

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

**Annual Report
for the year ended 31 December 2019**

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Annual Report

for the year ended 31 December 2019

Contents

	Page
Management discussion and analysis	1 - 30
Statement on corporate governance practices	31-53
Statement of compliance	54
Statement of management's responsibility for financial reporting	55
Independent auditor's report	56-60
Statement of profit or loss and other comprehensive income	61
Statement of financial position	62-63
Statement of changes in equity	64
Statement of cash flows	65
Notes to the financial statements	66 – 183

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 2019.

The financial statements on pages 61 to 183 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 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 30 March 2020 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 characterised by headwinds in the global economy. Global growth forecasts for 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, which could be worsened by the impact from the Coronavirus. Excess liquidity has continued in the Banking sector resulting in increased competition in lending to domestic corporates and retail customers and interest margins remain subdued. Headline inflation closed at 0.9% as at 31 December 2019. 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 2020. The expected introduction of the Depositors’ Insurance Scheme in 2020 will also negatively impact profitability. In light of all these developments, the Bank expects a challenging operating environment in the foreseeable future and expects to see reduced profitability in line with its the Annual Operating Plan.

Performance against objectives

Objectives for 2019	Performance for 2019	Objectives for 2020
1. Return on tangible equity (“ROTE”) Deliver ongoing ROTE above the HSBC Group ROTE target of 11%.	Following the decrease in profit for the year, ROTE decreased from 10.0% in 2018 to 7.4% in 2019.	Deliver ROTE in line with the Annual operating plan.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives (continued)

Objectives for 2019	Performance for 2019	Objectives for 2020
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 2019.	Due to a decrease in interest rates in 2019, revenue has decreased by 9.5%.	Meet revenue target in line with the Annual Operating Plan.
3. Expense growth To maintain positive Jaws in line with HSBC Group target.	The cost efficiency ratio of the Bank was 75.6% (2018:75.3%) and a negative Jaws of 0.4%.	To ensure that Jaws is within the Target set in the Annual Operating Plan.
4. Portfolio quality To maintain asset quality and minimise impairment charges through sound underwriting policies and robust portfolio monitoring processes.	Impairment release of MUR9.7m compared to charges of MUR4.3m in 2018.	As per 2019 objective.
5. Capital and Liquidity risk management <ul style="list-style-type: none"> To maintain capital above the regulatory requirement as per Basel III of 12.625%. To meet the Bank of Mauritius' liquidity risk management guideline. 	<ul style="list-style-type: none"> Total capital adequacy ratio was 18.6% and the Tier 1 ratio was 16.7% under Basel III against minimum requirements of 12.625% and 8% respectively. Liquidity Coverage Ratio ("LCR") stood at 460% which is well above the regulatory limit of 80%. 	To maintain capital above the Bank of Mauritius ("BoM") minimum regulatory requirement of 13.5%. As per 2019 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 1.0% was achieved for 2019 which is within the target range of 1.0% - 1.2%.	Achieve a return of assets in line with the Annual operating Plan.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives (continued)

- During the financial year 2019, the Bank recorded a profit before tax of MUR295.1m (2018: MUR315.3m), representing a decrease of 6.4% over 2018 being mainly attributable to lower operating income.
- A Return on Tangible Equity of 7.4% (2018: 10.0%) was achieved.
- Net interest income, which accounts for 53.1% (2018: 47.8%) of total operating income, increased by MUR3.4m to MUR620.5m, driven by higher loans and advances to customers which increased by 5.9%.
- Net trading income, which mainly consists of foreign exchange income, decreased by 14.1% to MUR123.3m (2018: MUR143.6m) due to lower trade volumes and compressed margins compared to prior year.
- Other operating income decreased to MUR267.3m (2018: MUR368.0m) mainly on account of a decrease in intercompany management fees received during the year.
- Net Expected Credit Losses (“ECLs”) on financial assets release of MUR9.7m compared to ECLs charge of MUR4.3m for the prior year.
- Operating expenses, which consist mainly of staff costs and administrative expenses, decreased by 9.1% to MUR883.3m (2018 – MUR972.0m), due to a decrease group allocated charges.
- Cash and cash equivalents decreased by 10.9% to MUR4.0bn (2018: MUR4.5bn) predominantly due to a decrease in balances at central banks to MUR1.1bn (2018: MUR1.9bn), partially offset by an increase in nostro balances to MUR1.8m (2018: MUR1.7m) and increase in placements with maturity of less than 3 months of MUR0.8bn (2018: MUR0.7bn).
- Loans and advances to banks decreased by 13.4% to MUR 0.3bn (2018: MUR0.4bn) attributable to a decrease in placements with other banks.
- Loans and advances to customers increased by 5.9% to MUR15.9bn (2018: MUR15.0bn) following new loan disbursements to some major corporate customers.
- Investment securities increased by 18.1% to MUR7.8bn (2018: MUR6.6bn). The increase is due to commercial surplus in local currency being invested in local treasury bills/notes.
- Deposits from banks increased to MUR0.7bn (2018: MUR0.6bn) due to an increase in balances with correspondent banks.
- Deposit from customers increased by 3.2% to MUR19.5bn (2018: MUR18.9bn) mainly due to an increase in corporate customer deposits.
- Total capital adequacy ratio remains strong at 18.6% (2018: 16.0%) under Basel III against a minimum requirement of 12.625%.
- Profit remittance of MUR103m (2018: Nil) has been made to the parent company during the year.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Financial Review (continued)

Review by lines of business

The HSBC Group divides its activities into five segments: Retail Banking and Wealth Management (“RBWM”); Commercial Banking (“CMB”); Global Banking and Markets (“GB&M”); Global Private Banking (“GPB”); and Corporate 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, CMB, GB&M and CC.

Retail Banking and Wealth Management (“RBWM”)

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

	2019 MUR'm	2018 MUR'm	2017 MUR'm
Total operating income	421.6	421.7	380.5
Total expenses	(398.4)	(362.2)	(340.2)
Net impairment release/(loss) on financial assets	10.2	(8.4)	(5.7)
Profit/(Loss) before tax	33.4	51.1	34.6

Total operating income remained stable compared to last year, while total expenses increased by 10.1%. Overall, RBWM recorded a 34.7% fall in profit before tax to MUR33.4m from MUR51.1m.

Commercial Banking (“CMB”)

CMB 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.

	2019 MUR'm	2018 MUR'm	2017 MUR'm
Total operating income	359.7	311.7	291.7
Total expenses	(167.3)	(164.9)	(149.8)
Net impairment (loss)/release on financial assets	(0.5)	4.8	0.6
Profit before tax	191.9	151.6	142.5

CMB recorded a 26.6% growth in profit before tax compared to 2018 mainly due to an increase in net interest income in line with the increase in loans and advances to customers.

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 (“GB&M”)

	2019	2018	2017
	MUR'm	MUR'm	MUR'm
Total operating income	108.2	120.0	245.2
Total expenses	(71.5)	(75.2)	(104.8)
Net impairment release on financial assets	-	0.1	0.3
Profit before tax	36.7	44.9	140.7

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 18.3% which is explained by the change in the MUR pricing benchmark, which negatively impacted foreign exchange (“FX”) revenue as corporate deals started to be priced within interbank rates.

Corporate Centre (“CC”)

Corporate centre comprises Balance Sheet Management (“BSM”), treasury activities as well as support functions.

	2019	2018	2017
	MUR'm	MUR'm	MUR'm
Total operating income	279.3	438.2	299.2
Total expenses	(246.1)	(369.4)	(310.0)
Net impairment loss on financial assets	-	(1.2)	-
Profit/(loss) before tax	33.2	67.6	(10.8)

Corporate centre profits decreased by 50.9% due to lower interest rates and reduced level of cash placements.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Financial Review (continued)

Key Ratios

	2019 %	2018 %	2017 %
Net interest margin	2.1	2.3	2.3
Return on average assets	1.0	1.1	1.2
Cost / Income ratio	75.6	75.3	74.4

	2019 MUR'm	2018 MUR'm	2017 MUR'm
Assets			
Cash and cash equivalents	3,997.6	4,485.2	4,392.5
Loan and advances to banks	332.4	384.0	604.4
Loan and advances to customers	15,865.3	14,987.0	13,004.0
Investment securities	7,762.9	6,572.1	6,175.7
Total	27,958.2	26,428.3	24,176.6
Liabilities			
Deposits from customers	19,467.4	18,855.6	19,718.4
Deposits from banks	673.0	578.7	268.7
Other borrowed funds	6,593.7	5,519.1	2,887.0
Total	26,734.1	24,953.4	22,874.1

Net Interest Income analysis

	2019 MUR'm	2018 MUR'm	2017 MUR'm
Interest income			
Cash and cash equivalents	46.2	32.7	27.9
Loans and advances to banks	5.7	3.6	4.2
Loans and advances to customers	698.5	619.0	557.4
Investment securities	249.5	222.7	199.1
Other	3.5	0.4	0.8
Total	1,003.4	878.4	789.4
Interest expense			
Deposits from customers	(215.6)	(180.1)	(202.4)
Deposits from banks	(2.4)	(2.3)	(1.3)
Other borrowed funds	(160.4)	(78.8)	(8.2)
Other	(4.4)	-	-
Total	(382.8)	(261.2)	(211.9)
Net interest income	620.6	617.2	577.5

The increase of 14.2% in interest income for the Bank is in line with the increase in the average balance of term lending and overdrafts compared to prior year. Interest expense increased by 46.6% to MUR382.8m 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 0.6% compared to the prior year.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Financial Review (continued)

Non-interest income

	2019 MUR'm	2018 MUR'm	2017 MUR'm
Net fee and commission income	157.6	162.9	145.1
Net trading income	123.3	143.6	173.1
Other operating income	267.3	368.0	320.9
Total	548.2	674.5	639.1

Non-interest income decreased by 18.7% to MUR548.2m (2018: MUR674.5m) mainly on account of lower other operating income, which consists mainly of intercompany management fees received.

