information becomes available which identifies losses on individual loans within a group, those loans are removed from the group and assessed individually.

Homogeneous groups of loans and advances

Statistical methods are used to determine collective impairment losses for homogeneous groups of loans not considered individually significant. The methods used to calculate collective allowances are set out below:

(1) When appropriate empirical information is available, the bank utilises roll-rate methodology, which employs statistical analyses of historical data and experience of delinquency and default to reliably estimate the amount of the loans that will eventually be written off as a result of the events occurring before the balance sheet date. Individual loans are grouped using ranges of past due days and statistical estimates are made of the likelihood that loans in each range will progress through the various stages of delinquency and become irrecoverable. Additionally, individual loans are segmented based on their credit characteristics, such as industry sector, loan grade or product. In applying this methodology, adjustments are made to estimate the periods of time between a loss event occurring, for example because of a missed payment, and its confirmation through write-off (known as the loss identification period). Current economic conditions are also evaluated when calculating the appropriate level of allowance required to cover inherent loss. In certain highly-developed markets, models also take into account behavioural and account management trends as revealed in, for example, bankruptcy and rescheduling statistics.

(2) When the portfolio size is small or when information is insufficient or not reliable enough to adopt a roll-rate methodology, the bank adopts a basic formulaic approach based on historical loss rate experience, or a discounted cash flow model. Where a basic formulaic approach is undertaken, the period between a loss event occurring and its identification is estimated by local management, and is typically between 6 and 12 months.

Statutory and other regulatory requirements

Applicable both in current and prior periods

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 IAS 39/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 1st July 2016, also directs financial institutions to stand guided by the following minimum requirements with regards to classification and assessment of credit impairment:

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

(iii) Incurred but not yet identified impairment (continued)

Classified Credits	Specific Provisioning Requirement
(i) Sub-standard Credit Credit that is currently performing but has weaknesses that throw doubt on the customer's ability to comply with the terms and conditions of the credit, may warrant to be classified as sub-standard. However, when it is impaired and is past due between 90 and 180 days, it must, as a minimum, be classified as sub-standard.	20 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)
(ii) Doubtful Credit Credit that is not in arrears or in arrears for less than 180 days, but has weaknesses that make collection in full highly improbable, may warrant to be classified as doubtful. However, when it is impaired and is past due for a period exceeding 180 days but less than one year, it must, as a minimum, be classified as doubtful.	50 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)
(iii) Loss Credit classified as loss and uncollectible although there may be some salvage or recovery value of security available. Such credit should not be kept on the books of the financial institution for the reason that there might be some recoveries in the long term. An impaired credit that is past due in excess of a year, must be classified as 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 Macroprudential Measures for the Banking Sector, additional portfolio provision is made in a phased manner as detailed below:

	Effective as from 01 July 2015
Housing	0.5%
Commercial, Residential and Land Parceling (classified under Construction sector)	1.0%
Tourism sector	1.0%
Personal sector	1.0%

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.

(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. Any new loans that arise following derecognition events in these circumstances are considered to be purchased or originated credit-impaired ('POCI') and will continue to be disclosed as renegotiated loans.

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, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 based on the mechanism as described below 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 2018, the Bank had renegotiated loan in its portfolio as disclosed in Note 35 (b)(iii).

(l) Purchased or originated credit-impaired ("POCI")

Financial assets that are purchased or originated at a deep discount that reflects the incurred credit losses are considered to be POCI. This population includes the recognition of a new financial instrument following a renegotiation where concessions have been granted for economic or contractual reasons relating to the borrower's financial difficulty that otherwise would not have been considered. The amount of change-in-lifetime ECL is recognised in profit or loss until the POCI is derecognised, even if the lifetime ECL are less than the amount of ECL included in the estimated cash flows on initial recognition. As at 31 December 2018, the Bank did not have POCI in its portfolio.

(m) 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: borrowings with banks in Mauritius and abroad, balances with financial institutions, investment securities and trading assets that are subject to insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

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

(n) 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.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

3. Summary of significant accounting policies (continued)

(n) Trading assets and liabilities (continued)

- If the financial asset would have met the definition of loans and receivables (if the financial asset had not been required to be classified as held-for-trading at initial recognition), then it may be reclassified if the Bank has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

- If the financial asset would not have met the definition of loans and receivables, then it may be reclassified out of the trading category only in rare circumstances.

(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.

Any gain or loss on disposal of an item of 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 presented in the statement of profit or loss and other comprehensive income.

(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.

3. Summary of significant accounting policies (continued)

(o) Property, plant and equipment (continued)

(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	- 5 years
Computer equipment	- 5 years
Motor vehicles	- 5 years

Items below MUR10,000 have immediate depreciation and items less than MUR5,000 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 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.

Any gain or loss on disposal of an item 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.

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) (i).

(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.

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 the other comprehensive income 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 Employment Rights Act 2008 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.

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 National Pension Scheme 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.

(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.

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.

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) <u>Judgements</u>

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) <u>Assumption and estimation uncertainties</u>

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.

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, such as:

- 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, but given that IFRS 9 requirements have only just been applied, there has been little time available to make these comparisons. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'Upside scenarios' which have not generally been subject to experience gained through stress testing.

Impairment models are developed at different levels of granularity and complexity depending on data availability and materiality of each portfolio.

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)(vi).

4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

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.

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.

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.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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 Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	Total
At 31 December 2018	Note	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
Trading assets	18	-	**459**	**111**	**570**
Investment securities	21	-	**6,562,795**	**9,264**	**6,572,059**
Trading liabilities	18	-	**588**	**1,542**	**2,130**
At 31 December 2017					
Trading assets	18	-	62	738	800
Investment securities	21	-	6,166,477	9,264	6,175,741
Trading liabilities	18	-	7,807	1,636	9,443
At 31 December 2016					
Trading assets	18	-	157	537	694
Investment securities	21	-	5,695,764	9,264	5,705,028
Trading liabilities	18	-	2,342	4,058	6,400

IFRS 13 reconciliation for Level 3

	Assets		Liabilities
	Investment securities	Trading assets	Trading liabilities
At 1 January 2016	9,264	2,085	1,083
Transfers in /(out)	-	7,776	16,018
Settlements	-	(9,778)	(16,503)
Fair value gain/(loss)	-	454	3,460
At 31 December 2016	9,264	537	4,058
Transfers in /(out)	-	13,157	13,267
Settlements	-	(13,230)	(13,230)
Fair value gain/(loss)	-	274	(2,459)
At 31 December 2017	9,264	738	1,636
Transfers in /(out)	-	**16,075**	**10,853**
Settlements	-	**(17,361)**	**(7,065)**
Fair value gain/(loss)	-	**659**	**(3,882)**
At 31 December 2018	**9,264**	**111**	**1,542**

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 level 3 fair value measurements.

Description	Fair value at			Unobservable Input	Range of Inputs			Relationship of unobservable inputs to fair value
	31 Dec 2018 MUR '000	31 Dec 2017 MUR '000	31 Dec 2016 MUR '000		2018	2017	2016	
Foreign exchange derivative assets	**111**	738	537	Forward Points	32.12 – 35.70	33.61 – 34.13	36.02 - 37.44	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 1,197.
Foreign exchange derivative liabilities	**1,542**	1,636	4,058	Forward Points	32.12 – 35.70	33.61 – 34.13	36.02 - 37.44	
FVOCI investments	**9,264**	9,264	9,264	Net Asset Value per share (NAV)	MUR8.07	MUR8.32	MUR1.02	A change of +/- 1% in the NAV will change the value of the equity investment by +/- MUR 84,319.

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 has been fair valued by using the Net Asset Value of the SME Equity Fund Limited as at the reporting date.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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			
		Valuation techniques			
	Carrying amount MUR'000	Quoted market price Level 1 MUR'000	Using observable inputs Level 2 MUR'000	With significant unobservable inputs Level 3 MUR'000	Total MUR'000
Assets and Liabilities at 31 Dec 2018					
Assets					
Loan and advances to banks	**383,993**	**-**	**383,993**	**-**	**383,993**
Loan and advances to customers	**14,986,995**	**-**	**15,176,748**	**-**	**15,176,748**
Liabilities					
Deposits from banks	**578,740**	**-**	**578,740**	**-**	**578,740**
Deposits from customers	**18,855,589**	**-**	**18,855,589**	**-**	**18,855,589**
Other borrowed funds	**5,519,060**	**-**	**5,547,282**	**-**	**5,547,282**
Assets and Liabilities at 31 Dec 2017					
Assets					
Loan and advances to banks	604,380	-	604,380	-	604,380
Loan and advances to customers	13,004,031	-	13,141,275	-	13,141,275
Liabilities					
Deposits from banks	268,725	-	268,725	-	268,725
Deposits from customers	19,718,435	-	19,718,435	-	19,718,435
Other borrowed funds	2,887,037	-	2,887,037	-	2,887,037
Assets and Liabilities at 31 Dec 2016					
Assets					
Loan and advances to banks	563,557	-	563,557	-	563,557
Loan and advances to customers	12,404,036	-	12,514,899	-	12,514,899
Liabilities					
Deposits from banks	188,531	-	188,531	-	188,531
Deposits from customers	19,542,948	-	19,542,948	-	19,542,948
Other borrowed funds	1,264,409	-	1,264,409	-	1,264,409

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: ▪ Mandatory balances with central bank ▪ Balances due in the clearing ▪ Short-term receivables	Other liabilities including: ▪ Acceptance and endorsements ▪ Short-term payables

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 using discounted cash flows, 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.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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	2018 MUR'000	IAS 39 Measurement Category	2017 MUR'000	2016 MUR'000
Assets					
Cash and cash equivalents	Amortised cost	**4,485,191**	Loans & Receivables (L&R)	4,392,528	3,509,555
Trading assets	FVPL	**570**	FVPL	800	694
Loans and advances to banks	Amortised cost	**383,993**	L&R	604,380	563,557
Loans and advances to customers	Amortised cost	**14,986,995**	L&R	13,004,031	12,404,036
Investment securities	FVOCI	**6,572,059**	Available for sale	6,175,741	5,705,028
Other assets	Amortised cost	**1,898,331**	L&R	1,920,332	2,060,873
		28,327,139		26,097,812	24,243,743
Liabilities					
Deposits from banks	Amortised cost	**578,740**	Amortised cost	268,725	188,531
Deposits from customers	Amortised cost	**18,855,589**	Amortised cost	19,718,435	19,542,948
Trading liabilities	FVPL	**2,130**	FVPL	9,443	6,400
Other borrowed funds	Amortised cost	**5,519,060**	Amortised cost	2,887,037	1,264,409
Other liabilities	Amortised cost	**845,818**	Amortised cost	1,120,718	1,251,509
		25,801,337		24,004,358	22,253,797

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

7. Segmental reporting

The information on pages 104 to 106 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

		Segment A			Segment B			Bank		
		2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016
ASSETS	Note	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000
Cash and cash equivalents	17	**2,373,451**	2,608,335	1,261,115	**2,111,740**	1,784,193	2,248,440	**4,485,191**	4,392,528	3,509,555
Trading assets	18	**111**	683	537	**459**	117	157	**570**	800	694
Loans and advances to banks	19	**383,993**	527,000	486,026	**-**	77,380	77,531	**383,993**	604,380	563,557
Loans and advances to customers	20	**11,519,518**	12,654,419	11,423,269	**3,467,477**	349,612	980,767	**14,986,995**	13,004,031	12,404,036
Investment securities	21	**6,572,059**	6,175,741	5,705,028	**-**	-	-	**6,572,059**	6,175,741	5,705,028
Property, plant and equipment	22	**312,332**	248,766	233,996	**-**	-	-	**312,332**	248,766	233,996
Deferred tax assets	23	**45,168**	89,067	53,014	**-**	-	-	**45,168**	89,067	53,014
Other assets	24	**1,724,960**	1,920,515	2,057,795	**179,397**	4,019	3,078	**1,904,357**	1,924,534	2,060,873
Total assets		**22,931,592**	24,224,526	21,220,780	**5,759,073**	2,215,321	3,309,973	**28,690,665**	26,439,847	24,530,753
LIABILITIES										
Deposit from banks	25	**24,856**	27,088	51,865	**553,884**	241,637	136,666	**578,740**	268,725	188,531
Deposit from customers	26	**16,872,442**	17,834,549	17,497,910	**1,983,147**	1,883,886	2,045,038	**18,855,589**	19,718,435	19,542,948
Trading liabilities	18	**660**	1,636	4,037	**1,470**	7,807	2,363	**2,130**	9,443	6,400
Other borrowed funds	27	**1,838,025**	2,520,938	1,200,656	**3,681,035**	366,099	63,753	**5,519,060**	2,887,037	1,264,409
Current tax liabilities	16	**41,938**	42,072	49,979	**6,246**	4,931	4,867	**48,184**	47,003	54,846
Other liabilities	28	**1,056,915**	1,117,241	1,249,078	**192,186**	3,477	2,431	**1,249,101**	1,120,718	1,251,509
Total liabilities		**19,834,836**	21,543,524	20,053,525	**6,417,968**	2,507,837	2,255,118	**26,252,804**	24,051,361	22,308,643
Shareholder's funds										
Assigned capital	30	**300,000**	239,265	239,265	**-**	-	-	**300,000**	239,265	239,265
Retained earnings	30	**1,511,499**	1,516,703	1,368,257	**-**	-	-	**1,511,499**	1,516,703	1,368,257
Other reserves	30	**626,362**	632,518	614,588	**-**	-	-	**626,362**	632,518	614,588
Total shareholder's funds		**2,437,861**	2,388,486	2,222,110	**-**	-	-	**2,437,861**	2,388,486	2,222,110
Total liabilities and shareholder's funds		**22,272,697**	23,932,010	22,275,635	**6,417,968**	2,507,837	2,255,118	**28,690,665**	26,439,847	24,530,753