Net impairment release/(loss) on financial assets

	2019 MUR'm	2018 MUR'm	2017 MUR'm
Net impairment release/(loss) on financial assets	9.7	(4.3)	(4.9)

Net impairment release of MUR9.7m compared to a charge of MUR4.3m in 2018 represents the release 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

	2019 MUR'm	2018 MUR'm	2017 MUR'm
Personnel expenses	(417.6)	(413.5)	(363.0)
Operating lease expenses	(13.1)	(38.6)	(45.4)
Depreciation	(37.9)	(13.2)	(11.4)
Other expenses	(414.7)	(506.6)	(484.9)
Total	(883.3)	(971.9)	(904.7)

Non-interest expense decreased by 9.1% to MUR883.3m (2018: MUR971.9m) mainly due to lower intercompany management fees paid.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Credit exposure and quality

General

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

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

In accordance with the Bank of Mauritius *Guideline on Credit Concentration Risk*, the Bank is subject to an aggregate large credit exposure limit 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 Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Credit exposure and quality (continued)

Gross customer advances by industry sector

	2019 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	432,620	2.7	432,620	3.6	-	-
Manufacturing	2,964,980	18.6	2,856,148	23.6	108,832	2.9
Tourism	303,439	1.9	303,439	2.5	-	-
Construction	4,981,812	31.3	4,390,214	36.2	591,598	15.6
Financial and business services	3,415,739	21.6	323,864	2.7	3,091,875	81.3
Traders	690,466	4.3	690,466	5.7	-	-
Personal	1,144,976	7.2	1,139,253	9.4	5,723	0.2
Global business license holders	1,319,136	8.3	1,319,136	10.8	-	-
Public non-financial corporations	532,327	3.3	532,327	4.4	-	-
Others (including infrastructure)	133,595	0.8	133,595	1.1	-	-
Total gross customer advances	15,919,090	100.0	12,121,062	100.0	3,798,028	100.0

	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	6.0	-	-
Manufacturing	3,545,053	23.5	3,545,053	29.4	-	-
Tourism	135,611	0.9	135,611	1.1	-	-
Construction	4,403,195	29.2	4,338,255	36.0	64,940	2.2
Financial and business services	3,742,035	24.9	819,310	6.8	2,922,725	97.7
Traders	505,556	3.4	505,556	4.2	-	-
Personal	1,178,503	7.8	1,174,043	9.8	4,460	0.1
Global business license holders	475,352	3.2	475,352	3.9	-	-
Public non-financial corporations	341,773	2.3	341,773	2.8	-	-
Others (including infrastructure)	1,392	-	1,392	-	-	-
Total gross customer advances	15,055,426	100.0	12,063,301	100.0	2,992,125	100.0

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Credit exposure and quality (continued)

Customer advances by industry sector (continued)

	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
Financial & business services	510,063	3.9	510,063	3.9	-	-
Traders	638,970	4.9	638,970	4.9	-	-
Personal	1,145,230	8.8	1,141,509	8.8	3,721	7.1
Global business license holders	296,956	2.3	296,956	2.3	-	-
Public non-financial corporations	41,538	0.3	41,538	0.3	-	-
Others (including infrastructure)	1,325	-	1,325	-	-	-
Total gross customer advances	13,032,754	100.0	12,980,098	100.0	52,656	100.0

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Credit exposure and quality (continued)

Off-balance sheet foreign exchange trading contracts by industry sector

	31-Dec-19		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Banks - HSBC Group	956,183	73.1	-	-	956,183	99.3
Banks - Non HSBC Group	7,076	0.5	-	-	7,076	0.7
Manufacturing	345,006	26.4	345,006	100.0	-	-
Total	1,308,265	100.0	345,006	100.0	963,259	100.0

	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
Manufacturing	89,283	12.1	89,283	100.0	-	-
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
Manufacturing	78,818	3.0	78,818	30.9	-	-
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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Credit Quality

A breakdown of the loan portfolio for the 2019, 2018 and 2017 year ends is provided below:

MURm	Agriculture & fishing	Manufacturing	Tourism	Construction	Financial & business services	Traders	Personal	Global business license holders	Public non- financial corporations	Other (including infrastructure)	TOTAL
2019											
Total advances	433	2,965	303	4,982	3,416	690	1,145	1,319	532	134	15,919
Non performing advances	-	-	-	56	-	-	13	-	-	-	69
As a % of total advances	-	-	-	1.12	-	-	1.14	-	-	-	0.43
Stage 3 provisions	-	-	-	11	-	-	6	-	-	-	17
Stage 1 & 2 provisions	-	1	-	17	1	-	18	-	-	-	37
As a % of Total Advances	-	0.03	-	0.34	0.03	-	1.57	-	-	-	0.23
Stage 3 as a % of NPA's	-	-	-	19.64	-	-	46.15	-	-	-	24.64
2018											
Total advances	727	3,545	136	4,403	3,742	506	1,178	475	342	1	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	510	639	1,145	297	42	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

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 MUR3.8m as at 31 December 2019 (2018: MUR3.5m).

Credit Impairment

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

	Total MUR'000	Personal MUR'000	Mortgages MUR'000
Opening Balance - 01 January 2019	27,103	6,346	20,757
IFRS 9 – ECLs	(10,231)	(386)	(9,845)
Closing balance - 31 December 2019	16,872	5,960	10,912

A general banking reserve of MUR162.2m (2018: MUR142.3m) 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 MUR36.9m at 31 December 2019 on loans and advances to customers (2018: MUR41.3m).

Credit-impaired (Stage 3)

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

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

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

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Risk management policies and controls

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

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk		
Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	<ul style="list-style-type: none"> ▪ 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. 	<p>Credit risk is:</p> <ul style="list-style-type: none"> ▪ 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.	<ul style="list-style-type: none"> ▪ 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. 	<p>Liquidity and funding risk is:</p> <ul style="list-style-type: none"> ▪ 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.	<p>Exposure to market risk is separated into two portfolios:</p> <ul style="list-style-type: none"> ▪ Trading portfolios ▪ Non-trading portfolios 	<p>Market risk is:</p> <ul style="list-style-type: none"> ▪ 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 RMM for the Bank and the various global businesses.
Interest rate risk		
Interest rate risk is the risk that arises from fluctuating interest rates.	<ul style="list-style-type: none"> ▪ 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. 	<ul style="list-style-type: none"> ▪ Risk management activities are aimed at optimising net interest income consistent with the Bank's business strategies.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
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 functional currency of the Bank. However, most of the Bank's transactions are in Mauritian Rupees and for the balance the Bank finances its monetary assets in foreign currencies with borrowings in the same currencies to mitigate its currency risk.	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 <i>Guideline on Management of Market Risk</i> . A daily net open foreign exchange position is reported to the Bank of Mauritius where the position of the main currencies are verified against limit set as per the Regulator.
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.	<ul style="list-style-type: none"> 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. 	<p>Operational risk is:</p> <ul style="list-style-type: none"> 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. <p>The RMM oversees the operational risk management framework of the Bank and amongst others, is mandated to:</p> <ul style="list-style-type: none"> 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.	<p>Regulatory compliance risk is:</p> <ul style="list-style-type: none"> 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 defence risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
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”).	<ul style="list-style-type: none"> Financial crime risk is part of operational risk and arises from day-to-day banking operations. 	<p>Financial crime risk is:</p> <ul style="list-style-type: none"> 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 using key financial crime performance indicators (“KPI”), the results of the monitoring and control activities of the second line of defence functions, and the results of internal and external audits and regulatory inspections; and 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.	<ul style="list-style-type: none"> 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. 	<p>Reputational risk is:</p> <ul style="list-style-type: none"> 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.	<ul style="list-style-type: none"> 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. 	<p>Pension risk is:</p> <ul style="list-style-type: none"> 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.
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.	<ul style="list-style-type: none"> 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. 	<p>Sustainability risk is:</p> <ul style="list-style-type: none"> measured assessing the potential sustainability effect of a customer’s activities and assigning a Sustainability Risk Rating to all high risk transactions; and monitored by the RMM.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Concentration of risk policies

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

The six most significant individual concentration cases in respect of one customer or group as at 31 December 2019 were as follows:

Customer Group	Total MUR'm	% of Total Corporate exposure	% of CET1 Capital (Under Basel III)
Customer Group 1	570	17.8	28.4
Customer Group 2	507	15.8	25.2
Customer Group 3	470	14.7	23.4
Customer Group 4	437	13.6	21.8
Customer Group 5	292	9.1	14.5
Customer Group 6	274	8.6	13.6

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 2019, the top 6 customer groups exposures accounted for 79.6% (2018 – 76.5%) of total advances extended to corporates.

The Bank's credit concentration risk stood at 269.0% (2018: 293.8%) of its Tier 1 capital. As at 31 December 2019, the Bank is in compliance with the Bank of Mauritius *Guideline of Credit Concentration Risk*.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Related party transactions policies and practices

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

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

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

Category 1

This includes credit exposures to:

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

Category 2

This includes credit exposures to:

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Related party transactions policies and practices (continued)

Category 3

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

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

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

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

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

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

Related Party	Exposure MUR'm	% of Tier 1 Capital
1. HSBC Hong-Kong	8,420.8	420%
2. HSBC Bank Plc, GP Treasury London	5,008.7	250%
3. HSBC Bank (Mauritius)	2,218.9	111%
4. HSBC Singapore	1,841.6	92%
5. HSBC Bank (China) Co Ltd	1,235.0	62%
6. HSBC Johannesburg	109.1	5%

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 2019.

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	2019 Basel III	2018 Basel III	2017 Basel III
CET1 Capital			
Assigned capital	400,000	300,000	239,265
Statutory reserve	306,835	279,380	243,185
Retained earnings*	1,347,030	1,511,499	1,516,703
CET1 before regulatory adjustments	2,053,865	2,090,879	1,999,153
Deferred tax	(46,823)	(45,168)	(89,067)
Total regulatory adjustments to CET1	(46,823)	(45,168)	(89,067)
CET1 Capital (T1)	2,007,042	2,045,711	1,910,086
Tier 2 Capital			
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	91,845	91,533	87,900
General Banking Reserve	88,210	113,666	144,584
Stage 1 and 2 ECL/ Portfolio Provisions	38,259	42,401	12,029
Tier 2 Capital (T2)	218,314	247,600	244,513
Total Capital Base (T1 + T2)	2,225,356	2,293,311	2,154,599

* including audited profits for the year

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

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 on a regular basis.

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

Claims on corporate customers as well as claims on corporate public sector entities are assigned a standard risk weight of 100% when they are not rated by the recognised rating agencies as disclosed on page 25. A standard risk weight of 75% is applied to retail exposures which meet the criteria set in the Bank of Mauritius *Guideline on Standardised Approach to Credit Risk*; claims secured by residential property for purposes other than purchase/construction in Mauritius are allocated a risk weight of 35% subject to an exposure limit of MUR 5 million and a loan to-value not exceeding 80% as required by the above referred guideline.

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

With on balance sheet total risk weighted assets (“RWA”) of MUR9.5bn (2018: MUR11.8bn), details of which are given in the Credit Risk Exposures section on page 26, minimum capital requirements for credit risk for portfolios subject to the Standardised Approach as at 31 December 2019 was MUR1.2bn (2018: MUR1.4bn). Risk weighted assets of MUR581.4m (2018: MUR654.4m) for market and non-market related off balance sheet exposures and MUR44.0m (2018: MUR52.7m) for market risk foreign currency exposure, generated further capital requirement of MUR79.0m (2018: MUR84.9m).

Risk weighted assets for Operational Risk in accordance with the Basic Indicator Approach calculated based on the average gross income per annum for the last three years, amounted to MUR1.8bn (2018: MUR1.8bn), generated a capital charge for operational risk of MUR179.2m (2018: MUR181.8m).

Total risk weighted asset capital requirement therefore stood at MUR1.5bn (2018: MUR1.7bn) as compared to the Bank’s capital base of MUR2.2bn (2018: MUR2.3bn).

The regulatory limits applicable to the Bank were as follows:

	2019 %	2018 %	2017 %
CET 1 capital adequacy ratio*	16.8	14.2	12.6
<i>Regulatory Limit - Minimum CET 1 CAR</i>	6.5	6.5	6.5
Tier 1 capital adequacy ratio	16.8	14.2	12.6
<i>Regulatory Limit - Minimum Tier 1 CAR</i>	8.0	8.0	8.0
Total capital adequacy ratio*	18.6	16.0	14.2
<i>Regulatory Limit - Minimum Total CAR</i>	12.625	12.0	11.1

* including audited profits for the year

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

The Credit Risk Policy Framework

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

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

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

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures

As per the BoM Guideline on *Segmental Reporting under a Single Banking License Regime*, for branches of foreign banks, the capital adequacy ratio applies only to the Segment A type of business (Refer to note 2(h)). Total Segment A gross credit risk exposures as at 31 December 2019 stood as follows:

Fund based:

Items	31-Dec-19 MUR'000
Claims on cash items	355,260
Claims on sovereigns	7,784,947
Claims on central banks	2,653,500
Claims on banks	591,680
Claims on domestic PSEs ("Public sector entities")	606,685
Claims on corporates	4,725,685
Claims included in regulatory retail portfolio	929,072
Claims Secured by residential property	4,437,299
Claims Secured by commercial real estate	14,953
Past due claims	77,269
Claims on other assets	683,759
Total	22,860,109

Non fund based:

Items	31-Dec-19 MUR'000
Direct credit substitute	477,856
Transaction-related contingent items	559,944
Trade related contingencies	113,556
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	6,672,463
Foreign exchange contracts	345,006
Total	8,168,825

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

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

Fund based:

Items	31-Dec-19 MUR'000
Sovereign	7,784,947
Financial institutions	3,245,180
Corporates	5,347,323
Individuals	5,366,371
Total	21,743,821

Non fund based:

Items	31-Dec-19 MUR'000
Financial institutions	-
Corporates	7,215,703
Individuals	953,122
Total	8,168,825

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures (continued)

The residual maturity breakdown of the portfolio was as follows:

Fund based

Items		Amount MUR000's						
(No Months)	Total	0-3m	3-6m	6-12m	12-24m	24-36m	36-60m	> 60m
Claims on sovereigns	7,784,947	1,251,450	1,669,785	2,308,109	719,666	1,581,945	253,992	-
Claims on central banks	2,653,500	2,477,292	36,411	79,158	29,828	17,094	13,717	-
Claims on banks	591,680	577,023	-	-	14,657	-	-	-
Claims on domestic PSEs	606,685	510,224	-	-	33,348	61,362	1,751	-
Claims on corporates	4,725,685	2,542,554	95,210	1,375,437	119,262	205,847	271,482	115,893
Claims included in regulatory retail portfolio	929,072	7,731	6,908	336,188	42,213	107,401	391,760	36,871
Claims secured by residential mortgage	4,437,299	441	896	4,482	21,989	52,821	164,700	4,191,970
Claims secured by commercial real estate	14,953	-	-	479	-	-	14,474	-
TOTAL	21,743,821	7,366,715	1,809,210	4,103,853	980,963	2,026,470	1,111,876	4,344,734

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	477,856	52,928	90,526	224,923	24,537	1,523	83,119	300
Transaction-related contingent items	559,944	36,491	25,380	107,712	317,659	24,613	19,355	28,734
Trade related contingencies	113,556	102,489	11,067	-	-	-	-	-
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	6,672,463	3,278,917	1,836,678	1,428,708	2,976	518	3,824	120,842
Foreign exchange contracts	345,006	179,214	93,659	72,133	-	-	-	-
TOTAL	8,168,825	3,650,039	2,057,310	1,833,476	345,172	26,654	106,298	149,876

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures (continued)

Credit Risk: Standardised Approach

The Standardised Approach to Credit Risk requires banks to use credit assessments provided by external credit 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 2019 were as follows:

Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Risk Weight	RWA
	MUR'000	MUR'000	%	MUR'000
Cash in hand	264,035	264,035	0	-
	91,225	91,225	20	18,245
Claims on Sovereigns	7,784,947	7,784,947	0	-
Claims on Central Banks	1,307,338	1,307,338	0	-
	1,346,162	1,346,162	50	673,081
Claims on Banks	590,253	590,253	20	118,051
	1,427	1,427	50	714
Claims on Domestic PSE	96,461	96,461	0	-
	510,224	510,224	100	510,224
Claims on Corporate	4,725,685	4,716,592	100	4,716,592
Claims included in Regulatory Retail Portfolio	929,072	912,198	75	684,149
Claims Secured by Residential Property	3,767,567	3,766,775	35	1,318,371
	186,057	186,057	75	139,543
	126,182	126,182	100	126,182
	357,493	357,493	125	446,866
Claims secured by commercial real estate	14,953	14,953	100	14,953
Past due claims	2,487	2,487	50	1,243
	47,013	47,013	100	47,013
	18,253	18,254	125	22,817
	9,516	9,516	150	14,274
Other assets	683,769	683,769	100	683,769
Total	22,860,119	22,833,361		9,536,087

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:

	Exposures Before CRM	Exposures After CRM	Credit Conversion Factor	Credit Equivalent Amount	RWA
Items	MUR'000	MUR'000	%	MUR'000	MUR'000
Direct Credit Substitute	477,856	466,388	100	466,388	399,870
Transaction-related Contingent Items	559,944	486,570	50	243,285	165,110
Trade Related Contingencies	113,556	112,939	20	22,588	11,547
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	6,672,463	6,672,463	-	-	-
Total	7,823,819	7,738,360		732,261	576,527

Non - Fund Based:

Items	Notional principal amount	Credit conversion factor	Potential future exposure	Current exposure	Credit equivalent amount	RWA
	MUR'000	%	MUR'000	MUR'000	MUR'000	MUR'000
Foreign Exchange Contract	345,006	1	3,450	1,418	4,868	4,868

Credit Risk Mitigation:

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

Common acceptable forms of security are:

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Market Risk

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

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

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

The foreign exchange risk position as at 31 December 2019 stood at MUR44.0m (2018: MUR52.7m), giving a capital requirement of MUR5.6m (2018: MUR6.3m).

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Operational Risk (continued)

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

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

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

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

The Bank’s capital requirement for operational risk as at 31 December 2019, based on total Segment A operating income, stood as follows:

		Financial Year Ended 2019 MUR'000	Financial Year Ended 2018 MUR'000	Financial Year Ended 2017 MUR'000
	<i>Annual Gross Income</i>	1,139,043	1,267,735	1,177,051
(1)	Number of Years with positive income	3		
(2)	Average Gross Income over the last 3 years	1,194,610		
(3)	Capital charge for Operational Risk	179,191		

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Interest rate risk in the trading book

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

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

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

PVBP is used by the Bank’s treasury trading system to monitor interest rate risk. The outstanding position as at 31 December 2019 in the trading book by time buckets is disclosed in note 35 of these financial statements.

Christopher Jonathan Kyle Murray
Chief Executive Officer

Lukas Mandangu
Head of Finance

30 March 2020

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 2019, 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 the Bank interacts with each other and with customers, regulators and the wider community. All employees are expected to have and reflect these values in their day-to-day behaviour.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

Group Values, Charter and Code of Conduct (continued)

The Bank's values are:

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 Code of Conduct 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 2019, the Bank's assigned capital was MUR 400,000,000, 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.1 Executive Committee (continued)

Frequency	Monthly		Attendance
Composition	Christopher Murray	Chief Executive Officer (Chairman)	9/12
	Dean Lam	Head of Commercial Banking	8/12
	Jennifer Hau	Chief Operating Officer	12/12
	Lukas Mandangu	Head of Finance (Secretary)	9/12
	Nitin Ramlugon	Head of Retail Banking & Wealth Management	11/12
	Saku Jayanetti/Trang Nguyen*	Head of Human Resources	6/12
	Vassan Caleemootoo	Head of Global Markets	11/12
	Aseem Mathur**	Head of Strategic Projects and Remediation	4/12
	Annick Meerun	Communications Manager	12/12
	Laura Steer***	Chief Risk Officer	4/12
	Ashish Gowreesunker	Head of Financial Crime Compliance, Financial Crime Threat Mitigation & Regulatory Compliance	9/12
	Ashiti Prosand****	Head of Legal	9/12
Purpose	<p>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.</p> <p>It also considers employee remuneration issues and reviews adequacy of senior employees' remuneration and key appointments. It ensures that all executives receive appropriate training on appointment and then subsequently as appropriate.</p>		
Main Responsibilities	<p>The key responsibilities of the Executive Committee include:</p> <ul style="list-style-type: none"> (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. 		

* Saku Jayanetti resigned from the Management with effect from 31 July 2019 and Trang Nguyen is temporarily acting as Head of HR.

** Aseem Mathur resigned from the Management with effect from 12 May 2019.

*** On maternity leave from 26 July 2019. During her maternity leave, Laura Steer was replaced by short term assignees from the Regional Office to deputise for her role.

**** Effective from 22 March 2019

In addition, the following committees are in operation:

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.2 Asset and Liability Committee

The Asset and Liability Committee (“ALCO”) of the Bank has a formal schedule of matters reserved to it and 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)	11/12
	Christopher Murray	Chief Executive Officer	9/12
	Dean Lam	Head of Commercial Banking	10/12
	Nitin Ramlugon	Head of Retail Banking & Wealth Management	11/12
	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
	Dwital Mahimkar	Country Head of Global Liquidity and Cash Management	10/12
	Laura Steer*	Chief Risk Officer	4/12
Main Responsibilities	<p>The key responsibilities of the ALCO include:</p> <ul style="list-style-type: none"> (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: <ul style="list-style-type: none"> - 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 		

* On maternity leave from 26 July 2019. During her maternity leave, Laura Steer was replaced by short term assignees from the Regional Office to deputise for her role.

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.3 Risk Management Meeting

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.

Frequency	Monthly		Attendance
Composition	Laura Steer*	Chief Risk Officer (Chairperson)	6/10
	Christopher Murray	Chief Executive Officer	8/10
	Dean Lam	Head of Commercial Banking	5/10
	Lukas Mandangu	Head of Finance	7/10
	Jennifer Hau	Chief Operating Officer	8/10
	Vassan Caleemoothoo	Head of Global Markets	9/10
	Ashish Gowreensunker	Head of Financial Crime Compliance, Financial Crime Threat Mitigation & Regulatory Compliance	9/10
	Aseem Mathur**	Head of Strategic Projects and Remediation	4/10
	Saku Jayanetti/Trang Nguyen***	Head of Human Resources	7/10
	Annick Meerun	Communications Manager	10/10
	Nitin Ramlugon	Head of Retail Banking and Wealth Management	9/10
Main Responsibilities	<p>The RMM serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank’s strategic objectives. Its key responsibilities include:</p> <p>The key responsibilities of the Risk Management Meeting include:</p> <ul style="list-style-type: none"> (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) (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”) (v) reviewing processes governing new product approval, post-implementation reviews and ongoing monitoring of the current portfolios (vi) reviewing processes for managing Regulatory Compliance Risk arising from Volcker Rules in relation to the activity of the Bank (vii) reviewing processes for managing Conduct Risk and cascade a supportive culture in relation to risk management and controls and to ensure that the Bank’s risk management practices support its conduct outcomes. (viii) reviewing and understanding the high level structure and operational processes of the business in respect of Client Assets and assess the effectiveness, transparency and visibility of the controls over these. Discuss and oversee the remediation of breaches and to also consider Client Assets’ findings from Regulator’s supervision reports, Risk, Audit, and Regulatory Compliance monitoring reviews, as well as regulatory developments. 		