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

7. Segmental reporting (continued)

B. Statement of profit or loss and other comprehensive income

	Note	Segment A			Segment B			Bank		
		2018 MUR'000	2017 MUR'000	2016 MUR'000	**2018 MUR'000**	2017 MUR'000	2016 MUR'000	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Interest income		**818,067**	773,893	817,326	**60,295**	15,536	20,720	**878,362**	789,429	838,046
Interest expense		**(183,940)**	(201,680)	(220,111)	**(77,266)**	(10,265)	(16,825)	**(261,206)**	(211,945)	(236,936)
Net interest income	8	**634,127**	572,213	597,215	**(16,971)**	5,271	3,895	**617,156**	577,484	601,110
Fee and commission income		**149,402**	151,963	157,449	**42,651**	36,495	35,744	**192,053**	188,458	193,193
Fee and commission expense		**(27,358)**	(41,150)	(31,795)	**(1,789)**	(2,175)	(1,359)	**(29,147)**	(43,325)	(33,154)
Net fee and commission income	9	**122,044**	110,813	125,654	**40,862**	34,320	34,385	**162,906**	145,133	160,039
Net trading income	10	**143,587**	173,088	168,202	**-**	-	-	**143,587**	173,088	168,202
		899,758	856,114	891,071	**23,891**	39,591	38,280	**923,649**	895,705	929,351
Other operating income	11	**367,977**	320,937	301,122	**-**	-	-	**367,977**	320,937	301,122
Total operating income		**1,267,735**	1,177,051	1,192,193	**23,891**	39,591	38,280	**1,291,626**	1,216,642	1,230,473
Net impairment loss on financial assets	12	**(4,312)**	(4,853)	(15,556)	**-**	-	-	**(4,312)**	(4,853)	(15,556)
Personnel expenses	13	**(395,495)**	(347,744)	(330,374)	**(18,054)**	(15,277)	(15,884)	**(413,549)**	(363,021)	(346,258)
Operating lease expenses	14	**(37,048)**	(43,526)	(39,292)	**(1,577)**	(1,872)	(1,703)	**(38,625)**	(45,398)	(40,995)
Depreciation	22	**(13,229)**	(11,402)	(12,029)	**-**	-	-	**(13,229)**	(11,402)	(12,029)
Other expenses	15	**(500,776)**	(479,010)	(498,465)	**(5,794)**	(5,908)	(7,548)	**(506,570)**	(484,918)	(506,013)
Total expenses		**(946,548)**	(881,682)	(880,160)	**(25,425)**	(23,057)	(25,135)	**(971,973)**	(904,739)	(905,295)
Profit before income tax		**316,875**	290,516	296,477	**(1,534)**	16,534	13,145	**315,341**	307,050	309,622
Income tax expense	16	**(74,607)**	(86,182)	(85,129)	**(579)**	(701)	(326)	**(75,186)**	(86,883)	(85,455)
Profit for the year		**242,268**	204,334	211,348	**(2,113)**	15,833	12,819	**240,155**	220,167	224,167

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

7. Segmental reporting (continued)

B. Statement of profit or loss and other comprehensive income (continued)

	Segment A			Segment B			Bank		
	2018	2017	2016	**2018**	2017	2016	**2018**	2017	2016
	MUR'000	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000
Other comprehensive income, net of tax									
Items that will not be reclassified to profit or loss									
Remeasurements of defined benefit liabilities	**(83,394)**	(112,584)	(84,691)	**-**	-	-	**(83,394)**	(112,584)	(84,691)
Related tax on remeasurements of defined benefit liabilities	**(50,163)**	48,978	12,704	**-**	-	-	**(50,163)**	48,978	12,704
Gain on revaluation of land and buildings	**16,150**	15,442	(28,711)	**-**	-	-	**16,150**	15,442	(28,711)
Related tax on gain on revaluation of land and buildings	**(1,555)**	(1,274)	2,788	**-**	-	-	**(1,555)**	(1,274)	2,788
	(118,962)	(49,438)	(97,910)	**-**	-	-	**(118,962)**	(49,438)	(97,910)
Items that may be reclassified to profit or loss									
Net change in fair value	**(36,221)**	953	106,233	**-**	-	-	**(36,221)**	953	106,233
	(36,221)	953	106,233	**-**	-	-	**(36,221)**	953	106,233
Other comprehensive income for the year	**(155,183)**	(48,485)	8,323	**-**	-	-	**(155,183)**	(48,485)	8,323
Total comprehensive income for the year	**87,085**	155,849	219,671	**(2,113)**	15,833	12,819	**84,972**	171,682	232,490

7. Segmental reporting (continued)

Business segments

The Bank comprises the following main business segments:

- *Retail Banking and Wealth Management* — Includes loans, deposits and other transactions and balances with retail customers.
- *Wholesale Banking* — Includes loans, deposits and other transactions and balances with corporate customers.
- *Global Banking and Markets* — Global Banking includes loans, deposits and other transactions and balances with multinational companies and financial institution entities.

  Global Markets undertake the Bank's funding and centralised risk management activities 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.
- *Corporate Centre* — Relates to balance sheet management and support functions i.e. business operations.

2018	Note	Retail Banking and Wealth Management MUR'000	Wholesale Banking MUR'000	Global Banking and Markets MUR'000	Other MUR'000	Consolidated MUR'000
External revenue:						
Net interest income	8	328,753	227,773	(10,022)	70,652	617,156
Net fee and commission income	9	64,105	63,733	37,147	(2,079)	162,906
Net trading income	10	23,996	19,935	92,815	6,841	143,587
Revenue		416,854	311,441	119,940	75,414	923,649
Other operating income	11	4,882	255	45	362,795	367,977
Total segment operating income		421,736	311,696	119,985	438,209	1,291,626
Segment result		51,141	151,614	44,937	67,649	315,341
Income tax expense	16					(75,186)
Profit for the year						240,155
Segment assets		13,590,684	9,768,835	(7,727,770)	13,058,916	28,690,665
Segment liabilities		13,146,371	8,140,414	(7,787,698)	12,753,717	26,252,804

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

7. Segmental reporting (continued)

Business segments (continued)

2017		Retail Banking and Wealth Management MUR'000	Wholesale Banking MUR'000	Global Banking and Markets MUR'000	Other MUR'000	Consolidated MUR'000
External revenue:	*Note*					
Net interest income	8	300,075	206,065	76,495	(5,151)	577,484
Net fee and commission income	9	51,643	57,517	37,597	(1,624)	145,133
Net trading income	10	24,225	17,758	131,105	-	173,088
Revenue		375,943	281,340	245,197	(6,775)	895,705
Other operating income	11	4,602	10,388	(9)	305,956	320,937
Total segment operating income		380,545	291,728	245,188	299,181	1,216,642
Segment result		34,644	142,489	140,709	(10,792)	307,050
Income tax expense	16					(86,883)
Profit for the year						220,167
Segment assets		5,295,061	7,990,685	7,196,694	5,957,407	26,439,847
Segment liabilities		13,198,483	6,770,186	300,205	3,782,487	24,051,361

2016		Retail Banking and Wealth Management MUR'000	Wholesale Banking MUR'000	Global Banking and Markets MUR'000	Other MUR'000	Consolidated MUR'000
External revenue:	*Note*					
Net interest income	8	303,721	183,480	111,770	2,139	601,110
Net fee and commission income	9	67,735	41,173	51,918	(787)	160,039
Net trading income	10	20,424	16,659	131,119	-	168,202
Revenue		391,880	241,312	294,807	1,352	929,351
Other operating income	11	4,960	12,881	17	283,264	301,122
Total segment operating income		396,840	254,193	294,824	284,616	1,230,473
Segment result		40,975	77,500	188,959	2,188	309,622
Income tax expense	16					(85,455)
Profit for the year						224,167
Segment assets		5,069,486	4,497,527	10,319,734	4,644,006	24,530,753
Segment liabilities		13,203,542	5,463,122	2,881,821	760,158	22,308,643

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

8. Net interest income

Bank (Total)	2018 MUR'000	2017 MUR'000	2016 MUR'000
Interest income			
Recognised on financial assets measured at amortised cost			
Cash and cash equivalents	**32,707**	27,861	26,664
Loans and advances to banks	**3,626**	4,234	3,173
Loans and advances to customers	**619,001**	557,353	614,360
Other	**357**	858	774
Recognised on financial assets measured at FVOCI			
Investment securities	**222,671**	199,123	193,075
Total interest income	**878,362**	789,429	838,046
Interest expense			
Recognised on financial liabilities measured at amortised cost			
Deposits from banks	**2,343**	1,289	1,510
Deposits from customers	**180,109**	202,396	231,450
Other borrowed funds	**78,754**	8,260	3,976
Total interest expense	**261,206**	211,945	236,936
Net interest income	**617,156**	577,484	601,110
Segment A			
Interest income			
Recognised on financial assets measured at amortised cost			
Cash and cash equivalents	**19,900**	16,529	12,246
Loans and advances to banks	**3,072**	3,319	1,021
Loans and advances to customers	**572,084**	554,068	610,225
Other	**340**	854	759
Recognised on financial assets measured at FVOCI			
Investment securities	**222,671**	199,123	193,075
Total interest income	**818,067**	773,893	817,326
Interest expense			
Recognised on financial liabilities measured at amortised cost			
Deposits from banks	**1,242**	300	374
Deposits from customers	**168,956**	191,965	217,071
Other borrowed funds	**13,742**	9,415	2,666
Total interest expense	**183,940**	201,680	220,111
Net interest income	**634,127**	572,213	597,215
Segment B			
Interest income			
Recognised on financial assets measured at amortised cost			
Cash and cash equivalents	**12,807**	11,332	14,418
Loans and advances to banks	**554**	914	2,152
Loans and advances to customers	**46,917**	3,285	4,135
Other	**17**	5	15
Total interest income	**60,295**	15,536	20,720
Interest expense			
Recognised on financial liabilities measured at amortised cost			
Deposits from banks	**1,101**	989	1,137
Deposits from customers	**11,153**	10,431	14,379
Other borrowed funds	**65,012**	(1,155)	1,309
Total interest expense	**77,266**	10,265	16,825
Net interest income	**(16,971)**	5,271	3,895

9. Net fee and commission income

Bank (Total)	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Fee and commission income			
Retail banking customer fees	**88,179**	89,875	97,582
Corporate banking credit related fees	**62,696**	63,809	42,309
Financial guarantee contracts	**3,340**	1,374	852
Other	**37,838**	33,400	52,450
Total fee and commission income	**192,053**	188,458	193,193
Fee and commission expense			
Retail banking customer fees	**25,467**	38,645	30,201
Corporate banking credit related fees	**1,878**	2,558	1,607
Interbank transaction fees	**37**	-	-
Other	**1,765**	2,122	1,346
Total fee and commission expense	**29,147**	43,325	33,154
Net fee and commission income	**162,906**	145,133	160,039
Segment A			
Fee and commission income			
Retail banking customer fees	**88,276**	88,903	96,429
Corporate banking credit related fees	**54,422**	60,273	41,269
Financial guarantee contracts	**3,202**	1,374	852
Other	**3,502**	1,413	18,899
Total fee and commission income	**149,402**	151,963	157,449
Fee and commission expense			
Retail banking customer fees	**25,443**	38,605	30,188
Corporate banking credit related fees	**1,878**	2,558	1,607
Interbank transaction fees	**37**	-	-
Other	**-**	(13)	-
Total fee and commission expense	**27,358**	41,150	31,795
Net fee and commission income	**122,044**	110,813	125,654
Segment B			
Fee and commission income			
Retail banking customer fees	**(97)**	972	1,153
Corporate banking credit related fees	**8,274**	3,536	1,040
Financial guarantee contracts	**138**	-	-
Other	**34,336**	31,987	33,551
Total fee and commission income	**42,651**	36,495	35,744
Fee and commission expense			
Retail banking customer fees	**24**	40	13
Corporate banking credit related fees	**-**	-	-
Interbank transaction fees	**-**	-	-
Other	**1,765**	2,135	1,346
Total fee and commission expense	**1,789**	2,175	1,359
Net fee and commission income	**40,862**	34,320	34,385

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

10. Net trading income

Bank (Total) and Segment A	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Foreign exchange	**141,707**	173,083	165,964
Net Revaluation gain on financial instruments	**1,880**	5	1,234
Other	**-**	-	1,004
	143,587	173,088	168,202

11. Other operating income

Bank (Total) and Segment A	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Intercompany recharges	**356,891**	315,955	293,606
Rental income	**4,574**	4,534	4,832
Gain/(loss) on disposal of property plant and equipment	**3,651**	(370)	(1)
Other	**2,861**	818	2,685
	367,977	320,937	301,122

Intercompany recharges relate to regionally allocated cost and IT costs.

12. Net impairment loss on financial assets

Bank (Total) and Segment A	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Release/(provisions) for impairment losses for the year:			
Loans and advances to customers	**(5,598)**	(4,853)	(15,556)
Investment securities	**(256)**	-	-
Loans and advances to banks	**333**	-	-
Loan commitments and financial guarantees	**1,152**	-	-
Other assets	**57**	-	-
	(4,312)	(4,853)	(15,556)

13. Personnel expenses

	Total		
	2018	2017	2016
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Wages and salaries	**321,766**	283,468	267,929
Compulsory social security obligations	**8,853**	8,424	8,245
Contributions to defined contributions plans	**9,988**	7,846	11,315
Equity-settled share based payments	**776**	1,478	2,712
Defined benefit plan costs (Note 29)	**35,579**	31,561	28,882
Other personnel expenses	**36,587**	30,244	27,175
	413,549	363,021	346,258
Segment A			
Wages and salaries	**307,569**	271,322	257,469
Compulsory social security obligations	**8,433**	8,037	7,925
Contributions to defined contributions plans	**9,513**	7,410	10,895
Equity-settled share based payments	**750**	1,436	2,628
Increase in liability for defined benefit plans	**33,792**	30,105	27,146
Other personnel expenses	**35,438**	29,434	24,311
	395,495	347,744	330,374
Segment B			
Wages and salaries	**14,197**	12,146	10,460
Compulsory social security obligations	**420**	387	320
Contributions to defined contributions plans	**475**	436	420
Equity-settled share based payments	**26**	42	84
Increase in liability for defined benefit plans	**1,787**	1,456	1,736
Other personnel expenses	**1,149**	810	2,864
	18,054	15,277	15,884

14. Operating lease expenses

Non-cancellable operating lease rentals are payable as follows:

	2018	2017	2016
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Minimum rental recognised in profit or loss	**38,625**	45,398	40,995
Segment A			
Minimum rental recognised in profit or loss	**37,048**	43,526	39,292
Segment B			
Minimum rental recognised in profit or loss	**1,577**	1,872	1,703
<u>Operating lease commitments</u>			
Future minimum rentals to be paid:			
- Less than one year	**34,075**	37,675	39,474
- Between one and five years	**26,774**	53,663	99,249
Total minimum rentals payable	**60,849**	91,338	138,723

14. Operating lease expenses (continued)

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.