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.3 Risk Management Meeting (continued)

Main Responsibilities	(ix) reviewing and providing on-going recommendation of updates to the Bank's Business Continuity Plan ("BCP"), to ensure that any material changes in the Bank's business, strategy, nature or scale of its activities or the regulatory or operational environment are considered and the BCP updated if required; (x) reviewing, discussing and addressing regulatory risks and issues, policy changes and resultant impact. Promote, monitor and assess the regulatory risk culture.
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* On maternity leave from 26 July 2019. During her maternity leave, Laura Steer was replaced by short term assignees from the Regional Office to deputise for her role.

** Aseem Mathur resigned from the Management with effect from 12 May 2019.

*** Saku Jayanetti resigned from the Management with effect from 31 July 2019 and Trang Nguyen is temporarily acting as Head of HR.

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

2.4 Corporate Governance Committee

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

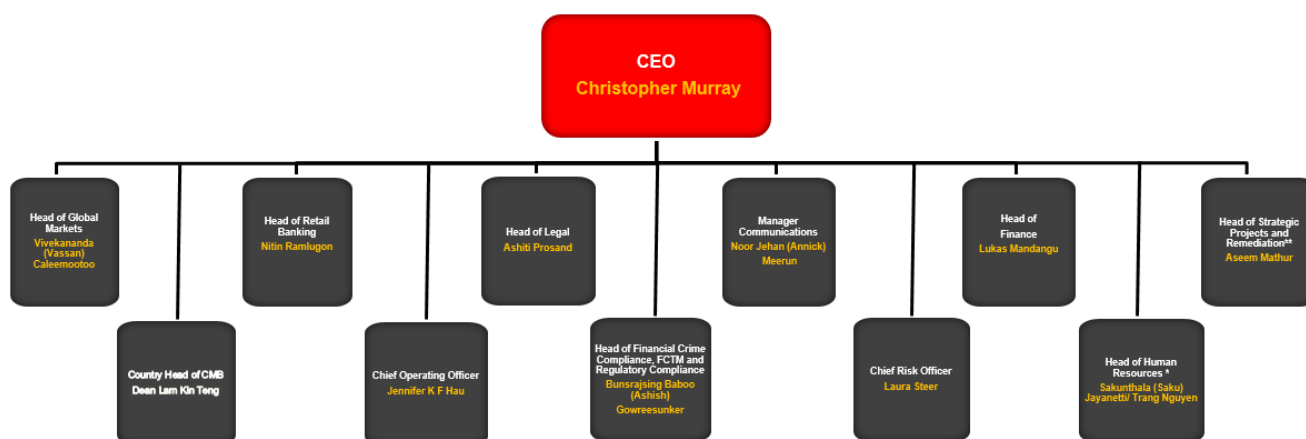
2.5 Remuneration Committee

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

2.6 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:



* Saku Jayanetti resigned from the Management with effect from 31 July 2019 and Trang Nguyen is temporarily acting as Head of HR.

** Aseem Mathur resigned from the Management with effect from 12 May 2019.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.6 Senior Management's Profile (continued)

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 both a Chartered Accountant and a Chartered Financial Analyst.

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

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

Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2019: Ascensia Group

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.6 Senior Management's Profile (continued)

Laura Steer – Chief Risk Officer (Resident)

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.

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.

Mrs. Jayanetti resigned from the Bank with effect as from 31 July 2019.

Trang K N Nguyen – Acting Head of Human Resources (Non resident)

Mrs. Nguyen has been with the HSBC Group since 2008 and held different positions in Human Resources function, HSBC Vietnam. She has worked as Acting Head of Human Resources in Mauritius since October 2019. Mrs. Nguyen has a BA in Law and holds a MBA specifically in Human Resources Management from the Central Queensland University in Australia.

Ashiti Prosand – Head of Legal (Resident)

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.6 Senior Management's Profile (continued)

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

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.

Mr. Mathur resigned from the Management with effect from 12 May 2019.

Annick Meerun – Communications Manager (Resident)

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

Dwital Mahimkar – Country Head of Global Liquidity and Cash Management (“GLCM”) (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 GLCM sales before taking over as Country Head of GLCM 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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

2.6 Senior Management's Profile (continued)

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. Mr. Gowreesunker has been a key pillar within our Mauritius Remediation Office and helped steer the Bank through to completion of the various remediation initiatives between 2016 and 2018. He was appointed to his current role in January 2019.

3. Senior Management Appointments Procedures

3.1 Appointment of senior management roles

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

3.2 Succession Planning

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

3.3 Induction & Orientation for senior management

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

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

3.4 Continuous Training & Development

Continuous training is essential to cope with the constant changes in the business environment. Management 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

4. Management Duties, Remuneration and performance

4.1 Position statement and Statement of accountabilities

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

Title	Roles and Responsibilities
Chief Executive Officer	Responsible for overseeing operations and business activities to ensure they produce the desired results and are consistent with the overall HSBC strategy.
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 Compliance, Financial Crime Compliance and Financial Crime Threat Mitigation	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 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.
Communications Manager	Support the execution of the communications plans, campaigns and messaging in line with HSBC policies. Support internal communications for employees, as well as, external communications for a variety of audiences.
Head of Legal	Provides guidance to the Management on legal related matters and ensures that the Management is aware of their duties and responsibilities.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

4. Management Duties, Remuneration and performance (continued)

4.2 Statement of Remuneration Policy

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

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

During the financial year 2019, Senior Management received emoluments, which includes salaries and other benefits as disclosed in note 34 on Related party transactions.

4.3 Conflict of Interest

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

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

4.4 Information Governance

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

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

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

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

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls

5.1 Risk Management

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

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.

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.2 Risk Governance

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

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

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

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

5.3 Risk Roles and Responsibilities

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.

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.3 Risk Roles and Responsibilities (continued)

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

- **Risk Appetite:** 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 potential to materially affect the Bank's financial results, reputation or business model.

An 'emerging risk' is defined as a thematic issue with 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 2019, the following risks were identified by the Bank as top and emerging risks;

- **Non-Financial Risk** is key area of focus across the Bank and there have been extensive revisions to the Bank's Non-Financial Risk management model to ensure it remains effective. The Bank is continuously working to upskill staff, enhance data quality and reporting and to support improvements in the coverage of Non-Financial Risk oversight and stewardship, particularly with respect of resourcing and capacity.
- **Outsourcing and Third Party Services** – Management has strengthened essential governance processes and relevant policies relating to how the Bank identify, assess, mitigate and manage risk across the range of third parties with which the Bank does business.

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.3 Risk Roles and Responsibilities (continued)

- Cyber Threat and Unauthorized Access to Systems – the Bank continues 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.
- Replacement Benchmark rate for Interbank Offered Rate (“IBOR”) - All of the risks and issues arising from IBOR transition are managed and overseen through the IBOR Transition program and various global/regional, business / functional working groups (“WGs”). Risk stewards for the principal risks of IBOR transition are embedded in the Global Business WGs. Business lines and functions are working with their regional counterparts on impact assessment and action plans.
- Macro-Economic Environment/ Credit Outlook. The Bank continues to monitor the global economic outlook and the China–US trade war, although there is no material impact based on Regional Assessment. Ongoing engagements exist across Risk Teams from other countries to increase oversight.
- Delay in rollout of Instant Payments System - A project team has been established to track milestones, issues and actions. The team is documenting the risks under various scenarios and these will be presented to the local and regional stakeholders for final decision, with a vendor-package based solution being deployed.

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.4 Internal Controls (continued)

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

5.5 Whistleblowing and HSBC Confidential

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

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

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

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

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 2019, 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

6.4 Related Party transactions

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

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

6.5 Health & safety

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

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

During the year under review, a Health and Safety Report was presented at the Risk Management Meeting.

7. Audit

7.1 Internal audit

The Global Internal Audit function (“GBL INA”), provides independent and objective assurance as to whether the design and operational effectiveness of the Banks’s framework of risk management, control and governance processes, as designed and represented by management, is adequate. 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 Bank does not have a locally based internal audit function and in line with the HSBC group policy, falls under the purview of the Asia Pacific (“ASP”) Internal Audit team of GBL INA. 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 2020 Internal Audit plan was presented to the Audit Committee of the Company and locally presented in the RMM of the Bank. Regular updates are provided on a monthly basis in the local RMM.

7.2 External auditors

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

7. Audit (continued)

7.2 External auditors (continued)

For 2019, 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:

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Audit fees for statutory audit	4,272	3,760	3,194
Fees for other services (Note a)	168	925	479
	4,440	4,685	3,673

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 2019 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 and advisory 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.

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.1 Information for Key Stakeholders (continued)

Diversity and inclusion

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

Employee development

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

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

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 Profit remittance policy

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

8.6 Third Party Management Agreement

No third party management agreement presently exists.

8.7 Corporate Social Responsibility and Donations

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

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

Regarding the Bank's community role, disadvantaged children, fighting school failure and poverty have been a major focus in 2019. The Bank has thus partnered with various organisations that cater for school drop-outs, abandoned children as well as vulnerable youths. 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 2019 the Bank, in collaboration with the Central Water Authority, the Lions Club of Quatre Bornes and the Mouvement pour l'Autosuffisance Alimentaire, actively implemented a project to provide potable water to the deprived village of Le Morne. This is part of the global HSBC Water Programme and is set to be completed in 2020.

The Bank donated MUR6.7m (2018: MUR6.5m) to charities in Mauritius, which was paid in full during the year. It included MUR3.0m as per statutory requirements.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.7 Corporate Social Responsibility and Donations (continued)

There were no political donations during the year.

The Bank is fully committed to helping the communities in which it operates to develop. 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. The Bank's commitment to sustainability will continue throughout 2020 and beyond as it supports organisations in their endeavours to make Mauritius a better place. Mauritius remains important to the Bank and it is dedicated to creating a sustainable and enabling business environment for the best interest of all its stakeholders.



Christopher Jonathan Kyle Murray
Chief Executive Officer



Lukas Mandangu
Head of Finance

30 March 2020

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 2019

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).



Christopher Jonathan Kyle Murray
Chief Executive Officer



Lukas Mandangu
Head of Finance

30 March 2020

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of management's responsibility for financial reporting

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

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

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

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

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

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



Christopher Jonathan Kyle Murray
Chief Executive Officer



Lukas Mandangu
Head of Finance

30 March 2020



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 2019, 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 61 to 183 comprise:

- the statement of financial position as at 31 December 2019;
- 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' International Code of Ethics for Professional Accountants (including International Independence Standards) (the "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 period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Impairment of loans and advances <p>This is the second year that expected credit losses ('ECL') have been reported under IFRS 9 Financial Instruments. The underlying processes and controls have continued to mature during the year, with an increased focus on back-testing.</p> <p>The key areas of significant management judgement within the ECL calculations include:</p> <ul style="list-style-type: none"> • Evaluation of significant increase in credit risk ("SICR"); • Input assumptions applied to estimate the probability of default ("PD"), exposure at default ("EAD") and loss given default ("LGD"); • Adoption of a proxy approach, whereby the model used for ECL computation, incorporates forward economic guidance and other inputs, relating to similar locations; • Assessment of ECL raised for Stage 3 exposures; and • Making post model adjustments. 	<p>Given the complexity of the model used for the ECL computation, specialist teams assisted us in performing certain procedures.</p> <p>Model performance monitoring and validation controls were tested, including periodic policy and independent model reviews and back testing of model performance.</p> <p>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.</p> <p>We tested controls over the inputs of critical data into source systems and over the flow and transformation of data between source systems and the impairment calculation system. We also performed substantive testing over the critical data used in the year-end ECL calculation. We also considered the controls over the determination of customer credit ratings and the impact they had on the determination of significant increase in credit risk.</p> <p>We reviewed the minutes of the Impairment Governance Forum to assess management's challenge and discussions surrounding models, ECL output and the approval of any post model adjustments.</p> <p>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 and its impact on ECL.</p> <p>We tested the key inputs, assumptions and discounted cash-flows that support individual impairment on Stage 3 exposures.</p>



Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Other Information

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

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

In connection with our audit of the financial statements, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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 ("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 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 management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

Management is responsible for overseeing the financial reporting process.

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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 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.

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.

A handwritten signature in blue ink, appearing to be "MB".



Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

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

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

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

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

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

Mauritian Banking Act 2004

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

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

PricewaterhouseCoopers

30 March 2020

Michael Ho Wan Kau, licensed by FRC

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of profit or loss and other comprehensive income for the year ended 31 December 2019

	Notes	2019 MUR'000	2018 MUR'000	2017 MUR'000
Interest income		1,003,368	878,362	789,429
Interest expense		(382,848)	(261,206)	(211,945)
Net interest income	8	620,520	617,156	577,484
Fee and commission income		198,662	192,053	188,458
Fee and commission expense		(41,015)	(29,147)	(43,325)
Net fee and commission income	9	157,647	162,906	145,133
Net trading income	10	123,299	143,587	173,088
		901,466	923,649	895,705
Other operating income	11	267,329	367,977	320,937
Total operating income		1,168,795	1,291,626	1,216,642
Net impairment release/(loss) on financial assets	12	9,682	(4,312)	(4,853)
Personnel expenses	13	(417,571)	(413,549)	(363,021)
Operating lease expenses	14	(13,124)	(38,625)	(45,398)
Depreciation	22	(37,915)	(13,229)	(11,402)
Other expenses	15	(414,724)	(506,570)	(484,918)
Total expenses		(883,334)	(971,973)	(904,739)
Profit before income tax		295,143	315,341	307,050
Income tax expense	16	(112,110)	(75,186)	(86,883)
Profit for the year		183,033	240,155	220,167
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement obligations	29	(99,205)	(83,394)	(112,584)
Related tax on remeasurements of defined benefit liabilities		7,806	(50,163)	48,978
Gain on revaluation of land and buildings		-	16,150	15,442
Related tax on gain on revaluation of land and buildings		-	(1,555)	(1,274)
Net change in fair value of financial assets at fair value through other comprehensive income	21	(1,079)	-	-
		(92,478)	(118,962)	(49,438)
Items that may be reclassified to profit or loss				
Net change in fair value of financial assets at fair value through other comprehensive income	21	75,150	(36,221)	953
Total other comprehensive income for the year		(17,328)	(155,183)	(48,485)
Total comprehensive income for the year		165,705	84,972	171,682

The notes on pages 66 to 183 form part of these financial statements.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of financial position at 31 December 2019

		2019	2018	2017
	Notes	MUR'000	MUR'000	MUR'000
ASSETS				
Cash and cash equivalents	17	3,997,601	4,485,191	4,392,528
Trading assets	18	1,975	570	800
Loans and advances to banks	19	332,422	383,993	604,380
Loans and advances to customers	20	15,865,325	14,986,995	13,004,031
Investment securities	21	7,762,913	6,572,059	6,175,741
Other assets	24	1,944,645	1,904,357	1,924,534
Property, plant and equipment	22	430,683	312,332	248,766
Deferred tax assets	23	46,823	45,168	89,067
Total assets		30,382,387	28,690,665	26,439,847

The notes on pages 66 to 183 form part of these financial statements.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of financial position (continued) at 31 December 2019

		2019	2018	2017
	Notes	MUR'000	MUR'000	MUR'000
LIABILITIES				
Deposits from banks	25	672,989	578,740	268,725
Deposits from customers	26	19,467,367	18,855,589	19,718,435
Trading liabilities	18	3,770	2,130	9,443
Other borrowed funds	27	6,593,650	5,519,060	2,887,037
Current tax liabilities	16	76,090	48,184	47,003
Other liabilities	28	1,069,815	1,249,101	1,120,718
Total liabilities		27,883,681	26,252,804	24,051,361
Shareholder's funds				
Assigned capital	30	400,000	300,000	239,265
Retained earnings	30	1,347,030	1,511,499	1,516,703
Other reserves	30	751,676	626,362	632,518
Total shareholder's funds		2,498,706	2,437,861	2,388,486
Total liabilities and shareholder's funds		30,382,387	28,690,665	26,439,847

Approved on 30 March 2020.

Christopher Jonathan Kyle Murray
Chief Executive Officer

Lukas Mandangu
Head of Finance

The notes on pages 66 to 183 form part of these financial statements.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of changes in equity for the year ended 31 December 2019

	Other Reserves							Total Equity MUR'000
	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	
Balance at 01 January 2017	239,265	1,368,257	22,722	181,955	243,185	152,282	14,444	2,222,110
Total comprehensive income	-	-	-	-	-	-	-	220,167
Profit for the year	-	220,167	-	-	-	-	-	220,167
Other comprehensive income	-	-	-	-	-	-	953	953
Net change in fair value	-	-	-	-	-	-	953	953
Realisation of revaluation reserve to retained earnings	-	929	-	(929)	-	-	-	-
Remeasurements of retirement obligations	-	(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 year	-	(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 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 01 January 2018	239,265	1,481,038	21,990	195,333	243,185	156,613	15,397	2,352,821
Total comprehensive income	-	-	-	-	-	-	-	240,155
Profit for the year	-	240,155	-	-	-	-	-	240,155
Other comprehensive income	-	-	-	-	-	-	(36,221)	(36,221)
Net change in fair value	-	-	-	-	-	-	(36,221)	(36,221)
Realisation of revaluation reserve to retained earnings	-	6,671	-	(6,671)	-	-	-	-
Remeasurements of retirement obligations	-	(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 year	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 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
Total comprehensive income	-	183,033	-	-	-	-	-	183,033
Profit for the year	-	183,033	-	-	-	-	-	183,033
Other comprehensive income	-	-	-	-	-	-	74,071	74,071
Net change in fair value	-	-	-	-	-	-	74,071	74,071
Realisation of revaluation reserve to retained earnings	-	(694)	-	694	-	-	-	-
Remeasurements of retirement obligations	-	(99,205)	-	-	-	-	-	(99,205)
Tax on other comprehensive income	-	7,806	-	-	-	-	-	7,806
Total other comprehensive income	-	(92,093)	-	694	-	-	74,071	(17,328)
Total comprehensive income	-	90,940	-	694	-	-	74,071	165,705
Transactions with owner of the Bank	-	-	-	-	-	-	-	-
Other movements during the year	100,000	(132,125)	2,810	-	27,455	-	-	(1,860)
Net change in fair value of share-based payment liability	-	(413)	413	-	-	-	-	-
Profit remittance to Head office	-	(103,000)	-	-	-	-	-	(103,000)
Transactions with owner of the Bank	100,000	(235,538)	3,223	-	27,455	-	-	(104,860)
Transfer to general banking reserve	-	(19,871)	-	-	-	19,871	-	-
Balance at 31 December 2019	400,000	1,347,030	25,323	204,101	306,835	162,170	53,247	2,498,706

The notes on pages 66 to 183 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 2019

	Notes	2019 MUR'000	2018 MUR'000	2017 MUR'000
Cash flows from operating activities				
Profit before income tax		295,143	315,341	307,050
Adjustments for:				
Depreciation	22	37,915	13,229	11,402
Loss/(Profit) on disposal of property, plant and equipment	11	1,847	(3,651)	370
Net impairment (release)/loss on financial assets	12	(9,682)	4,312	(2,967)
Net interest income	8	(620,520)	(617,156)	(577,484)
Exchange differences in respect of cash and cash equivalents		163,430	45,048	120,401
		(131,867)	(242,877)	(141,228)
Changes in:				
Other assets		(40,492)	39,194	135,613
Other liabilities		(404,504)	30,416	(237,434)
Trading assets		(1,405)	230	(106)
Trading liabilities		1,640	(7,313)	3,043
Loans and advances to customers		(867,557)	(2,028,348)	(597,028)
Loans and advances to banks		51,568	220,374	(40,823)
Deposits from customers		611,778	(862,846)	175,487
Deposits from banks		94,249	310,015	80,194
Interest received		1,003,571	859,106	790,155
Interest paid		(376,467)	(246,900)	(218,894)
Other borrowed funds		1,851,465	4,740,568	-
		1,791,979	2,811,619	(51,021)
Tax paid	16	(78,053)	(75,177)	(87,373)
Net cash from/ (used in) operating activities		1,713, 926	2,736,442	(138,394)
Cash flows from investing activities				
Acquisition of property, plant and equipment	22	(18,991)	(67,803)	(11,100)
Proceeds from disposal of property, plant and equipment		40	10,809	-
Purchase of investment securities		(7,318,771)	(5,418,593)	(6,504,260)
Proceed from sale and maturity of investment securities		6,201,749	4,985,400	6,034,500
Net cash used in investing activities		(1,135,973)	(490,187)	(480,860)
Cash flows from financing activities				
Principal element of lease payments		(22,237)	-	-
Repatriation of profit		(103,000)	-	-
Net cash used in financing activities		(125,237)	-	-
Net change in cash and cash equivalents		452,716	2,246,255	(619,254)
Cash and cash equivalents at 01 January		3,706,698	1,505,491	2,245,146
Exchange differences in respect of cash and cash equivalents		(163,430)	(45,048)	(120,401)
Cash and cash equivalents at 31 December	33	3,995,984	3,706,698	1,505,491

The notes on pages 66 to 183 form part of these financial statements.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019

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 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 ended 31 December 2019

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 01 January 2019.