15. Other expenses

The other expenses are mainly head office charges.

	2018	2017	2016
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Information and technology costs	**14,667**	14,673	13,882
Maintenance of premises costs	**22,313**	25,936	21,495
Other administrative expenses	**93,150**	100,603	111,978
Other expenses	**376,440**	343,706	358,658
	506,570	484,918	506,013
Segment A			
Information and technology costs	**14,133**	14,149	13,380
Maintenance of premises costs	**21,483**	24,977	20,677
Other administrative expenses	**90,040**	97,458	108,353
Other expenses	**375,120**	342,426	356,055
	500,776	479,010	498,465
Segment B			
Information and technology costs	**534**	524	502
Maintenance of premises costs	**830**	959	818
Other administrative expenses	**3,110**	3,145	3,625
Other expenses	**1,320**	1,280	2,603
	5,794	5,908	7,548

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

16. Income tax

Bank (Total)	2018 MUR'000	2017 MUR'000	2016 MUR'000
Current tax expense			
Current year:			
Income tax	**76,358**	79,530	86,862
Deferred tax	**(1,172)**	7,353	(1,407)
Total tax expense per statement of profit or loss and other comprehensive income	**75,186**	86,883	85,455
Reconciliation of effective tax rate			
Profit before tax per statement of profit or loss and other comprehensive income	**315,341**	307,050	309,622
Income tax at 17% (2017:17% and 2016: 15%)	**53,608**	52,199	46,443
Special levy on banks	**33,083**	31,004	33,174
Corporate social responsibility fund	**-**	-	3,868
Effect of non-deductible expenses	**686**	4,044	3,697
Effect of change in tax rate/Underprovision in previous years	**(11,986)**	1,156	-
Other permanent differences - write off of loans	**-**	1,329	-
Tax credit on foreign income	**-**	(3,011)	(1,304)
Others	**(205)**	162	(423)
	75,186	86,883	85,455

Segment A			
Current tax expense			
Current year:			
Income tax	**75,779**	78,829	86,536
Deferred tax	**(1,172)**	7,353	(1,407)
	74,607	86,182	85,129
Reconciliation of effective tax rate			
Profit before tax per statement of profit or loss and other comprehensive income	**316,874**	290,517	296,477
Income tax at 17% (2017:17% and 2016: 15%)	**53,869**	49,388	44,472
Special levy on banks	**32,761**	30,029	32,555
Corporate social responsibility fund	**-**	-	3,868
Effect of non-deductible expenses	**680**	4,042	3,686
Effect of change in tax rate/Underprovision in previous years	**(11,986)**	870	-
Other permanent differences - write off of loans	**-**	1,329	-
Others	**(717)**	524	548
	74,607	86,182	85,129
Current Tax Liabilities			
As 01 January	**42,072**	49,979	40,351
Charge for the year	**75,779**	78,829	86,536
Payment	**(75,913)**	(86,736)	(76,908)
At 31 December	**41,938**	42,072	49,979

16. Income tax (continued)

Segment B	2018 MUR'000	2017 MUR'000	2016 MUR'000
Current tax expense			
Current year:			
Income tax	579	701	326
	579	701	326
Reconciliation of effective tax rate			
(Loss)/profit before tax per statement of profit or loss and other comprehensive income	(1,533)	16,533	13,145
Income tax at 17% (2017:17% and 2016: 15%)	(261)	2,811	1,972
Special levy on banks	322	975	619
Effect of non-deductible expenses	6	2	11
Adjustment for prior years	-	286	-
Tax credit on foreign income	-	(2,806)	(1,304)
Other differences	512	(567)	(972)
	579	701	326
Current Tax Liabilities			
As 01 January	4,931	4,867	4,852
Charge for the year	579	701	326
Receipt/(Payment)	736	(637)	(311)
Adjustment	-	-	-
At 31 December	6,246	4,931	4,867

17. Cash and cash equivalents

Bank (Total)	2018 MUR'000	2017 MUR'000	2016 MUR'000
Cash in hand	287,214	144,757	190,596
Foreign currency notes and coins	10,176	18,579	21,241
Unrestricted balances with central bank	1,883,637	2,459,578	1,070,519
Money market placements	650,420	359,098	637,015
Balances with banks abroad	1,653,744	1,410,516	1,590,184
	4,485,191	4,392,528	3,509,555

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	2018 MUR'000	2017 MUR'000	2016 MUR'000
Cash in hand	287,214	144,757	190,596
Unrestricted balances with central bank	1,883,637	2,459,578	1,070,519
Money market placements	202,600	4,000	-
	2,373,451	2,608,335	1,261,115
Segment B			
Foreign currency notes and coins	10,176	18,579	21,241
Money market placements	447,820	355,098	637,015
Balances with banks abroad	1,653,744	1,410,516	1,590,184
	2,111,740	1,784,193	2,248,440

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

18. Trading assets and liabilities

(a) Trading assets

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Bank (Total)			
Derivative assets	570	800	694
	570	800	694
Segment A			
Derivative assets			
- Currency spot	100	-	-
- Currency forwards	11	683	537
	111	683	537
Segment B			
Derivative assets			
- Currency spot	258	62	157
- Currency forwards	201	55	-
	459	117	157

(b) Trading liabilities

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Bank (Total)			
Derivative liabilities	2,130	9,443	6,400
Segment A			
Derivative liabilities			
- Currency spot	-	-	45
- Currency forwards	660	1,636	3,992
	660	1,636	4,037
Segment B			
Derivative liabilities			
- Currency spot	5	18	45
- Currency forwards	1,465	7,789	2,318
	1,470	7,807	2,363

All trading assets and trading liabilities are current in nature.

19. Loans and advances to banks

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Loans and advances to banks			
In Mauritius (Segment A)	**384,000**	527,000	486,026
Abroad (Segment B)	**-**	77,380	77,531
	384,000	604,380	563,557
Less Stage 1 and 2 impairment/ collective allowance	**(7)**	-	-
	383,993	604,380	563,557

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Remaining term to maturity			
Up to 3 months	**208,159**	92,500	41,667
Over 3 months and up to 6 months	**163,334**	63,333	68,568
Over 6 months and up to 12 months	**7,500**	386,046	181,322
Over 1 year and up to 5 years	**5,000**	62,501	272,000
	383,993	604,380	563,557
Current	**378,993**	541,879	291,557
Non-Current	**5,000**	62,501	272,000
	383,993	604,380	563,557

20. Loans and advances to customers

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Total			
Retail customers:			
Credit cards	**322,636**	356,197	370,520
Mortgages	**4,306,951**	4,152,795	3,948,019
Other retail loans	**851,407**	785,312	693,950
Corporate customers	**6,240,534**	7,644,256	7,312,922
Governments	**341,773**	41,538	50,769
Entities outside Mauritius	**2,992,125**	52,656	59,546
	15,055,426	13,032,754	12,435,726
Less Stage 3 impairment/ specific allowance	**(27,103)**	(16,694)	(17,479)
Less Stage 1 and 2 impairment/ collective allowance	**(41,328)**	(12,029)	(14,211)
	14,986,995	13,004,031	12,404,036

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Segment A			
Retail customers:			
Credit cards	**322,636**	356,197	370,520
Mortgages	**4,306,951**	4,152,795	3,948,019
Other retail loans	**851,407**	785,312	693,950
Corporate customers	**5,765,182**	7,347,300	6,391,701
Governments	**341,773**	41,538	50,769
	11,587,949	12,683,142	11,454,959
Less Stage 3 impairment/ specific allowance	**(27,103)**	(16,694)	(17,479)
Less Stage 1 and 2 impairment/ collective allowance	**(41,328)**	(12,029)	(14,211)
	11,519,518	12,654,419	11,423,269

20. Loans and advances to customers (continued)

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Segment B			
Entities outside Mauritius	**2,992,125**	52,656	59,546
Global business license holders	**475,352**	296,956	921,221
	3,467,477	349,612	980,767

Management has assessed the impact of expected credit losses on Segment B loans and advances as not material.

(a) *Remaining term to maturity of loans and advances*

Bank (Total)	2018 MUR'000	2017 MUR'000	2016 MUR'000
Within 3 months	**3,661,899**	4,836,423	3,614,887
Over 3 to 6 months	**822,535**	450,175	941,993
Over 6 to 12 months	**136,701**	20,561	144,674
Over 1 to 5 years	**5,800,958**	3,281,700	3,448,873
Over 5 years	**4,633,333**	4,443,895	4,285,299
	15,055,426	13,032,754	12,435,726
Current	**4,621,135**	5,307,159	4,701,554
Non-Current	**10,434,291**	7,725,595	7,734,172
	15,055,426	13,032,754	12,435,726

Segment A	2018 MUR'000	2017 MUR'000	2016 MUR'000
Within 3 months	**3,547,807**	4,825,799	3,005,703
Over 3 to 6 months	**461,180**	163,388	629,955
Over 6 to 12 months	**136,646**	19,459	143,768
Over 1 to 5 years	**2,869,177**	3,270,258	3,447,165
Over 5 years	**4,573,094**	4,404,238	4,228,368
	11,587,904	12,683,142	11,454,959
Segment B			
Within 3 months	**114,091**	10,624	609,184
Over 3 to 6 months	**361,356**	286,787	312,038
Over 6 to 12 months	**55**	1,102	906
Over 1 to 5 years	**2,931,781**	11,442	1,708
Over 5 years	**60,239**	39,657	56,931
	3,467,522	349,612	980,767

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:

Bank (Total)	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Agriculture and fishing	**726,956**	1,742,577	881,944
Manufacturing	**3,545,053**	4,263,331	3,678,804
of which EPZ	***1,592,354***	*1,228,428*	*1,180,605*
Tourism	**135,611**	160,961	437,450
Transport	**-**	-	-
Construction	**4,403,195**	4,231,803	4,275,633
Financial and business services	**3,742,035**	510,063	378,806
Traders	**505,556**	638,970	743,814
Personal	**1,178,503**	1,145,230	1,065,890
of which credit card	***322,636***	*356,197*	*370,520*
Global business license holders	**475,352**	296,956	921,221
Other	**343,165**	42,863	52,164
	15,055,426	13,032,754	12,435,726

In accordance with Bank of Mauritius Guidelines, home mortgage loans are included within the Construction sector.

Segment A	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Agriculture and fishing	**726,956**	1,742,577	881,944
Manufacturing	**3,545,053**	4,263,331	3,678,804
of which EPZ	***1,592,354***	*1,228,428*	*1,180,605*
Tourism	**135,611**	160,961	437,450
Transport	**-**	-	-
Construction	**4,338,255**	4,182,868	4,217,507
Financial and business services	**819,310**	510,063	378,806
Traders	**505,556**	638,970	743,814
Global business licence holders	**-**	-	-
Personal	**1,174,043**	1,141,509	1,064,470
of which credit card	***322,636***	*356,197*	*370,520*
Other	**343,165**	42,863	52,164
	11,587,949	12,683,142	11,454,959

Segment B	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Construction	**64,940**	48,935	58,126
Financial and business services	**2,922,725**	-	-
Personal	**4,460**	3,721	1,420
Global business licence holders	**475,352**	296,956	921,221
	3,467,477	349,612	980,767

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 01 January 2018	14,306	54,169	68,475
Provision/(release) for credit impairment for the year	12,797	(12,841)	(44)
Balance at 31 December 2018	27,103	41,328	68,431

	Specific allowances for impairment MUR'000	Collective portfolio and general provisions MUR'000	Total MUR'000
Balance at 01 January 2016	9,336	13,239	22,575
Provision for credit impairment for the year	14,121	20,349	34,470
Loans written off out of allowance	(421)	(10,796)	(11,217)
Provisions released	(5,557)	(8,581)	(14,138)
Balance at 31 December 2016	17,479	14,211	31,690
Provision for credit impairment for the year	12,420	19,624	32,044
Loans written off out of allowance	(1,446)	(9,882)	(11,328)
Provisions released	(11,759)	(11,924)	(23,683)
Balance at 31 December 2017	16,694	12,029	28,723

Allowance for impairment losses pertain to Segment A activities only.