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

IFRS 16 ‘Leases’

The Bank has adopted IFRS 16 retrospectively from 01 January 2019, but has not restated comparatives for the 2018 reporting period, as permitted under the specific transitional provisions in the standard. The reclassifications and adjustments arising from the new leasing rules and therefore recognised in the opening balance sheet on 01 January 2019.

Adjustments recognised on adoption of IFRS 16

On adoption of IFRS 16, the Bank recognised lease liabilities in relation to leases which had previously been classified as ‘operating leases’ under the principles of IAS 17 *Leases*. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee’s incremental borrowing rate as of 01 January 2019. The weighted average lessee’s incremental borrowing rate applied to the lease liabilities on 01 January 2019 was 4.66%.

	2019 MUR’000
Operating lease commitment disclosed as at 31 December 2018	60,849
Discounted using the lessee’s incremental borrowing rate at the date of initial application	(19,595)
(less): low-value leases* recognised on a straight-line basis as expense	(4,249)
Add: adjustments as a result of a different treatment of extension and termination options	97,926
Lease liability recognised as at 01 January 2019	134,931

*low-value leases refer to underlying assets with a value in the order of USD5,000 or less.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

2. Basis of preparation (continued)

(b) Standards adopted during the year ended 31 December 2019 (continued)

IFRS 16 'Leases' (continued)

The change in accounting policy affected the following items in the statement of financial position on 01 January 2019:

- Property, plant and equipment – right-of-use assets – increase by MUR 134.9m
- Other liabilities – lease liabilities – increase by MUR 134.9m

The Bank has also elected not to reassess whether a contract is, or contains a lease at the date of initial application. Instead, for contracts entered into before the transition date the Bank relied on its assessment made applying IAS 17 and IFRIC 4 *Determining whether an Arrangement contains a Lease*.

The Bank's leasing activities and how these are accounted for

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

Until the 2018 financial year, the lease of the properties was classified as operating lease. Payments made under operating leases were charged to profit or loss on a straight-line basis over the period of the leases.

From 01 January 2019, the leases are recognised as a right-of-use asset and a corresponding liability at the date at which the leased assets are available for use by the Bank. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The right-of-use asset is depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis.

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

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

In addition, operating leases with a remaining lease term of less than 12 months at 01 January 2019 were treated as short-term leases as permitted by the standard as a practical expedient.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

2. Basis of preparation (continued)

(b) Standards adopted during the year ended 31 December 2019 (continued)

IFRS 16 'Leases' (continued)

The Bank's leasing activities and how these are accounted for (continued)

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be determined, the lessee's incremental borrowing rate is used, being the rate that the lessee would have to pay to borrow the funds necessary to obtain an asset of similar value in a similar economic environment with similar terms and conditions. Right-of-use assets are measured at cost comprising the following:

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

Extension and termination option

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

(c) New standards and interpretations not yet adopted

Amendments to IAS 1, 'Presentation of financial statements' and IAS 8 'Accounting policies, changes in accounting estimates and errors'

Amendments to IAS 1 and IAS 8 will be effective for annual periods beginning on or after 01 January 2020. These amendments to IAS 1 and IAS 8 use a consistent definition of materiality through IFRSs and the Conceptual Framework for Financial Reporting; clarify the explanation of the definition of material; and incorporate some of the guidance in IAS 1 about immaterial information. The Management has assessed the impact of the amendment and expect that the amendment will have no significant effect, when applied, on the financial statements of the Bank.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

2. Basis of preparation (continued)

(c) New standards and interpretations not yet adopted (continued)

Amendments to IFRS 9, Financial Instruments, IAS 39, Financial Instruments: Recognition and Measurement and IFRS 7, Financial Instruments: Disclosure – Interest rate benchmark reform

These amendments were issued in September 2019 and provide certain reliefs in connection with interest rate benchmark reform. The reliefs relate to hedge accounting and have the effect that IBOR should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. These amendments will be effective for annual periods beginning on or after 01 January 2020 and will have no significant effect on the financial statements of the Bank.

Minor amendments to IFRSs

The IASB has published a number of minor amendments to IFRSs which are effective from 01 January 2020. The Bank expects they will have an insignificant effect, when adopted, on the financial statements.

(d) Basis of measurement

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

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

(e) Critical accounting estimates and judgments

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

2. Basis of preparation (continued)

(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 Segmental Reporting under a Single Banking Licence Regime*, the Bank is required to split into Segment A and Segment B:

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

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

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

3. Summary of significant accounting policies

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

(a) Foreign currencies

(i) Functional and presentation currency

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(a) Foreign currencies (continued)

(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.

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).

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

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

(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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(f) Income tax (continued)

(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.

As per The Finance (Miscellaneous Provisions) Act 2018 of Mauritius, the tax rate will be amended to 15% or 5% if certain conditions are met effective as from assessment year 2020-2021 (assessment year 2019-2020: 15% less the foreign tax credit of 80% for segment B).

The Bank is also liable to pay a special levy on its leviable income (Net interest income and other income before deduction of expenses) derived during the year. Special levy is calculated at the rate of 5.5% on leviable income. The special levy is included in income tax expense and current liability in the financial statements.

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

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

(ii) Deferred tax

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

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

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

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

Based on the changes brought by The Finance (Miscellaneous Provisions) Act 2018 of Mauritius, Management has agreed to amend the deferred tax rate to 7% as from 2018.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

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

(ii) Initial recognition and measurement (continued)

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

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

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

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

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

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

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

(iii) Classification and subsequent measurement of financial assets

Policy applicable from 01 January 2018

From 01 January 2018, the Bank has applied IFRS 9 and classifies its financial assets in the following measurement categories:

- FVPL;
- FVOCI; or
- Amortised cost.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

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 01 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 Bank enters into contractual arrangements to purchase and are normally derecognised when they are either sold or redeemed. They are subsequently remeasured at fair value and changes therein (except for those relating to impairment, interest income and foreign currency exchange gains and losses) are recognised in other comprehensive income until the assets are sold. Upon disposal, the cumulative gains or losses in other comprehensive income are recognised in the income statement as 'Other operating income'.

Fair value through profit or loss ("FVPL")

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements *for the year ended 31 December 2019 (continued)*

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 01 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 01 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements *for the year ended 31 December 2019 (continued)*

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 01 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

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 01 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

Under both IFRS 9 and IAS 39, financial liabilities are classified as subsequently measured at amortised cost, except for:

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements *for the year ended 31 December 2019 (continued)*

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 01 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

Policy applicable before 01 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.

Notes to and forming part of the financial statements
for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

Policy applicable before 01 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 01 July 2016, also directs financial institutions to stand guided by the following minimum requirements with regards to classification and assessment of credit impairment:

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

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

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

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 the one percent, in line with the *Guideline on Credit Impairment Measurement and Income Recognition*, additional portfolio provision is made as a Macprudential Policy Measure for Segment A exposures in the below mentioned industries:

Housing	0.5%
Commercial, Residential and Land Parceling (classified under Construction sector)	1.0%
Tourism sector	1.0%
Personal sector	1.0%

Notes to and forming part of the financial statements
for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(i) Write-off of loans and advances

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier. Subsequent recoveries of amounts previously written off decrease the amount of the provision for loan impairment in profit or loss. Note 35(b)(iii)(G) provides more detail on the write off policy of the Bank.

(j) Reversals of impairment

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

(k) Renegotiated loans and advances

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

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

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

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

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

Notes to and forming part of the financial statements
for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(k) Renegotiated loans and advances (continued)

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period of one year, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed. As at 31 December 2019, the Bank had renegotiated loans in its portfolio as disclosed in Note 35 (b)(iii)(J).

(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 2019, 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 balances with financial institutions.

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements *for the year ended 31 December 2019 (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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

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 to 10 years
Computer equipment	- 1 year to 7 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 or desktop valuation is carried out annually by a professionally qualified valuer and the freehold land and buildings are revalued accordingly.

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

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

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

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements *for the year ended 31 December 2019 (continued)*

3. Summary of significant accounting policies (continued)

(p) *Impairment of non-financial assets*

Assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised in profit or loss for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash generating units).

Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

(q) *Deposits and other borrowed funds*

Deposits are the Bank's sources of debt funding. Other borrowed funds are used in the daily treasury management activities of the Bank.

The Bank classifies capital instruments as financial liabilities or equity instruments in accordance with the substance of the contractual terms of the instruments.

Deposits and other borrowed funds are initially measured at fair value minus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method, except where the Bank designates the liabilities at fair value through profit or loss. The Bank carries some deposits and debt securities at fair value, with fair value changes recognised immediately in profit or loss as described in accounting policy (g).

(r) *Provisions*

Provisions, including legal claims are recognised when: the Bank has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements *for the year ended 31 December 2019 (continued)*

3. Summary of significant accounting policies (continued)

(s) Employee benefits

The Bank operates two pension plans, which include both a defined benefit and a defined contribution plan.

(i) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank provides retirement benefits for its employees through a defined contribution plan which is funded by contributions from the Bank. Under the defined contribution plan, the Bank has no legal or constructive obligation to contribute further to what has been contributed into the fund as defined in the rules of the scheme. Pension contributions are charged to profit or loss in the year to which they relate. The Bank has an obligation under the current labour laws to pay a severance allowance on retirement of its employees and is allowed to deduct from this severance allowance up to five times the amount of any annual pension granted at retirement age from the said fund.

(ii) Defined benefit plans

A defined benefit plan is a pension plan that is not a defined contribution plan. Typically defined benefit plans define an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors, such as age, years of service and compensation.

The Bank's net obligation in respect of defined benefit plans is calculated separately for each plan by estimating the amount of future benefit that employees have earned in the current and prior periods, discounting that amount and deducting the fair value of any plan assets.

The calculation of defined benefit obligations is performed annually by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Bank, the recognised asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan. To calculate the present value of economic benefits, consideration is given to any applicable minimum funding requirements.

Remeasurements of the net defined benefit liability, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognised immediately in other comprehensive income. The Bank determines the net interest expense (income) on the net defined benefit liability (asset) for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then-net defined benefit liability (asset), taking into account any changes in the net defined benefit liability (asset) during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to defined benefit plans are recognised in personnel expenses in profit or loss.

The present value of the severance allowance payable under the Workers' Rights Act 2019 is calculated annually by independent actuaries using the projected unit credit method. The present value of the severance allowance is determined by the estimated future cash outflows using a discount rate by reference to current interest rates and the yield on bonds and treasury bills and recent corporate debenture issues. Where the present value of the severance allowance payable on retirement is greater than five years of pension payable under the pension plan, the additional severance allowance payable is recognised as a liability and disclosed as unfunded obligations under retirement benefits obligations.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(s) *Employee benefits (continued)*

(ii) Defined benefit plans (continued)

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognised immediately in profit or loss. The Bank recognises gains and losses on the settlement of a defined benefit plan when the settlement occurs.

(iii) State pension plan

Contributions to the 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(u) *Contingent liabilities, contractual commitments and guarantees*

(i) Contingent liabilities

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

(ii) Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities.

Financial guarantees are initially recognised in the financial statements at fair value on the date the guarantee was given. The fair value of a financial guarantee at the time of signature is zero because all guarantees are agreed on arm's length terms and the value of the premium agreed corresponds to the value of the guarantee obligation. No receivable for the future premiums is recognised.

Subsequent to initial recognition, the Bank's liabilities under such guarantees are measured at the higher of:

- The amount of the loss allowance; and
- The premium received on initial recognition less income recognized in accordance with the principles of IFRS 15.

Any increase in the liability relating to guarantees is taken to profit or loss under net impairment charge on financial asset.

Loan commitments provided by the Bank are measured as the amount of the loss allowance (calculated as described in note 35(b)(iii)). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

For loan commitments and financial guarantee contracts, the loss allowance is recognised as a provision. However, for contracts that include both a loan and an undrawn commitment and the Bank cannot separately identify the expected credit losses on the undrawn commitment component from those on the loan component, the expected credit losses on the undrawn commitment are recognised together with the loss allowance for the loan. To the extent that the combined expected credit losses exceed the gross carrying amount of the loan, the expected credit losses are recognised as a provision.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

3. Summary of significant accounting policies (continued)

(u) *Contingent liabilities, contractual commitments and guarantees (continued)*

(iii) Acceptances and letters of credit

Acceptances comprise undertakings by the Bank to pay bills of exchange drawn on customers. The Bank expects most acceptances to be settled simultaneously with the reimbursement from customers. Acceptances and letters of credit are accounted for as off-balance sheet items and are disclosed as contingent liabilities and commitments.

(v) *Comparatives*

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information. Where IAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. As required by the BoM *Guideline on Public Disclosure of Information*, disclosures have been made with comparative information for two years.

4. Use of judgements and estimates

In preparing the financial statements, management has made judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised prospectively.

(i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts in the financial statements are described below.

(ii) Assumption and estimation uncertainties

Measurement of the expected credit loss allowance

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the reporting date. In addition, the estimation of ECL should take into account the time value of money. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 35 (b)(iii).

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

Measurement of the expected credit loss allowance (continued)

A number of significant judgements are also required in applying the accounting requirements for measuring ECL, 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. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value (‘LTV’) profiles for the remaining maturity of the asset by using forecasts and applying the corresponding LGD expectation.

The exercise of judgement in making estimations requires the use of assumptions which are highly subjective and very sensitive to the risk factors, in particular to changes in economic and credit conditions. Many of the factors have a high degree of interdependency and there is no single factor to which loan impairment allowances as a whole are sensitive.

Detailed information about the judgements and estimates made by the Bank in the above areas is set out in notes 35(b)(iii) and 35(b)(iv).

Sensitivity analysis of ECL estimates

The recognition and measurement of ECL involves the use of significant judgement and estimation. The Bank forms multiple economic scenarios based on economic forecasts, apply these assumptions to credit risk models to estimate future credit losses, and probability-weight the results to determine an unbiased ECL estimate. The Bank uses multiple economic scenarios to reflect assumptions about future economic conditions, starting with three economic scenarios based on consensus forecast distributions, supplemented by alternative or additional economic scenarios and/or management adjustments where, in management’s judgement, the consensus forecast distribution does not adequately capture the relevant risks. The economic assumptions presented in this section have been formed by the Bank with reference to external forecasts specifically for the purpose of calculating ECL. The following table describes key macroeconomic variables and the probabilities assigned in the consensus Central scenario data:

Average of 5 year forecast period 1Q2020 - 4Q2024	%
GDP growth rate	4.0
Inflation	3.4

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

Measurement of the expected credit loss allowance (continued)

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

	Upside (2020-2024)	Downside (2020-2024)
GDP growth rate (%)	5.2	2.8
Inflation (%)	2.8	4.1

Retirement Benefit Obligations

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Any changes in the assumptions will impact the carrying amount of pension obligations.

The assumptions used in determining the net cost (income) for pensions include the discount rate. The actuarial report determines the appropriate discount rate at the end of each year and which are validated by the Bank. This is the interest rate that should be used to determine the present value of estimated future cash outflows expected to be required to settle the pension obligations. In determining the appropriate discount rate, the actuary considers the interest rates of high-quality corporate bonds that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating the terms of the related pension liability. Other key assumptions for pension obligations are based in part on current market conditions.

The sensitivity analysis for the key assumptions are disclosed on pages 129 and 131.

Fair Value of Financial Instruments

The fair value of financial instruments where no active market exists or where quoted prices are not otherwise available are determined by using valuation techniques. In these cases, the fair values are estimated from observable data in respect of similar financial instruments or using models.

For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgement depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements *for the year ended 31 December 2019 (continued)*

5. Fair value of financial instruments

The fair values of financial assets and financial liabilities that are traded in active markets are based on quoted market prices or dealer price quotations. For all other financial instruments, the Bank determines fair values using other valuation techniques.

(i) Valuation of financial instruments

The Bank measures fair values using the following fair value hierarchy, which reflects the significance of the inputs used in making the measurements:

Level 1: Quoted (unadjusted) in an active market for an identical instrument.

Level 2: Valuation techniques based on observable inputs, either directly (i.e. as prices) or indirectly (i.e. derived from prices). This category includes instruments valued using: quoted market prices in active markets for similar instruments; quoted prices for identical or similar instruments in markets that are considered less than active; or other valuation techniques where all significant inputs are directly or indirectly observable from market data.

Level 3: Valuation techniques using significant unobservable inputs. This category includes all instruments where the valuation technique includes inputs not based on observable data and the unobservable inputs have a significant effect on the instrument's valuation. This category includes instruments that are valued based on quoted prices for similar instruments where significant unobservable adjustments or assumptions are required to reflect differences between the instruments.

Valuation techniques mainly include net present value and discounted cash flow models. Assumptions and inputs used in valuation techniques include risk-free and benchmark interest rates, bond and equity prices and foreign currency exchange rates. The objective of valuation techniques is to arrive at a fair value determination that reflects the price of the financial instrument at the reporting date that would have been determined by market participants acting at arm's length.

The Bank uses widely recognised valuation models for determining the fair value of common and more simple financial instruments, like interest rate and currency swaps that use only observable market data and require little management judgement and estimation. Observable prices and model inputs are usually available in the market for listed debt and equity securities, exchange traded derivatives and simple over the counter derivatives like interest rate swaps. Availability of observable market prices and model inputs reduces the need for management judgement and estimation and also reduces the uncertainty associated with determination of fair values. Availability of observable market prices and inputs varies depending on the products and markets and is prone to changes based on specific events and general conditions in the financial markets.

Valuation models for financial instruments measured at fair value that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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 MUR'000	Using observable inputs Level 2 MUR'000	With significant unobservable inputs Level 3 MUR'000	Total MUR'000
At 31 December 2019	Note				
Trading assets	18	-	1,057	918	1,975
Investment securities	21	-	7,754,728	8,185	7,762,913
Trading liabilities	18	-	1,777	1,993	3,770
At 31 December 2018					
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

IFRS 13 reconciliation for Level 3

	Assets		Liabilities
	Investment securities	Trading assets	Trading liabilities
At 01 January 2017	9,264	537	4,058
Transfers in	-	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	-	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
Transfers in	-	10,881	18,861
Settlements	-	(10,154)	(19,189)
Fair value (loss)/gain	(1,079)	80	779
At 31 December 2019	8,185	918	1,993

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

5. Fair value of financial instruments (continued)

(ii) Recurring financial instruments measured at fair value – fair value hierarchy (continued)

The following table summarises the quantitative information about the significant unobservable inputs used in level 3 fair value measurements.

Description	Fair value at			Unobservable Input	Range of Inputs			Relationship of unobservable inputs to fair value
	31 Dec 2019 MUR '000	31 Dec 2018 MUR '000	31 Dec 2017 MUR '000		2019	2018	2017	
Foreign exchange derivative assets	918	111	738	Forward Points	34.00 – 36.63	32.12 – 35.70	33.61 – 34.13	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 8,360.
Foreign exchange derivative liabilities	1,993	1,542	1,636	Forward Points	34.00 – 36.63	32.12 – 35.70	33.61 – 34.13	
FVOCI investments	8,185	9,264	9,264	Net Asset Value per share (NAV)	MUR7.83	MUR8.07	MUR8.32	A change of +/- 1% in the NAV will change the value of the equity investment by +/- MUR 81,846.

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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				Total MUR'000
	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	
Assets and Liabilities at 31 Dec 2019					
Assets					
Loan and advances to banks	332,422	-	332,422	-	332,422
Loan and advances to customers	15,865,325	-	16,084,821	-	16,084,821
Liabilities					
Deposits from banks	672,989	-	672,989	-	672,989
Deposits from customers	19,467,367	-	19,467,367	-	19,467,367
Other borrowed funds	6,593,650	-	6,620,142	-	6,620,142
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

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 liabilities including:
Other Assets including:	
<ul style="list-style-type: none"> ▪ Mandatory balances with central bank ▪ Balances due in the clearing ▪ Short-term receivables 	<ul style="list-style-type: none"> ▪ Acceptance and endorsements ▪ Short-term payables

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

5. Fair value of financial instruments (continued)

(iii) Financial instruments not measured at fair value (continued)

Bases of valuation

The fair value measurement is the Bank's estimate of the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It does not reflect the economic benefits and costs that the Bank expects to flow from the instruments' cash flows over their expected future lives. Other reporting entities may use different valuation methodologies and assumptions in determining fair values for which no observable market prices are available.

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described below:

Loans and advances to banks and customers

The fair value of loans and advances is based on observable market transactions, where available. In the absence of observable market transactions, fair value is estimated using valuation models that incorporate a range of input assumptions. These assumptions may include value estimates from third party brokers which reflect over-the-counter trading activity, forward looking discounted cash flow models using assumptions which the Bank believes are consistent with those which would be used by market participants in valuing such loans, and trading inputs from other market participants which includes observed primary and secondary trades.

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs.

Valuation techniques are calibrated on a regular basis and tested for validity using prices from observable current market transactions in the same instrument, without modification or repackaging, or are based on any available observable market data.

The fair value of a loan reflects both loan impairments at the reporting date and estimates of market participants' expectations of impairment losses over the life of the loans, and the fair value effect of repricing between origination and the reporting date. The fair valuation of loans and advances to banks and customers is based on indirect observable inputs and therefore classifies under Level 2.