(d) Provision for impairment losses by industry sectors

2018	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	726,956	-	-	541	541
Manufacturing	3,545,053	-	-	1,347	1,347
of which EPZ	*1,592,354*	-	-	-	-
Tourism	135,611	-	-	51	51
Transport	-	-	-	-	-
Construction	4,403,195	50,147	21,430	18,220	39,650
Financial and business services	3,742,035	-	-	179	179
Traders	505,556	-	-	41	41
Personal	1,178,503	10,322	5,673	20,701	26,374
of which credit card	*322,636*	*1,767*	*874*	*7,678*	*8,552*
Global business licence holders	475,352	-	-	25	25
Other	343,165	-	-	223	223
	15,055,426	60,469	27,103	41,328	68,431

20. Loans and advances to customers (continued)

(d) Provision for impairment losses by industry sectors (continued)

2017	Gross amount of loans MUR'000	Non-performing loans MUR'000	Specific credit loss allowance MUR'000	Portfolio credit loss allowance MUR'000	Total credit loss allowance MUR'000
Agriculture and fishing	1,742,577	-	-	3	3
Manufacturing	4,263,331	-	-	1,378	1,378
of which EPZ	*1,228,428*	-	-	-	-
Tourism	160,961	-	-	61	61
Transport	-	-	-	-	-
Construction	4,231,803	45,395	14,528	19	19
Financial and business services	510,063	-	-	46	46
Traders	638,970	-	-	960	960
Personal	1,145,230	13,625	2,166	8,795	25,489
of which credit card	*356,197*	*3,173*	-	*1,867*	*1,867*
Global business licence holders	296,956	-	-	-	-
Other	42,863			767	767
	13,032,754	59,020	16,694	12,029	28,723

2016	Gross amount of loans MUR'000	Non-performing loans MUR'000	Specific credit loss allowance MUR'000	Portfolio credit loss allowance MUR'000	Total credit loss allowance MUR'000
Agriculture and fishing	881,944	-	-	4	4
Manufacturing	3,678,804	85	-	1,715	1,715
of which EPZ	*1,180,605*	*85*	-	-	-
Tourism	437,450	-	-	168	168
Transport	-	-	-	-	-
Construction	4,275,633	45,594	-	220	220
Financial and business services	378,806	-	-	89	89
Traders	743,814	-	-	1,061	1,061
Personal	1,065,890	16,909	17,479	10,214	27,693
of which credit card	*370,520*	*3,973*	-	*3,051*	*3,051*
Global business licence holders	921,221	-	-	-	-
Other	52,164	-	-	740	740
	12,435,726	62,588	17,479	14,211	31,690

Provision for impairment losses pertain to Segment A activities only.

21. Investment securities

Bank (Total) and Segment A	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Investment securities carried at FVOCI	**6,572,059**	6,175,741	5,705,028
Treasury Bills/Notes	**6,562,795**	6,166,477	5,695,764
Equity shares	**9,264**	9,264	9,264
	6,572,059	6,175,741	5,705,028
Current	**3,943,227**	3,743,269	3,285,900
Non-Current	**2,628,832**	2,432,472	2,419,128
	6,572,059	6,175,741	5,705,028

Investment securities carried at FVOCI pertain to Segment A activities only.

Treasury Bills/Notes	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
At 1 January	**6,166,477**	5,695,764	4,854,844
Additions during the year	**5,453,450**	6,434,449	2,859,834
Matured during the period	**(4,985,400)**	(6,034,500)	(2,172,000)
Amortised discount/premium	**(34,857)**	69,811	46,853
Fair value (loss)/gain	**(36,221)**	953	106,233
Gross carrying amount	**6,563,449**	6,166,477	5,695,764
Less impairment	**(654)**	-	-
At 31 December	**6,562,795**	6,166,477	5,695,764

Equity shares	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
At 1 January	**9,264**	9,264	9,264
Additions	**-**	-	-
Disposals	**-**	-	-
At 31 December	**9,264**	9,264	9,264

Investments securities comprise Government of Mauritius treasury bills and treasury notes that are held for regulatory purposes and investment in equity shares held with SME Equity Fund.

22. Property, plant and equipment

Bank (Total) and Segment A	Land and buildings MUR'000	Computer and other equipment MUR'000	Other fixed assets MUR'000	Total MUR'000
Cost				
Balance at 01 January 2016	242,500	96,101	153,290	491,891
Acquisitions	-	4,374	4,168	8,542
Disposals	-	(45)	(100)	(145)
Revaluation adjustment	(30,500)	-	-	(30,500)
Balance at 31 December 2016	212,000	100,430	157,358	469,788
Acquisitions	-	3,899	7,201	11,100
Disposals	-	(7,446)	(20,161)	(27,607)
Revaluation adjustment	14,000	-	-	14,000
Balance at 31 December 2017	**226,000**	**96,883**	**144,398**	**467,281**
Acquisitions	**-**	**711**	**67,092**	**67,803**
Disposals	**(7,200)**	**-**	**-**	**(7,200)**
Revaluation adjustment	**14,700**	**-**	**-**	**14,700**
Balance at 31 December 2018	**233,500**	**97,594**	**211,490**	**542,584**
Accumulated depreciation				
Balance at 01 January 2016	-	83,847	141,801	225,648
Depreciation for the year	1,790	5,907	4,332	12,029
Disposals/write off	-	(4)	(91)	(95)
Revaluation adjustment	(1,790)	-	-	(1,790)
Balance at 31 December 2016	-	89,750	146,042	235,792
Depreciation for the year	1,441	5,465	4,496	11,402
Disposals/write off	-	(7,327)	(19,911)	(27,238)
Revaluation adjustment	(1,441)	-	-	(1,441)
Balance at 31 December 2017	**-**	**87,888**	**130,627**	**218,515**
Depreciation for the year	**1,492**	**4,981**	**6,756**	**13,229**
Disposals/write off	**(42)**	**-**	**-**	**(42)**
Revaluation adjustment	**(1,450)**	**-**	**-**	**(1,450)**
Balance at 31 December 2018	**-**	**92,869**	**137,383**	**230,252**
Net Book Value				
As at 31 December 2018	**233,500**	**4,725**	**74,107**	**312,332**
As at 31 December 2017	226,000	8,995	13,771	248,766
As at 31 December 2016	212,000	10,680	11,316	233,996

The last valuation was carried out on 31 December 2018 by an experienced, qualified independent valuer, Mr. Geoff Kruger who has relevant professional experience in the localities and categories of the properties held.

The valuation of land and buildings has been determined using the comparative basis. 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.

22. Property, plant and equipment (continued)

MUR'000	**At 31 December 2018**			At 31 December 2017			At 31 December 2016		
	Land	**Buildings**	**Total**	Land	Buildings	Total	Land	Buildings	Total
Level 3	**139,500**	**94,000**	**233,500**	141,441	84,559	226,000	78,527	133,473	212,000

IFRS 13 reconciliation for Level 3

Bank (Total)	**2018**	2017	2016
	MUR'000	MUR'000	MUR'000
At 1 January	**226,000**	212,000	242,500
Transfers in	**-**	-	-
Disposals	**(7,200)**	-	-
Settlements	**-**	-	-
Revaluation	**14,700**	14,000	(30,500)
At 31 December	**233,500**	226,000	212,000

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 +/- MUR11,675,000, 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 2018, 2017 and 2016. The property of the Bank situated at Mahebourg has been disposed during the year ended 31 December 2018.

The cost of land is MUR 651,000 as at 31 December 2018 and is not depreciated (2017 and 2016: MUR 699,000).

The carrying amounts of buildings that would have been included in the financial statements had the assets been carried at cost less depreciation is as follows:

Bank (Total)	**2018**	2017	2016
	MUR'000	MUR'000	MUR'000
Cost	**27,500**	27,960	27,960
Depreciation	**(24,503)**	(24,741)	(24,556)
Net book value	**2,997**	3,219	3,404

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

23. Deferred tax assets

	Retirement benefit obligation (MUR '000)	Revaluation of non investment property (MUR '000)	Impairment allowances (MUR '000)	Accelerated capital allowances (MUR '000)	Total (MUR '000)
At 1 January 2016	41,838	(10,608)	3,008	2,070	36,308
Charged/(Credited) to profit or loss	-	348	1,756	(697)	1,407
Credited to other comprehensive income	12,703	2,596	-	-	15,299
At 31 December 2016	54,541	(7,664)	4,764	1,373	53,014
(Credited)/Charged to profit or loss	(8,222)	272	670	(73)	(7,353)
Other movement in retained earnings	(4,298)	-	-	-	(4,298)
Credited to other comprehensive income	48,978	(1,274)	-	-	47,704
At 31 December 2017	**90,999**	**(8,666)**	**5,434**	**1,300**	**89,067**
Impact of adoption of IFRS 9	**-**	**-**	**6,647**	**-**	**6,647**
Adjustments	**-**	**9**	**(5)**	**(4)**	**-**
Charged/(Credited) to profit or loss	**4,447**	**6,066**	**(7,208)**	**(2,133)**	**1,172**
(Credited)/ Charged to other comprehensive income	**(50,163)**	**(1,555)**	**-**	**-**	**(51,718)**
At 31 December 2018	**45,283**	**(4,146)**	**4,868**	**(837)**	**45,168**

Deferred tax assets relate to Segment A activities only and are non-current assets.

24. Other assets

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Bank (Total)			
Mandatory balances with central bank*	**1,416,977**	1,502,194	1,474,882
Items in course of collection from other banks	**57,750**	55,110	45,460
Accrued interest receivable	**92,875**	65,940	66,666
Other	**336,769**	301,290	473,865
of which Acceptance & Endorsement	***246,759***	*209,327*	*409,760*
	1,904,371	1,924,534	2,060,873
Less Stage 1and 2 impairment	**(14)**	-	-
	1,904,357	1,924,534	2,060,873
Segment A			
Mandatory balances with central bank*	**1,416,977**	1,502,194	1,474,882
Items in course of collection from other banks	**57,750**	55,110	45,460
Accrued interest receivable	**92,374**	65,940	66,666
Other	**157,873**	297,271	470,787
	1,724,974	1,920,515	2,057,795
Segment B			
Accrued interest receivable	**500**	-	-
Other	**178,897**	4,019	3,078
	179,397	4,019	3,078

*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.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

25. Deposits from banks

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Bank (Total)			
Other deposits from banks	**578,740**	268,725	188,531
	578,740	268,725	188,531
Segment A			
Other deposits from banks	**24,856**	27,088	51,865
	24,856	27,088	51,865
Segment B			
Other deposits from banks	**553,884**	241,637	136,666

All deposits from banks are current.

26. Deposits from customers

Bank (Total)	2018 MUR'000	2017 MUR'000	2016 MUR'000
Retail customers			
Current accounts	**502,899**	529,039	505,524
Savings accounts	**10,750,071**	11,613,308	11,382,404
Time deposits with remaining term to maturity			
Up to 3 months	**237,473**	244,926	305,956
Over 3 mths and up to 6 mths	**256,548**	98,066	101,333
Over 6 mths and up to 12 mths	**592,008**	201,813	233,505
Over 1 year and up to 5 years	**636,298**	363,529	507,205
Corporate customers			
Current accounts	**4,049,547**	3,490,588	3,586,059
Savings accounts	**158,706**	184,767	198,836
Time deposits with remaining term to maturity			
Up to 3 months	**1,140,890**	2,619,564	2,168,478
Over 3 mths and up to 6 mths	**46,417**	61,559	229,972
Over 6 mths and up to 12 mths	**467,401**	258,215	309,168
Over 1 year and up to 5 years	**9,351**	45,886	10,516
Government			
Current accounts	**7,596**	7,174	2,398
Savings accounts	**-**	-	-
Time deposits with remaining term to maturity			
Up to 3 months	**384**	1	1,594
	18,855,589	19,718,435	19,542,948
Current	**18,209,940**	19,309,020	19,025,227
Non-Current	**645,649**	409,415	517,721
	18,855,589	19,718,435	19,542,948

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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.

	2018	2017	2016
Segment A	**MUR'000**	MUR'000	MUR'000
Retail customers			
Current accounts	**460,736**	486,102	468,492
Savings accounts	**10,093,531**	10,924,376	10,679,381
Time deposits with remaining term to maturity			
Up to 3 months	**209,869**	214,839	220,647
Over 3 mths and up to 6 mths	**231,689**	83,973	93,970
Over 6 mths and up to 12 mths	**547,998**	183,820	216,415
Over 1 year and up to 5 years	**570,735**	312,067	451,499
Corporate customers			
Current accounts	**3,263,361**	2,987,015	2,845,024
Savings accounts	**158,707**	184,767	198,836
Time deposits with remaining term to maturity			
Up to 3 months	**1,005,974**	2,086,407	1,773,324
Over 3 mths and up to 6 mths	**43,491**	60,152	228,588
Over 6 mths and up to 12 mths	**269,365**	257,970	307,226
Over 1 year and up to 5 years	**9,006**	45,886	10,515
Government			
Current accounts	**7,596**	7,174	2,398
Savings accounts	**-**	-	-
Time deposits with remaining term to maturity			
Up to 3 months	**384**	1	1,594
	16,872,442	17,834,549	17,497,910
Segment B			
Retail customers			
Current accounts	**42,163**	42,938	37,032
Savings accounts	**656,540**	688,932	703,023
Time deposits with remaining term to maturity			
Up to 3 months	**27,604**	30,086	85,309
Over 3 mths and up to 6 mths	**24,859**	14,093	7,362
Over 6 mths and up to 12 mths	**44,010**	17,993	17,090
Over 1 year and up to 5 years	**65,563**	51,462	55,706
Corporate customers			
Current accounts	**786,186**	503,573	741,035
Time deposits with remaining term to maturity			
Up to 3 months	**134,915**	533,158	395,155
Over 3 mths and up to 6 mths	**2,926**	1,407	1,384
Over 6 mths and up to 12 mths	**198,036**	244	1,942
Over 1 year and up to 5 years	**345**		
	1,983,147	1,883,886	2,045,038

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

27. Other borrowed funds

Bank (Total)	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Borrowings from banks			
In Mauritius (Segment A)	**1,838,025**	2,520,938	1,200,656
Abroad (Segment B)	**3,681,035**	366,099	63,753
	5,519,060	2,887,037	1,264,409
Current	**1,844,428**	2,887,037	1,264,409
Non-Current	**3,674,632**	-	-

Other borrowed funds are interest bearing and unsecured in nature. The Bank has a facility line of USD125m with HSBC Hong Kong which enables it to drawdown as and when needed to meet liquidity requirements. The facility has a drawn amount of USD107m as at 31 December 2018. There have been no defaults during the year.

28. Other liabilities

Bank (Total)	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Accrued interest payable	**57,238**	42,933	49,881
Accrued expenses	**66,407**	58,939	52,111
Retirement benefits (see note 29)	**368,917**	359,767	295,547
Other	**756,539**	659,079	853,970
of which: Acceptance and Endorsement	***246,759***	*209,327*	*409,760*
Intercompany recharge costs	***324,835***	*297,013*	*321,072*
Provision for off-balance sheet exposure	***440***	-	-
	1,249,101	1,120,718	1,251,509
Current	**880,184**	751,742	896,176
Non-Current	**368,917**	368,976	355,333
	1,249,101	1,120,718	1,251,509
Segment A			
Accrued interest payable	**42,585**	42,909	49,863
Accrued expenses	**66,407**	58,939	52,110
Retirement benefits	**368,917**	359,767	295,547
Other	**579,006**	655,626	851,558
	1,056,915	1,117,241	1,249,078
Segment B			
Accrued interest payable	**14,653**	24	18
Other	**177,533**	3,453	2,413
	192,186	3,477	2,431

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 MUR22.7m (2017 – MUR0.2m).

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 funding requirements are based on the pension fund's actuarial measurement framework set out in the funding policies of the plan.

The Bank will finance the pension deficit of ROCS over a period of 8 years. The annual contribution to finance the deficit will amount to MUR47.8m per annum, the first payment being made during the year ended 31 December 2018. In addition, 39.3% of annual salaries would be paid to finance future benefits accruing to members and expenses of managing the fund.

29. Retirement benefits (continued)

(a) Defined benefits plan (continued)

The Bank will finance the pension deficit of SOCS over a period of 5 years. The annual contribution to finance the deficit will amount to MUR41.6m per annum, the first payment being made during the year ended 31 December 2018. In addition, 30.0% of annual salaries would be paid to finance future benefits accruing to members and expenses of managing the fund.

The principal actuarial assumptions are:

	2018	2017	2016
Discount rate			
ROCS Funded	**6.20%**	5.00%	6.00%
SOCS Funded	**6.10%**	5.00%	6.00%
ROCS and SOCS Unfunded	**5.10%**	5.00%	6.00%
Future long-term salary increase	**6.00%**	4.00%	5.00%
Future expected pension increase	**4.00%**	3.00%	3.00%

The retirement benefit liabilities as at 31 December 2018 are based on the report submitted by Swan Life Ltd.

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Equities	**108,235**	46,489	29,176
Fixed interest	**307,889**	88,412	187,828
Cash	**143,794**	328,114	198,904
Total market value of assets	**559,918**	463,015	415,908
Present value of plan liability	**(928,835)**	(807,658)	(711,455)
Net liability for retirement obligation recognised in statement of financial position	**(368,917)**	(359,767)	(295,547)

Expected contribution next year

The Bank is expected to contribute MUR110.0m (2017: MUR65.1m) to the pension scheme for the year ending 31 December 2019.

Maturity profile of the Defined Benefits Obligation

The average remaining working life of the employees at 31 December 2018 are as follows:
ROCS funded 13 years, ROCS unfunded 6 years, SOCS funded 12 years and SOCS unfunded 6 years.

29. Retirement benefits (continued)

(a) Defined benefits plan (continued)

	2018	2017	2016
	MUR'000	MUR'000	MUR'000
Pension expense components for the year			
Service cost	**18,336**	14,694	12,282
Interest cost	**41,155**	42,578	43,256
Interest income	**(23,912)**	(25,711)	(26,656)
Net interest cost	**17,243**	16,867	16,600
Net periodic pension cost per IAS19	**35,579**	31,561	28,882
Movement in liability recognised in statement of financial position			
At start of the year	**(359,767)**	(295,547)	(263,418)
Total amount recognised in profit or loss	**(35,579)**	(31,561)	(28,882)
Actuarial losses arising from changes in financial assumptions	**(83,394)**	(112,584)	(84,691)
Employer's contributions	**109,823**	79,925	81,444
At end of the year	**(368,917)**	(359,767)	(295,547)
Change in defined benefit obligation			
Present value of defined benefit obligation at start of the year	**(822,782)**	(711,455)	(621,590)
Current service cost	**(18,336)**	(14,694)	(12,282)
Interest cost	**(41,155)**	(42,578)	(43,256)
Actuarial losses	**(82,374)**	(87,067)	(66,102)
Benefits paid	**35,812**	33,011	31,775
Present value of defined benefit obligation at end of the year	**(928,835)**	(822,782)	(711,455)

	2018	2017	2016
	MUR'000	MUR'000	MUR'000
Change in plan assets			
Fair value of plan assets at start of the year	**463,015**	415,908	358,172
Interest income	**23,912**	25,711	26,656
Employer's contributions	**109,823**	79,925	81,444
Actuarial losses arising from changes in financial assumptions	**(1,020)**	(25,517)	(18,589)
Benefits paid	**(35,812)**	(33,011)	(31,775)
Fair value of plan assets at end of the year	**559,918**	463,015	415,908

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

29. Retirement benefits (continued)

(a) Defined benefits plan (continued)

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Analysis of amount recognised in statement of changes in equity			
Losses on pension scheme assets	**(1,020)**	(25,517)	(18,589)
Experience (losses)/gains on the liabilities	**(41,678)**	6,865	371
Changes in financial assumptions	**(40,696)**	(93,932)	(66,473)
Actuarial loss recognised in other comprehensive income	**(83,394)**	(112,584)	(84,691)
Net liability relating to the funded plans			
Present value of funded obligations	**(928,835)**	(822,782)	(711,455)
Fair value of plan assets	**559,918**	463,015	415,908
Deficit of funded plans	**(368,917)**	(359,767)	(295,547)

Sensitivity analysis

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Decrease in Defined Benefit Obligation due to 1% increase in discount rate	**132,333**	116,017	93,668
Increase in Defined Benefit Obligation due to 1% increase in future long-term salary assumption	**45,311**	34,027	34,250
Increase in Defined Benefit Obligation due to 1% increase in future long-term pension assumption	**121,021**	97,412	84,232

The sensitivity analysis above have 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 liabilities at 31 December 2018 are based on the report prepared by Swan Life Limited in December 2018.

(b) Defined contribution plan

The Bank expects to contribute approximately MUR 11.3m to its post-employment defined contribution plans for the year ending 31 December 2019.

30. Capital and reserves

	2018	2017	2016
	MUR'000	MUR'000	MUR'000
Other Reserves			
Reserves for own shares	**22,100**	21,990	22,722
Revaluation reserve	**203,407**	195,333	181,955
Statutory reserve	**279,380**	243,185	243,185
General banking reserve	**142,299**	156,613	152,282
Fair value reserve	**(20,824)**	15,397	14,444
	626,362	632,518	614,588
Retained Earnings	**1,511,499**	1,516,703	1,368,257
	2,137,861	2,149,221	1,982,845

a) Assigned capital

The Bank's assigned capital was at MUR300m which is as per the minimum capital requirement of MUR300m as at 30 June 2018 for banks as per Section 20 of the Mauritian Banking Act 2004. The Bank will increase its assigned capital to MUR400m by 30 June 2019 as required by 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 MUR279m in accordance 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.

30. Capital and reserves (continued)

g) Reserves for own shares

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.

(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.

Movements in the number of share save outstanding are as follows:

Share save – 5 - year plan	**2018**	2017	2016
At 1 January	-	358	1,706
Granted during the year	-	-	-
Forfeited during the year	-	-	-
Expired during the year	-	(358)	(1,348)
Intercompany transfer	-	-	-
At 31 December	-	-	358

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.

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Bank (Total)			
Guarantees on account of customers	**1,986,894**	2,202,844	3,027,112
Letters of credit and other obligations	**3,390,324**	68,970	45,773
	5,377,218	2,271,814	3,072,885
Segment A			
Guarantees on account of customers	**1,327,805**	819,046	1,052,574
Letters of credit and other obligations	**194,785**	68,970	42,084
	1,522,590	888,016	1,094,658
Segment B			
Guarantees on account of customers	**659,089**	1,383,798	1,974,538
Letters of credit and other obligations	**3,195,539**	-	3,689
	3,854,628	1,383,798	1,978,227

32. Commitments

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Bank (Total)			
Capital commitments	**-**	11,134	-
Undrawn credit facilities	**7,579,614**	7,430,326	7,683,868
	7,579,614	7,441,460	7,683,868
Segment A			
Capital commitments	**-**	11,134	-
Undrawn credit facilities	**6,229,956**	5,762,672	6,805,695
	6,229,956	5,773,806	6,805,695
Segment B			
Undrawn credit facilities	**1,349,658**	1,667,654	878,173
	1,349,658	1,667,654	878,173

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

33. Analysis of cash and cash equivalents

Bank (Total)	2018 MUR'000	2017 MUR'000	2016 MUR'000
Cash and cash equivalents (Note 17)	4,485,191	4,392,528	3,509,555
Other borrowed funds	(778,493)	(2,887,037)	(1,264,409)
	3,706,698	1,505,491	2,245,146

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:

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Loans	24,344	26,583	27,274
Interest income	614	625	744
Deposits	22,605	18,252	17,120
Interest expense	130	224	148
Key management compensation			
Short-term employee benefits	78,064	65,383	48,058
Share based payments	2,754	1,566	68
Other long-term benefits	8,953	-	-
Post employment benefits	-	9,294	7,427
Key management exposure (MUR'000)	39,600	35,900	42,600
% of Tier 1 capital	2.0	1.9	2.4

None of the facilities granted to related parties were non-performing.

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.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

34. Related party transactions (continued)

MUR'000	31 December 2018			
	HSBC Hong Kong	**HSBC Bank Plc**	**Other related parties**	**Total**
Statement of financial position:				
Assets				
Intercompany bank accounts	**328,951**	**290,967**	**1,001,501**	**1,621,419**
Balances and placements with banks	**423,908**	**-**	**610,512**	**1,034,420**
Liabilities				
Other accounts liabilities	**3,674,632**	**-**	**1,388,025**	**5,062,657**
Intercompany bank accounts	**5,132**	**40,676**	**41,197**	**87,005**
Statement of comprehensive income:				
Other interest receivable	**11,091**	**-**	**21,616**	**32,707**
Other interest payable	**65,012**	**-**	**13,742**	**78,754**
Fee and commission receivable	**1,607**	**-**	**1,558**	**3,165**
Fee and commission payable	**113**	**130**	**1,273**	**1,516**
Other income	**-**	**-**	**356,891**	**356,891**
Other expenses	**305,510**	**(8)**	**71,906**	**377,408**
Repatriation of profits	**-**	**-**	**-**	**-**

	31 December 2017			
	HSBC Hong Kong	HSBC Bank Plc	Other related parties	Total
Statement of financial position:				
Assets				
Intercompany bank accounts	312,385	297,189	789,241	1,398,815
Balances and placements with banks	433,582	163	536,985	970,730
Liabilities				
Other accounts liabilities	655,684	-	2,525,326	3,181,010
Intercompany bank accounts	4,640	20,921	66,012	91,573
Statement of comprehensive income:				
Other interest receivable	8,024	273	19,564	27,861
Other interest payable	(1,155)	-	9,415	8,260
Fee and commission receivable	2,593	-	904	3,497
Fee and commission payable	166	163	1,629	1,958
Other income	-	-	316,281	316,281
Other expenses	297,653	-	46,053	343,706
Repatriation of profits	-	-	-	-

	31 December 2016			
	HSBC Hong Kong	HSBC Bank Plc	Other related parties	Total
Statement of financial position:				
Assets				
Intercompany bank accounts	352,557	171,420	1,030,963	1,554,940
Balances and placements with banks	398,705	274,760	535,716	1,209,181
Liabilities				
Other accounts liabilities	320,052	-	1,190,926	1,510,978
Intercompany bank accounts	5,056	12,463	58,066	75,585
Statement of comprehensive income:				
Other interest receivable	11,526	570	14,568	26,664
Other interest payable	1,310	-	2,666	3,976
Fee and commission receivable	982	-	860	1,842
Fee and commission payable	147	129	998	1,274
Other income	-	-	295,531	295,531
Other expenses	322,181	-	36,477	358,658
Repatriation of profits	-	-	-	-

None of the facilities granted to Group companies were non-performing and Management has assessed that there is no ECL on these facilities as at 31 December 2018.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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 Asset and Liability Management Committee (ALCO), Risk Management and Operational Risk 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.

(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).

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:

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) *Management of credit risk (continued)*

- 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 both PD and the attribution of EAD and LGD values at facility level.

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 (EAD) 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 Internal Audit.

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

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 2018, 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 %
Credit quality classification					
Strong	A- and above	CRR1 to CRR2	0.000–0.169	Band 1 and 2	0.000–0.500
Good	BBB+ to BBB-	CRR3	0.170–0.740	Band 3	0.501–1.500
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914	Band 4 and 5	1.501–20.000
Sub-standard	B- to C	CRR6 to CRR8	4.915–99.999	Band 6	20.001–99.999
Credit-impaired	Default	CRR9 to CRR10	100.000	Band 7	100.000

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

	Gross carrying/nominal amount							
	Strong MUR'000	Good MUR'000	Satisfactory MUR'000	Sub-standard MUR'000	Credit impaired MUR'000	Total MUR'000	Allowance for ECL MUR'000	Net MUR'000
Loans and advances to customers at amortised cost	10,125,231	2,258,280	1,393,619	1,217,828	60,469	15,055,426	(68,431)	14,986,995
– Personal	4,967,301	336,855	28,445	159,299	60,469	5,552,369	(66,018)	5,486,351
– corporate and commercial	2,235,204	1,909,194	900,174	1,058,529	-	6,103,101	(2,274)	6,100,827
– non-bank financial institutions	2,922,725	12,231	465,000	-	-	3,399,956	(139)	3,399,817
Loans and advances to banks at amortised cost	384,000	-	-	-	-	384,000	(7)	383,993
Other financial assets measured at amortised cost	5,836,536	25,094	19,675	65,452	373	5,947,130	(14)	5,947,116
– cash and cash equivalents	4,178,201	9,529	71	-	-	4,187,801	-	4,187,801
– acceptance and endorcement	176,179	1,634	11,007	57,939	-	246,759	(14)	246,745
– mandatory balances with central bank	1,416,977	-	-	-	-	1,416,977	-	1,416,977
– accrued income and other assets	65,179	13,931	8,597	7,513	373	95,593	-	95,593
Investment securities measured at FVOCI	6,572,713	-	-	-	-	6,572,713	(654)	6,572,059
Trading assets measured at FVPL	570	-	-	-	-	570	-	570
Total gross carrying amount on balance sheet	**22,919,050**	**2,283,374**	**1,413,294**	**1,283,280**	**60,842**	**27,959,840**	**(69,106)**	**27,890,734**
Loan and other credit related commitments	3,543,896	2,160,877	1,692,588	182,253	-	7,579,614	(337)	7,579,277
Financial guarantee and similar contracts	4,214,567	485,560	677,071	20	-	5,377,218	(103)	5,377,115
Total nominal amount off–balance sheet	**7,758,463**	**2,646,437**	**2,369,659**	**182,273**	**-**	**12,956,832**	**(440)**	**12,956,392**
At 31 December 2018	**30,677,513**	**4,929,811**	**3,782,953**	**1,465,553**	**60,842**	**40,916,672**	**(69,546)**	**40,847,126**

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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

	Gross carying 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
By portfolio								
Personal lending	*5,301,423*	*190,477*	*60,469*	*5,552,369*	*(14,597)*	*(24,318)*	*(27,103)*	*(66,018)*
Residential mortgages	4,168,591	155,128	50,147	4,373,866	(1,344)	(16,872)	(21,430)	(39,646)
Other personal lending	1,132,832	35,349	10,322	1,178,503	(13,253)	(7,446)	(5,673)	(26,372)
- other	814,696	32,616	8,555	855,867	(8,042)	(4,979)	(4,799)	(17,820)
- credit cards	318,136	2,733	1,767	322,636	(5,211)	(2,467)	(874)	(8,552)
Wholesale	*8,924,366*	*962,691*	-	*9,887,057*	*(2,041)*	*(379)*	-	*(2,420)*
Corporate and commercial	5,140,410	962,691	-	6,103,101	(1,895)	(379)	-	(2,274)
Non bank financial institutions	3,399,956	-	-	3,399,956	(139)	-	-	(139)
Bank	384,000	-	-	384,000	(7)	-	-	(7)
At 31 December 2018	**14,225,789**	**1,153,168**	**60,469**	**15,439,426**	**(16,638)**	**(24,697)**	**(27,103)**	**(68,438)**

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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

	PD range	Gross carying 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	%
Residential mortgages		**4,168,591**	**155,128**	**50,147**	**4,373,866**	**(1,344)**	**(16,872)**	**(21,430)**	**(39,646)**	**0.01**
Band 1	0.000 to 0.250	61,325	-	-	61,325	-	-	-	-	-
Band 2	0.251 to 0.500	4,107,266	-	-	4,107,266	(1,344)	-	-	(1,344)	-
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	-	155,128	-	155,128	-	(16,872)	-	(16,872)	0.11
Band 7	100.000	-	-	50,147	50,147	-	-	(21,430)	(21,430)	0.43
Other personal lending		**1,132,832**	**35,349**	**10,322**	**1,178,503**	**(13,253)**	**(7,446)**	**(5,673)**	**(26,372)**	**0.02**
Band 1	0.000 to 0.250	628,036	-	-	628,036	(8,015)	-	-	(8,015)	0.01
Band 2	0.251 to 0.500	40,293	-	-	40,293	(26)	-	-	(26)	0.00
Band 3	0.501 to 1.500	464,503	6,261	-	470,764	(5,212)	-	-	(5,212)	0.01
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	28,445	-	28,445	-	(7,373)	-	(7,373)	0.26
Band 6	20.001 to 99.999	-	643	-	643	-	(73)	-	(73)	0.11
Band 7	100.000	-	-	10,322	10,322	-	-	(5,673)	(5,673)	0.55
At 31 December 2018		**5,301,423**	**190,477**	**60,469**	**5,552,369**	**(14,597)**	**(24,318)**	**(27,103)**	**(66,018)**	**0.01**

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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 carying amount				Allowance for ECL				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	coverage %
Corporate and Commercial		5,140,410	962,691	-	6,103,101	(1,895)	(379)	-	(2,274)	0.00
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	2,235,204	-	-	2,235,204	(63)	-	-	(63)	0.00
CRR3	0.170 to 0.740	1,778,332	130,862	-	1,909,194	(1,422)	(6)	-	(1,428)	0.00
CRR4	0.741 to 1.927	292,735	208,933	-	501,668	(30)	(132)	-	(162)	0.00
CRR5	1.928 to 4.914	272,048	126,459	-	398,507	(380)	(31)	-	(411)	0.00
CRR6	4.915 to 8.860	562,091	494,340	-	1,056,431	-	(209)	-	(209)	0.00
CRR7	8.861 to 15.000	-	2,097	-	2,097	-	(1)	-	(1)	0.00
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
Non bank financial institutions		3,399,956	-	-	3,399,956	(139)	-	-	(139)	0.00
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	2,922,725	-	-	2,922,725	(94)	-	-	(94)	0.00
CRR3	0.170 to 0.740	12,231	-	-	12,231	-	-	-	-	-
CRR4	0.741 to 1.927	210,000	-	-	210,000	(45)	-	-	(45)	0.00
CRR5	1.928 to 4.914	255,000	-	-	255,000	-	-	-	-	-
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	-
CRR7	8.861 to 15.000	-	-	-	-	-	-	-	-	-
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
Banks		384,000	-	-	384,000	(7)	-	-	(7)	0.00
CRR1	0.000 to 0.053	384,000	-	-	384,000	(7)	-	-	(7)	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 2018		8,924,366	962,691	-	9,887,057	(2,041)	(379)	-	(2,420)	0.00

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018

(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. Please refer to note 35 (b)(iii)(C) for a description of how the Bank determines when a significant increase in credit risk has occurred.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. Please refer to note 35(b)(iii)(G) for a description of how the Bank defines credit-impaired and default.

- 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. Please refer to note 35(b)(iii)(B) for a description of inputs, assumptions and estimation techniques used in measuring the ECL.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. Note 35(b)(iii)(K) includes an explanation of how the Bank has incorporated this in its ECL models.

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

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018 (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, eg 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

Stage 1	**Stage 2**	**Stage 3**
(Initial recognition) 12-month expected credit losses	(Significant increase in credit risk since initial recognition) Lifetime expected credit losses	(Credit-impaired assets) 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:

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 reporting date about past events, current conditions and forecasts of future economic conditions.

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018 (continued)

(B) *Explanation of inputs, assumptions and estimation techniques (continued)*

Stage 3 (continued)

The ECL for wholesale stage 3 is determined on an individual basis using a discounted cash flow ('DCF') methodology. The expected future cash flows are based on the credit risk officer's estimates as at the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. 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 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. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime 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:

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018 (continued)

(C) *Significant increase in credit risk (SICR)(continued)*

Origination CRR	Number notches in the band	Additional significance criteria – Number of CRR grade notches of deterioration required to identify as significant credit deterioration (stage 2)
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.

(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.

The Bank has adopted the requirements of IFRS 9 from 1 January 2018. 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.

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018 (continued)

(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.

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 unlikeliness to pay. The criteria for unlikeliness 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 (other than POCI) depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. 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 that are not POCI 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.

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018 (continued)

(G) Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Bank's Credit Committee 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 MUR11.4m was written off during the year, which is still subject to enforcement activity.

(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 2018, 31 December 2017 and 31 December 2016. 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.

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018 (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 six consecutive months 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 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 2018, 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 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000
Gross carrying amount				
Personal lending	-	-	22,585	22,585
– Residential mortgages	-	-	22,585	22,585
– Other personal lending	-	-	-	-
At 31 December 2018	-	-	**22,585**	**22,585**
Allowance for ECL				
Personal lending	-	-	(3,511)	(3,511)
– Residential mortgages	-	-	(3,511)	(3,511)
– Other personal lending	-	-	-	-
At 31 December 2018	-	-	**(3,511)**	**(3,511)**

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Adoption of IFRS 9 in 2018 (continued)

(K) Forward looking economic inputs (continued)

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 three 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. 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, inflation, unemployment and policy rates 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, inflation and unemployment 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 10th and the 90th 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 2018, the impact of the FEG was insignificant.

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 expected credit losses ('ECL'). Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

The following tables analyse all financial assets which represents the concentration of exposures in which how credit risks are managed.

	Gross carrying/nominal amount MUR'000	Allowance for ECL MUR'000
Loans and advances to customers at amortised cost:	**15,055,426**	**(68,431)**
- Personal	5,552,369	(66,018)
- Corporate and Commercial	6,103,101	(2,274)
- Non-bank financial institutions	3,399,956	(139)
Loans and advances to banks at amortised cost:	**384,000**	**(7)**
Other financial assets at amortised costs:	**5,947,130**	**(14)**
– cash and cash equivalents	4,187,801	-
– acceptance and endorcement	246,759	(14)
– mandatory balances with central bank	1,416,977	-
– accrued income and other assets	95,593	-
Total gross carrying amount on balance sheet	**21,386,556**	**(68,452)**
Loan and other credit related commitments	7,579,614	(337)
Financial guarantee and similar contracts	5,377,218	(103)
Total nominal amount off-balance sheet	**12,956,832**	**(440)**
At 31 December 2018	**34,343,388**	**(68,892)**

	Fair Value MUR'000	Allowance for ECL MUR'000
At 31 December 2018	**6,573,283**	**(654)**
Investment securities measured at FVOCI (Stage 1)	6,572,713	(654)
Trading assets measured at FVPL	570	-

35. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iv) Summary of credit risk (continued)

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						
Loans and advances to customers at amortised cost:	13,841,789	1,153,168	100,781	18,850	60,469	15,055,426	(16,631)	(24,697)	(8,762)	(1,890)	(27,103)	(68,431)	0.1%	2.1%	8.7%	10.0%	44.8%	0.5%
- Personal	5,301,423	190,477	77,120	18,850	60,469	5,552,369	(14,597)	(24,318)	(8,762)	(1,890)	(27,103)	(66,018)	0.3%	12.8%	11.4%	10.0%	44.8%	1.2%
- Corporate and Commercial	5,140,410	962,691	23,661	-	-	6,103,101	(1,895)	(379)	-	-		(2,274)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Non-bank financial institutions	3,399,956	-	-	-	-	3,399,956	(139)	-	-	-		(139)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances to banks at amortised cost:	384,000	-	-	-	-	384,000	(7)	-	-	-	-	(7)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other financial assets measured at amortised cost	5,876,074	71,056	-	-	-	5,947,130	(10)	(2)	-	-	-	(12)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan and other credit related commitments:	5,833,495	1,746,119	-	-	-	7,579,614	(185)	(153)	-	-	-	(338)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial guarantee and similar contracts	4,589,443	736,925	-	-	850	5,327,218	(21)	(40)	-	-	(42)	(103)	0.0%	0.0%	0.0%	0.0%	4.9%	0.0%
At 31 December 2018	30,524,801	3,707,268	100,781	18,850	61,319	34,293,388	(16,854)	(24,892)	(8,762)	(1,890)	(27,145)	(68,891)	0.1%	0.7%	8.7%	10.0%	44.3%	0.2%

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

Stage 2 days past due analysis for loans and advances to customers at 31 December 2018

	Gross carrying/ notional amount			Allowance/ provision for ECL			ECL coverage %		
	Stage 2	Of which: 1 to 29 DPD	Of which: 30 and > DPD	Stage 2	Of which: 1 to 29 DPD	Of which: 30 and > DPD	Stage 2	Of which: 1 to 29 DPD	Of which: 30 and > DPD
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000			
Loans and advances to customers at amortised cost:									
- Personal	190,477	77,120	18,850	(24,318)	(8,762)	(1,890)	12.8%	11.4%	10.0%
- Corporate and Commercial	962,691	23,661	-	(379)	-	-	0.0%	0.0%	0.0%

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:

Credit-impaired assets	**Gross exposure MUR'000**	**Impairment allowance MUR'000**	**Carrying amount MUR'000**	**Fair value of collateral held MUR'000**
Loans to customers				
Personal				
- Mortgages	50,147	(21,430)	28,717	32,228
- Credit cards	1,767	(874)	893	-
- Other personal lending	8,555	(4,799)	3,756	6,033
Total credit-impaired assets	60,469	(27,103)	33,366	38,261

As at 31 December 2018, the Bank did not have any repossessed collateral (2017: nil, 2016: nil).

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 loan-to-value (LTV) ratios for the Bank's mortgage credit-impaired portfolio:

Mortage portfolio - LTV distribution	Credit-impaired (Gross carrying amont)
	MUR'000
Lower than 50%	768
50% to 60%	5,426
60% to 70%	3,143
70% to 80%	10,664
80% to 90%	19,382
90% to 100%	10,764
Higher than 100%	-
Total	**50,147**

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)).

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Summary of credit risk (continued)

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount MUR'000	Allowance for ECL MUR'000	Gross carrying/ nominal amount MUR'000	Allowance for ECL MUR'000	Gross carrying/ nominal amount MUR'000	Allowance for ECL MUR'000	Gross carrying/ nominal amount MUR'000	Allowance for ECL MUR'000
At 1 January 2018	20,246,719	(15,980)	7,211,126	(39,727)	37,138	(14,349)	27,494,983	(70,056)
Transfers of financial instruments:	486,987	(39,198)	(500,035)	38,864	13,048	334	-	-
- transfers from stage 1 to stage 2	(1,976,353)	1,280	1,976,353	(1,280)	-	-	-	-
- transfers from stage 2 to stage 1	2,463,620	(40,482)	(2,463,620)	40,482	-	-	-	-
- transfers to stage 3	(280)	4	(26,171)	3,112	26,451	(3,116)	-	-
- transfers from stage 3	-	-	13,403	(3,450)	(13,403)	3,450	-	-
Net remeasurement of ECL arising from transfer of stage	-	9,263	-	(11,046)	-	(138)	-	(1,921)
Net new and further lending/repayments	19,216,471	(6,355)	-	-	-	-	19,216,471	(6,355)
Changes in risk parameters - credit quality	(718,685)	32,060	1,035,895	(23,251)	32,361	(30,648)	349,571	(21,839)
Asset derecognised (including final repayment)	(14,582,765)	3,366	(4,060,774)	10,270	(9,822)	6,250	(18,653,361)	19,886
Changes to model used form ECL calculation	-	-	-	-	-	-	-	-
Assets written off	-	-	-	-	(11,406)	11,406	(11,406)	11,406
At 31 December 2018	**24,648,727**	**(16,855)**	**3,686,212**	**(24,890)**	**61,319**	**(27,145)**	**28,396,258**	**(68,879)**
ECL release/(charge) for the year		(864)		14,837		(12,796)		1,177
Recoveries								6,116
Write off						(11,406)		(11,406)
Total change in ECL for the year								**(4,113)**

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure

Maximum exposure to credit risk

Our 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 we 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 2018 with loans and advances continuing to be the largest element.

	Note	**2018** MUR'000	2017 MUR'000	2016 MUR'000
Cash and cash equivalents	(A)	**4,187,801**	4,229,192	3,297,718
Trading assets	(B)	**570**	800	694
Loans and advances to banks	(C)	**383,993**	604,380	563,557
Loans and advances to customers	(C)	**14,986,995**	13,004,031	12,404,036
Investment securities	(D)	**6,572,715**	6,175,741	5705028
Other assets	(E)	**1,663,736**	1,924,534	2,060,873
Financial guarantees and other credit-related contingent liabilities	(F)	**5,377,218**	2,271,814	3,072,885
Loan and other credit-related commitments	(G)	**7,579,614**	7,430,326	7,683,868
		40,752,642	35,804,154	35,000,496

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 MUR4.2bn (2017: MUR4.2bn) which represents its maximum credi exposure on these assets, which excludes cash in hand and foreign currency notes and coins.

(B) Trading Assets

The Bank held trading assets of MUR0.6m at 31 December 2018 (2017: MUR0.8m). An analysis of the credit quality of the maximum credit exposure is as follows:

		2018 MUR'000	2017 MUR'000	2016 MUR'000
Government bonds and treasury bills	18	-	-	-
Derivatives assets:				
- Bank counterparties	18	**570**	117	157
- Non-bank counterparties	18	-	683	537
		570	800	694

The derivatives assets are with Group banks and local corporates.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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		
	2018 MUR'000	2017 MUR'000	2016 MUR'000	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
Neither past due nor impaired	**14,758,972**	12,752,957	12,044,716	**384,000**	1,513,897	563,557
Past due but not impaired	**235,985**	220,777	328,422	**-**	-	-
Individually impaired	**60,469**	59,020	62,588	**-**	-	-
Gross	**15,055,426**	13,032,754	12,435,726	**384,000**	1,513,897	563,557
Less: allowance for impairment	**(68,431)**	(28,723)	(31,690)	**(7)**	-	-
Net	**14,986,995**	13,004,031	12,404,036	**383,993**	1,513,897	563,557

The total impairment charge of MUR68.4m represents the IFRS 9 ECL.

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		
	2018 MUR'000	2017 MUR'000	2016 MUR'000	**2018 MUR'000**	2017 MUR'000	2016 MUR'000
CRR 1	**5,293,151**	3,439,312	3,492,916	**384,000**	1,513,897	563,557
CRR 2	**5,157,929**	4,481,092	1,307,304	**-**	-	-
CRR 3	**1,910,142**	2,011,322	4,480,118	**-**	-	-
CRR 4	**711,667**	1,690,350	1,064,313	**-**	-	-
CRR 5	**1,212,803**	895,618	1,017,608	**-**	-	-
CRR 6	**471,183**	34,254	431,909	**-**	-	-
CRR 7	**2,097**	182,929	130,000	**-**	-	-
CRR 8	**-**	-	120,548	**-**	-	-
Total	**14,758,972**	12,734,877	12,044,716	**384,000**	1,513,897	563,557

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure (continued)

Maximum exposure to credit risk (continued)

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		
	2018 MUR'000	2017 MUR'000	2016 MUR'000
Past due up to 30 days	**217,136**	158,185	286,661
Past due 30 - 60 days	**12,744**	56,408	28,492
Past due 60 - 90 days	**6,105**	24,264	13,269
Total	**235,985**	238,857	328,422

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.

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Gross amount	**60,469**	59,020	62,588
Individual allowance	**27,103**	16,694	17,480

(D) Investment securities

Investment securities amounting to MUR 6.6bn (2017: MUR 6.2bn) as at 31 December 2018 consist mainly of Treasury Bill / Notes held with the Bank of Mauritius.

(E) Other assets

Other assets consisted mainly of mandatory balance of MUR1.4bn (2017: MUR1.5bn) held with the Bank of Mauritius.

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 2018, the Bank held MUR5.4bn (2017: MUR2.3bn) financial guarantees mainly with corporate customers.

(G) Loan commitments

As at 31 December 2018, the Bank held MUR7.6bn (2017: MUR7.4bn) as undrawn credit facilities with both retail and corporate customers which were mainly below CRR 5.

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(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 MUR6.0m (2017: MUR4.2m) have been excluded from other assets.

2018 (MUR '000)	Retail	Corporate	Sovereign	Bank	Other	Total
Cash & cash equivalents	-	-	1,883,637	2,304,164	-	4,187,801
Loans & advances to customers	5,413,763	9,231,460	341,773	-	-	14,986,995
Loans & advances to banks	-	-	-	383,993	-	383,993
Financial assets held for trading	-	-	-	570	-	570
Investment securities	-	-	6,572,059	-	-	6,572,059
Other assets	-	249,464	1,416,977	4,960	87,915	1,759,316
As at 31 December 2018	**5,413,763**	**9,480,924**	**10,214,446**	**2,693,687**	**87,915**	**27,890,734**
Undrawn Commitments	1,003,131	6,562,483	-	-	14,000	7,579,614
Financial guarantees and other credit related contingencies	1,270	5,317,500	-	58,448	-	5,377,218
	1,004,401	**11,879,983**	**-**	**58,448**	**14,000**	**12,956,832**

2017 (MUR '000)	Retail	Corporate	Sovereign	Bank	Other	Total
Cash & cash equivalents	-	-	2,459,578	1,769,614	-	4,229,192
Loans & advances to customers	5,268,816	7,693,677	41,538	-	-	13,004,031
Loans & advances to banks	-	-	-	604,380	-	604,380
Financial assets held for trading	-	683	-	117	-	800
Investment securities	-	-	9,264	6,166,477	-	6,175,741
Other assets	55,110	287,165	1,502,195	7,253	68,609	1,920,332
As at 31 December 2017	5,323,926	7,981,525	4,012,575	8,547,841	68,609	25,934,476
Undrawn Commitments	962,640	6,467,686	-	-	-	7,430,326
Financial guarantees and other credit related contingencies	1,270	247,004	-	58,448	-	306,722
	963,910	6,714,690	-	58,448	-	7,737,048

2016 (MUR '000)	Retail	Corporate	Sovereign	Bank	Other	Total
Cash & cash equivalents	-	-	1,070,519	2,227,199	-	3,297,718
Loans & advances to customers	4,987,133	7,366,134	50,769	-	-	12,404,036
Loans & advances to banks	-	-	-	563,557	-	563,557
Financial assets held for trading	-	537	-	157	-	694
Investment securities	-	-	9,264	5,695,764	-	5,705,028
Other assets	45,460	455,838	1,474,882	8,609	68,947	2,053,736
As at 31 December 2016	5,032,593	7,822,509	2,605,434	8,495,286	68,947	24,024,769
Undrawn Commitments	972,853	6,710,727	-	-	288	7,683,868
Financial guarantees and other credit related contingencies	1,550	278,996	-	3,307	85	283,938
	974,403	6,989,723	-	3,307	373	7,967,806

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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.

2018 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	746,024	430,091	871,145	54,304	2,086,237	4,187,801
Loans & advances to customers	2,709	10,775	2,932,755	37,737	12,003,019	14,986,995
Loans & advances to banks	-	-	-	-	383,993	383,993
Financial assets held for trading	111	224	235	-	-	570
Investment securities	-	-	-	-	6,572,059	6,572,059
Other assets	-	-	447	4	1,758,865	1,759,316
As at 31 December 2018	**748,844**	**441,090**	**3,804,582**	**92,045**	**22,804,173**	**27,890,734**
Undrawn Commitments	394	437	1,098,382	190	6,480,211	7,579,614
Financial guarantees and other credit related contingencies	-	154,571	3,693,002	6,788	1,522,857	5,377,218
	394	**155,007**	**4,791,384**	**6,978**	**8,003,069**	**12,956,832**

2017 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	636,210	301,508	797,562	30,198	2,463,714	4,229,192
Loans & advances to customers	2,856	12,051	17,533	20,359	12,951,232	13,004,031
Loans & advances to banks	-	-	77,380	-	527,000	604,380
Financial assets held for trading	-	118	-	-	682	800
Investment securities	-	-	-	-	6,175,741	6,175,741
Other assets	-	-	1,001	-	1,919,331	1,920,332
As at 31 December 2017	639,066	313,677	893,476	50,557	24,037,700	25,934,476
Undrawn Commitments	467	373	60	150	7,429,276	7,430,326
Financial guarantees and other credit related contingencies	-	18,197	2,745	33,613	252,167	306,722
	467	18,570	2,805	33,763	7,681,443	7,737,048

2016 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	874,909	455,121	810,965	86,204	1,070,519	3,297,718
Loans & advances to customers	-	13,918	33,648	11,980	12,344,490	12,404,036
Loans & advances to banks	-	-	77,531	-	486,026	563,557
Financial assets held for trading	-	157	-	-	537	694
Investment securities	-	-	-	-	5,705,028	5,705,028
Other assets	-	6	920	31	2,052,779	2,053,736
As at 31 December 2016	874,909	469,202	923,064	98,215	21,659,379	24,024,769
Undrawn Commitments	56	585	105	270	7,682,852	7,683,868
Financial Guarantees	-	750	2,745	120	280,323	283,938
	56	1,335	2,850	390	7,963,175	7,967,806

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. The Bank has implemented the Basel III Liquidity Risk Management framework with effect from November 2017.

Balance Sheet Management (BSM) 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. BSM accordingly maintains a portfolio of short-term liquid assets, largely made up of Government securities, loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole. The liquidity requirements of the Bank are met through short term loans from the parent and other group entities to cover any short term fluctuations and longer term funding to address any structural liquidity requirements.

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 banks as its primary sources of funding. Deposits from customers and banks generally have shorter maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through pricing and constant monitoring of trends.

(ii) Exposure to liquidity risk

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 2018, the Bank maintained an LCR ratio of 508% against a set limit of 100% for group reporting and 453% against a set limit of 70% for BOM reporting.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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.

In MUR millions

Year 2018	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Non -derivative liabilities						
Deposits from banks	(579)	-	-	-	-	(579)
Deposits from customers	(17,366)	(263)	(767)	(698)	-	(19,094)
Other borrowed funds	(778)	-	(1,066)	(3,675)	-	(5,519)
Other liabilities	(427)	(147)	(120)	(25)	(127)	(846)
	(19,150)	(410)	(1,953)	(4,398)	(127)	(26,038)
Derivative liabilities						
Trading:						
Outflow	(301)	-	(17)	-	-	(318)
Inflow	299	-	17	-	-	316
	(2)	-	-	-	-	(2)
Unrecognised loan commitments	(3,611)	(2,154)	(1,654)	(4)	(157)	(7,580)
Financial guarantees	(24)	(135)	(3,362)	(1,284)	(572)	(5,377)
Non-derivative assets						
Cash and cash equivalents	4,485	-	-	-	-	4,485
Trading assets	1	-	-	-	-	1
Loans and advances to banks	59	149	171	5	-	384
Loans and advances to customers	2,770	875	955	5,775	4,612	14,987
Investment securities	537	348	3,058	2,620	9	6,572
Other assets	1,629	149	120	-	-	1,898
	9,481	1,521	4,304	8,400	4,621	28,327
Derivative assets						
Trading:						
Outflow	(416)	-	-	-	-	(416)
Inflow	417	-	-	-	-	417
	1	-	-	-	-	1
Net liquidity gap	(13,305)	(1,178)	(2,665)	2,714	3,765	(10,669)

Other liabilities and other assets include only financial liabilities and financial assets respectively.

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

35. Financial Risk Management (continued)

(c) Liquidity risk (continued)

(iii) Maturity analysis for financial assets and financial liabilities (continued)

In MUR millions	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Year 2017						
Non -derivative liabilities						
Deposits from banks	(269)	-	-	-	-	(269)
Deposits from customers	(18,331)	(452)	(599)	(382)	-	(19,764)
Other borrowed funds	(2,887)	-	-	-	-	(2,887)
Other liabilities	(80)	(109)	(443)	(18)	(87)	(737)
	(21,567)	(561)	(1042)	(400)	(87)	(23,657)
Derivative liabilities						
Trading:						
Outflow	(2,547)	-	-	-	-	(2,547)
Inflow	2,537	-	-	-	-	2,537
	(9)	-	-	-	-	(9)
Unrecognised loan commitments	(1,428)	(3,471)	(2,423)	(4)	(104)	(7,430)
Non-derivative assets						
Cash and cash equivalents	4,393	-	-	-	-	4,393
Trading assets	-	-	1	-	-	1
Loans and advances to banks	15	78	449	63	-	605
Loans and advances to customers	3,745	1,069	470	3,278	4,439	13,001
Investment securities	347	704	2,693	2,427	9	6,180
	8,500	1,852	3,634	5,746	4,448	24,180
Derivative assets						
Trading:						
Outflow	(99)	(17)	(11)	-	-	(127)
Inflow	99	17	11	-	-	127
	-	-	-	-	-	-
Net liquidity gap	(14,504)	(2,180)	169	5,342	4,257	(6,916)

35. Financial Risk Management (continued)

(c) Liquidity risk (continued)

(iii) Maturity analysis for financial assets and financial liabilities (continued)

In MUR millions	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Year 2016						
Non -derivative liabilities						
Deposits from banks	(189)	-	-	-	-	(189)
Deposits from customers	(17,450)	(722)	(897)	(556)	(0)	(19,625)
Other borrowed funds	(1,264)	-	-	-	-	(1,264)
Other liabilities	(20)	(127)	(628)	(76)	(77)	(928)
	(18,923)	(849)	(1,525)	(632)	(77)	(22,006)
Derivative liabilities						
Trading:						
Outflow	(1,828)	(9)	(14)	-	-	(1,851)
Inflow	1,822	9	13	-	-	1,844
	(6)	-	(1)	-	-	(7)
Unrecognised loan commitments	(1,293)	(2,570)	(3,737)	(3)	(81)	(7,684)
Non-derivative assets						
Cash and cash equivalents	3,510	-	-	-	-	3,510
Trading assets	-	-	-	-	-	-
Loans and advances to banks	2	40	249	272	-	563
Loans and advances to customers	2,822	793	1,087	3,449	4,285	12,436
Investment securities	400	716	2,170	2,410	9	5,705
	6,734	1,549	3,506	6,131	4,294	22,214
Derivative assets						
Trading:						
Outflow	(106)	-	-	-	-	(106)
Inflow	106	-	-	-	-	106
	-	-	-	-	-	-
Net liquidity gap	(13,488)	(1,870)	(1,757)	5,496	4,136	(7,483)

The previous tables show the undiscounted cash flows on the Bank's financial liabilities and unrecognised loan commitments on the basis of their earliest possible contractual maturity. The Bank's expected cash flows on these instruments vary significantly from this analysis. For example, a portion of demand deposits from customers are expected to maintain a stable balance; and unrecognised loan commitments are not all expected to be drawn down immediately.

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 basis.

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:

- A 10-day holding year assumes that it is possible to hedge or dispose of positions within that year. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged year.
- A 99 percent confidence level does not reflect losses that may occur beyond this level. Even within the model used there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature.
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

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.

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 2018 is as follows:

	At 31 December	**Average**	**Maximum**	**Minimum**
In MUR Million				
2018				
Interest rate risk (PVBP)	**0.00007**	**0.00019**	**0.00056**	**0.00001**
2017				
Interest rate risk (PVBP)	0.7718	0.0745	0.2551	0.0290
2016				
Interest rate risk (PVBP)	0.00439	0.00477	0.01506	0.00173

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (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:

Year 2018	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
In MUR thousand								
Cash and cash equivalents	17	4,485,191	4,428,634	-	-	-	-	56,557
Trading assets	18	570	-	-	-	-	-	570
Loans and advances to banks	19	383,993	208,160	163,333	7,500	5,000	-	-
Loans and advances to customers	20	14,986,995	14,516,408	361,359	255	22,865	86,108	-
Investment securities	21	6,572,059	884,531	1,363,755	1,694,943	2,619,566	-	9,264
Other assets		1,898,331	-	-	-	-	-	1,898,331
		28,327,139	20,037,733	1,888,447	1,702,698	2,647,431	86,108	1,964,722
Deposits from banks	25	578,740	578,740	-	-	-	-	-
Deposits from customers	26	18,855,589	13,291,640	302,965	1,059,409	645,649	-	3,555,926
Other borrowed funds	27	5,519,060	778,493	1,065,935	-	3,674,632	-	-
Other liabilities		845,818	-	-	-	-	-	845,818
		25,799,207	14,648,873	1,368,900	1,059,409	4,320,281	-	4,401,744
Interest sensitivity gap		2,527,932	5,388,860	519,547	643,289	(1,672,850)	86,108	(2,437,022)

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

35. Financial Risk Management (continued)

(d) Market risks (continued)

(iii) Exposure to market risks – Non-trading portfolios (continued)

Year 2017	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
In MUR thousand								
Cash and cash equivalents	17	4,392,528	4,350,912					41,616
Trading assets	18	800	-	-	-	-	-	800
Loans and advances to banks	19	604,380	92,500	63,333	386,047	62,500	-	-
Loans and advances to customers	20	13,004,031	12,465,686	401,296	494	31,183	105,372	-
Investment securities	21	6,175,741	1,049,183	1,551,745	1,142,341	2,423,208	-	9,264
Other assets		1,920,332	-	-	-	-	-	1,920,332
		26,097,812	17,958,281	2,016,374	1,528,882	2,516,891	105,372	1,972,012
Deposits from banks	25	268,725	268,725	-	-	-	-	-
Deposits from customers	26	19,718,435	15,473,231	159,625	460,028	409,415	-	3,216,136
Other borrowed funds	27	2,887,037	2,524,279	-	362,758	-	-	-
Other liabilities		736,804	-	-	-	-	-	736,804
		23,611,001	18,266,235	159,625	822,786	409,415	-	3,952,940
Interest sensitivity gap		2,486,811	(307,954)	1,856,749	706,096	2,107,476	105,372	(1,980,928)

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

35. Financial Risk Management (continued)

(d) Market risks (continued)

(iii) Exposure to market risks – Non-trading portfolios (continued)

Year 2016

In MUR thousand	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
Cash and cash equivalents	17	3,509,555	1,980,374					1,529,181
Trading assets	18	694	-	-	-	-	-	694
Loans and advances to banks	19	563,557	41,667	68,568	181,322	272,000	-	-
Loans and advances to customers	20	12,404,036	11,503,100	638,736	109,821	27,748	124,631	-
Investment securities	21	5,705,028	1,115,905	1,008,000	1,161,995	2,409,864	-	9,264
Other assets		2,053,736	-	-	-	-	-	2,053,736
		24,236,606	14,641,046	1,715,304	1,453,138	2,709,612	124,631	3,592,875
Deposits from banks	25	188,531	188,531	-	-	-	-	-
Deposits from customers	26	19,542,948	15,059,631	331,305	542,673	517,721	-	3,091,618
Other borrowed funds	27	1,264,409	1,264,409	-	-	-	-	-
Other liabilities		927,438	-	-	-	-	-	927,438
		21,923,326	16,512,571	331,305	542,673	517,721	-	4,019,056
Interest sensitivity gap		2,313,280	(1,871,525)	1,383,999	910,465	2,191,891	124,631	(426,181)

Notes to and forming part of the financial statements
for the year ended 31 December 2018 (continued)

35. Financial Risk Management (continued)

(d) Market risks (continued)

(iii) Exposure to market risks – Non-trading portfolios (continued)

PVBP is used by our treasury trading system to monitor interest rate risk and the outstanding position as at 31 December 2018 in the banking book by time buckets stood as follows:

2018											
USD PVBP	**1M**	**2M**	**3M**	**6M**	**9M**	**1Y**	**2Y**	**3Y**	**4Y**	**5Y**	**7Y**
Currency Limit	**25,000**	**25,000**	**30,000**	**30,000**	**35,000**	**35,000**	**35,000**	**30,000**	**30,000**	**30,000**	**20,000**
Total Position	**513**	**806**	**1,205**	**911**	**1,306**	**876**	**1,793**	**2,410**	**5,362**	**1,380**	**-**
2017											
USD PVBP	1M	2M	3M	6M	9M	1Y	2Y	3Y	4Y	5Y	7Y
Currency Limit	25,000	25,000	30,000	30,000	35,000	35,000	35,000	30,000	30,000	30,000	20,000
Total Position	147	988	561	686	1,192	1,180	4,580	1,593	3,448	1,293	-
2016											
USD PVBP	1M	2M	3M	6M	9M	1Y	2Y	3Y	4Y	5Y	7Y
Currency Limit	18,000	18,000	18,000	10,000	9,000	9,000	10,000	10,000	10,000	7,000	7,000
Total Position	122	887	658	954	774	2,662	5,979	2,542	346	763	-

35. Financial Risk Management (continued)

(d) Market risks (continued)

(v) 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, 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 net open position were as follows:

	2018 MUR Million	2017 MUR Million	2016 MUR Million
Pound Sterling	**-**	-	(1)
Euro	**1**	(1)	-
Japanese yen	**-**	-	(1)
USD	**50**	39	10
Other foreign currencies	**-**	(4)	8
	51	34	16

(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 1 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
  (i) Common Equity Tier 1 (CET1)
  (ii) Additional Tier 1 Capital

(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.

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 share capital, statutory reserve 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 2018.

The Bank's regulatory capital position at 31 December 2018 was as follows:

MUR'000	Reference	**2018 Basel III**	2017 Basel III	2016 Basel III
CET1 Capital				
Assigned Capital	A	**300,000**	239,265	239,265
Statutory Reserve	B	**279,380**	243,185	243,185
Retained Earnings	C	**1,511,499**	1,516,703	1,368,257
CET1 before regulatory adjustments		**2,090,879**	1,999,153	1,850,707
Other intangible assets		**-**	-	-
Deferred tax assets	D	**(45,168)**	(89,067)	(53,014)
Total regulatory adjustments to CET1		**(45,168)**	(89,067)	(53,014)
CET1 Capital (T1)		**2,045,711**	1,910,086	1,797,693
Tier 2 Capital				
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	E	**91,533**	87,900	81,880
General Banking Reserve	F	**113,666**	144,584	138,299
Portfolio Provisions	F	**42,401**	12,029	14,211
Tier 2 Capital (T2)		**247,600**	244,513	234,390
Total Capital Base (T1 + T2)		**2,293,311**	2,154,599	2,032,083

	2018 MUR'000	2017 MUR'000	2016 MUR'000
Total on-balance sheet risk-weighted credit exposures	**11,830,900**	12,839,160	11,597,142
Total non-market-related off-balance sheet risk-weighted credit exposures	**653,429**	477,170	599,533
Total market-related off-balance sheet risk-weighted credit exposures	**1,004**	3,233	4,153
Risk weighted assets for operational risk	**1,818,490**	1,771,000	1,672,408
Aggregate net open foreign exchange position	**52,728**	39,022	21,460
Total risk weighted assets	**14,356,551**	15,129,585	13,894,696
Risk asset ratio (%)	16.0%	14.2%	14.6%

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 2018 as described in the table below:

(MUR'000)	As Published	Capital Base under Basel III	Reference
ASSETS			
Cash and cash equivalents	4,485,191		
Trading assets	570		
Loans and advances to banks	383,993		
Loans and advances to customers	14,986,995		
of which,			
- Gross loans			
- Stage 3 impairment			
- Stage 1&2 impairment		42,401	F
Investment securities	6,572,059		
Property, plant and equipment	312,332		
Deferred tax assets	45,168	45,168	D
Other assets	1,904,357		
Total assets	28,690,665		
LIABILITIES			
Deposits from banks	578,740		
Deposits from customers	18,855,589		
Trading liabilities	2,130		
Other borrowed funds	5,519,060		
Current tax liabilities	48,184		
Other liabilities	1,249,101		
Total liabilities	26,252,804		
Shareholder's funds			
Assigned capital	300,000	300,000	A
Retained earnings	1,511,499	1,511,499	C
Other reserves	626,362		
of which,			
- Statutory Reserve	279,380	279,380	B
- General Banking Reserve	142,299	113,666	F
- Fixed Assets Revaluation Reserves	203,407	91,457	E
Total shareholder's funds	2,437,861		
Total liabilities and shareholder's funds	28,690,665		

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

As from 01 January 2018, 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) 12.0% 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 below table sets out the phase-in arrangements of capital requirements for banks operating in Mauritius.

	2014	2015	2016	2017	2018	2019	2020
	1 July	(All dates are as of 1 January)					
Minimum CET 1 CAR	5.50%	6.00%	6.50%	6.500%	6.50%	6.50%	6.50%
Capital Conservation Buffer				0.625%	1.25%	1.875%	2.50%
Minimum CET 1 CAR plus Capital Conservation Buffer	5.50%	6.00%	6.50%	7.125%	7.75%	8.375%	9.00%
Phase-in of deductions from CET 1*		50.00%	50.00%	60.00%	80.00%	100.00%	100.00%
Minimum Tier 1 CAR	6.50%	7.50%	8.00%	8.00%	8.00%	8.00%	8.00%
Minimum Total CAR	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%	10.00%
Minimum Total CAR plus Capital Conservation Buffer	10.00%	10.00%	10.00%	10.625%	11.25%	11.875%	12.50%
Capital instruments that no longer qualify as AT 1 capital or Tier 2 capital	Phased out over 10 year horizon beginning 1 July 2014						

The bank is required to maintain additional Common Equity Tier 1 Capital (CET1) of 0.75 per cent as additional loss absorbency under BOM 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.

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital position at 31 December 2018 was as follows:

	2018	2017	2016
	%	%	%
CET 1 capital adequacy ratio*	**14.2**	12.6	12.9
Regulatory Limit - Minimum CET 1 CAR	***6.5***	*6.5*	*6.50*
Tier 1 capital adequacy ratio	**14.2**	12.6	12.9
Regulatory Limit - Minimum Tier 1 CAR	***8.0***	*8.0*	*8*
Total capital adequacy ratio*	**16.0**	14.2	14.6
Regulatory Limit - Minimum Total CAR	***12.0***	*11.1*	*10.0*

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 was at MUR300m which is above the minimum capital requirement of MUR200 million for banks as per Section 20 of the 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.

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 2018.

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.