Deposits from banks and customer accounts

For the purpose of estimating fair value, deposits by banks and customer accounts are grouped by remaining contractual maturity. Fair values are estimated by applying current rates offered for deposits of similar remaining maturities, therefore the deposits by banks and customers' accounts are under Level 2 valuation techniques. The fair value of a deposit repayable on demand is approximated by its carrying value.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

6. Classification of Financial assets and Financial liabilities

See accounting policies in Note 3 (g)(iii). 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	2019 MUR'000	2018 MUR'000	IAS 39 Measurement Category	2017 MUR'000
Assets					
Cash and cash equivalents	Amortised cost	3,997,601	4,485,191	Loans & Receivables (L&R)	4,392,528
Trading assets	FVPL	1,975	570	FVPL	800
Loans and advances to banks	Amortised cost	332,422	383,993	L&R	604,380
Loans and advances to customers	Amortised cost	15,865,325	14,986,995	L&R	13,004,031
Investment securities	FVOCI	7,762,913	6,572,059	Available for sale	6,175,741
Other assets	Amortised cost	1,936,307	1,898,331	L&R	1,920,332
		29,896,543	28,327,139		26,097,812
Liabilities					
Deposits from banks	Amortised cost	672,989	578,740	Amortised cost	268,725
Deposits from customers	Amortised cost	19,467,367	18,855,589	Amortised cost	19,718,435
Trading liabilities	FVPL	3,770	2,130	FVPL	9,443
Other borrowed funds	Amortised cost	6,593,650	5,519,060	Amortised cost	2,887,037
Other liabilities	Amortised cost	635,428	845,818	Amortised cost	1,120,718
		27,373,204	25,801,337		24,004,358

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

7. Segmental reporting

The information on pages 101 to 105 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

ASSETS	Note	Segment A			Segment B			Bank	
		2019 MUR'000	2018 MUR'000	2017 MUR'000	2019 MUR'000	2018 MUR'000	2017 MUR'000	2019 MUR'000	2017 MUR'000
Cash and cash equivalents	17	1,762,404	2,373,451	2,608,335	2,235,197	2,111,740	1,784,193	3,997,601	4,485,191
Trading assets	18	1,288	111	683	687	459	117	1,975	570
Loans and advances to banks	19	248,848	383,993	527,000	83,574	-	77,380	332,422	383,993
Loans and advances to customers	20	10,748,161	11,519,518	12,654,419	5,117,164	3,467,477	349,612	15,865,325	14,986,995
Investment securities	21	7,762,913	6,572,059	6,175,741	-	-	-	7,762,913	6,572,059
Property, plant and equipment	22	430,683	312,332	248,766	-	-	-	430,683	312,332
Deferred tax assets	23	46,823	45,168	89,067	-	-	-	46,823	45,168
Other assets	24	1,810,279	1,724,960	1,920,515	134,366	179,397	4,019	1,944,645	1,904,357
Total assets		22,811,399	22,931,592	24,224,526	7,570,988	5,759,073	2,215,321	30,382,387	28,690,665
LIABILITIES									
Deposit from banks	25	47,646	24,856	27,088	625,343	553,884	241,637	672,989	578,740
Deposit from customers	26	18,227,151	16,872,442	17,834,549	1,240,216	1,983,147	1,883,886	19,467,367	18,855,589
Trading liabilities	18	1,974	660	1,636	1,796	1,470	7,807	3,770	2,130
Other borrowed funds	27	1,800,500	1,838,025	2,520,938	4,793,150	3,681,035	366,099	6,593,650	5,519,060
Current tax liabilities	16	71,032	41,938	42,072	5,058	6,246	4,931	76,090	48,184
Other liabilities	28	948,156	1,056,915	1,117,241	121,659	192,186	3,477	1,069,815	1,249,101
Total liabilities		21,096,459	19,834,836	21,543,524	6,787,222	6,417,968	2,507,837	27,883,681	26,252,804
Shareholder's funds									
Assigned capital	30	400,000	300,000	239,265	-	-	-	400,000	300,000
Retained earnings	30	1,347,030	1,511,499	1,516,703	-	-	-	1,347,030	1,516,703
Other reserves	30	751,676	626,362	632,518	-	-	-	751,676	626,362
Total shareholder's funds		2,498,706	2,437,861	2,388,486	-	-	-	2,498,706	2,437,861
Total liabilities and shareholder's funds		23,595,165	22,272,697	23,932,010	6,787,222	6,417,968	2,507,837	30,382,387	28,690,665

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

7. Segmental reporting (continued)

B. Statement of profit or loss and other comprehensive income

Note	Segment A			Segment B			Bank		
	2019 MUR'000	2018 MUR'000	2017 MUR'000	2019 MUR'000	2018 MUR'000	2017 MUR'000	2019 MUR'000	2018 MUR'000	2017 MUR'000
Interest income	872,333	818,067	773,893	131,035	60,295	15,536	1,003,368	878,362	789,429
Interest expense	(239,411)	(183,940)	(201,680)	(143,437)	(77,266)	(10,265)	(382,848)	(261,206)	(211,945)
Net interest income	632,922	634,127	572,213	(12,402)	(16,971)	5,271	620,520	617,156	577,484
Fee and commission income	154,513	149,402	151,963	44,149	42,651	36,495	198,662	192,053	188,458
Fee and commission expense	(39,020)	(27,358)	(41,150)	(1,995)	(1,789)	(2,175)	(41,015)	(29,147)	(43,325)
Net fee and commission income	115,493	122,044	110,813	42,154	40,862	34,320	157,647	162,906	145,133
Net trading income	123,299	143,587	173,088	-	-	-	123,299	143,587	173,088
Other operating income	871,714 267,329	899,758 367,977	856,114 320,937	29,752 -	23,891 -	39,591 -	901,466 267,329	923,649 367,977	895,705 320,937
Total operating income	1,139,043	1,267,735	1,177,051	29,752	23,891	39,591	1,168,795	1,291,626	1,216,642
Net impairment loss on financial assets	9,682	(4,312)	(4,853)	-	-	-	9,682	(4,312)	(4,853)
Personnel expenses	(406,134)	(395,495)	(347,744)	(11,437)	(18,054)	(15,277)	(417,571)	(413,549)	(363,021)
Operating lease expenses	(13,124)	(37,048)	(43,526)	-	(1,577)	(1,872)	(13,124)	(38,625)	(45,398)
Depreciation	(37,915)	(13,229)	(11,402)	-	-	-	(37,915)	(13,229)	(11,402)
Other expenses	(411,061)	(500,776)	(479,010)	(3,663)	(5,794)	(5,908)	(414,724)	(506,570)	(484,918)
Total expenses	(868,234)	(946,548)	(881,682)	(15,100)	(25,425)	(23,057)	(883,334)	(971,973)	(904,739)
Profit before income tax	280,491	316,875	290,516	14,652	(1,534)	16,534	295,143	315,341	307,050
Income tax expense	(111,669)	(74,607)	(86,182)	(441)	(579)	(701)	(112,110)	(75,186)	(86,883)
Profit for the year	168,822	242,268	204,334	14,211	(2,113)	15,833	183,033	240,155	220,167

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

7. Segmental reporting (continued)

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

	Segment A			Segment B			Bank		
	2019	2018	2017	2019	2018	2017	2019	2018	2017
	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 retirement obligations	(99,205)	(83,394)	(112,584)	-	-	-	(99,205)	(83,394)	(112,584)
Related tax on remeasurements of defined benefit liabilities	7,806	(50,163)	48,978	-	-	-	7,806	(50,163)	48,978
Gain on revaluation of land and buildings	-	16,150	15,442	-	-	-	-	16,150	15,442
Related tax on gain on revaluation of land and buildings	-	(1,555)	(1,274)	-	-	-	-	(1,555)	(1,274)
Net change in fair value of financial assets at fair value through other comprehensive income	(1,079)	-	-				(1,079)	-	-
	(92,478)	(118,962)	(49,438)	-	-	-	(92,478)	(118,962)	(49,438)
Items that may be reclassified to profit or loss									
Net change in fair value of financial assets at fair value through other comprehensive income	75,150	(36,221)	953	-	-	-	75,150	(36,221)	953
	75,150	(36,221)	953	-	-	-	75,150	(36,221)	953
Other comprehensive income for the year	(17,328)	(155,183)	(48,485)	-	-	-	(17,328)	(155,183)	(48,485)
Total comprehensive income for the year	151,494	87,085	155,849	14,211	(2,113)	15,833	165,705	84,972	171,682

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

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.
- *Commercial Banking* Includes loans, deposits and other transactions and balances with corporate customers.
- *Global Banking and Markets* Global Banking involves loans, deposits and other transactions and balances with corporate and institutional clients worldwide.

Global Markets undertakes the Bank's centralised market risk management activities and foreign currency operations.
- *Corporate Centre* Corporate Centre includes Balance Sheet Management ("BSM") and support functions. BSM undertakes treasury activities which include funding through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities.

2019		Retail Banking and Wealth Management MUR'000	Commercial Banking MUR'000	Global Banking and Markets MUR'000	Corporate Centre MUR'000	Consolidated MUR'000
<i>External revenue:</i>	<i>Note</i>					
Net interest income	8	346,175	256,005	8,132	10,208	620,520
Net fee and commission income	9	50,754	78,781	29,647	(1,535)	157,647
Net trading income	10	21,067	24,220	70,337	7,675	123,299
Revenue		417,996	359,006	108,116	16,348	901,466
Other operating income	11	3,626	702	80	262,921	267,329
Total segment operating income		421,622	359,708	108,196	279,269	1,168,795
Segment result		33,374	191,887	36,667	33,215	295,143
Income tax expense	16					(112,110)
Profit for the year						183,033
Segment assets		14,013,895	10,609,816	5,240	5,753,436	30,382,387
Segment liabilities		13,598,373	6,009,367	602,412	7,673,529	27,883,681

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

7. Segmental reporting (continued)

Business segments (continued)

2018		Retail Banking and Wealth Management MUR'000	Commercial Banking MUR'000	Global Banking and Markets MUR'000	Corporate Centre MUR'000	Consolidated MUR'000
<i>External revenue:</i>	<i>Note</i>					
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
2017		Retail Banking and Wealth Management MUR'000	Commercial Banking MUR'000	Global Banking and Markets MUR'000	Corporate Centre MUR'000	Consolidated MUR'000
<i>External revenue:</i>	<i>Note</i>					
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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

8. Net interest income

<i>Bank (Total)</i>	2019	2018	2017
	MUR'000	MUR'000	MUR'000
Interest income			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	46,165	32,707	27,861
Loans and advances to banks	5,657	3,626	4,234
Loans and advances to customers	698,533	619,001	557,353
Other	3,481	357	858
<u>Recognised on financial assets measured at FVOCI</u>			
Investment securities	249,532	222,671	199,123
Total interest income	1,003,368	878,362	789,429
Interest expense			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from banks	2,397	2,343	1,289
Deposits from customers	215,632	180,109	202,396
Other borrowed funds	160,384	78,754	8,260
<u>Other</u>			
Other (including interest expense under IFRS 16)	4,435	-	-
Total interest expense	382,848	261,206	211,945
Net interest income	620,520	617,156	577,484
Segment A			
Interest income			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	16,470	19,900	16,529
Loans and advances to banks	5,249	3,072	3,319
Loans and advances to customers	597,653	572,084	554,068
Other	3,429	340	854
<u>Recognised on financial assets measured at FVOCI</u>			
Investment securities	249,532	222,671	199,123
Total interest income	872,333	818,067	773,893
Interest expense			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from banks	2,372	1,242	300
Deposits from customers	204,469	168,956	191,965
Other borrowed funds	28,135	13,742	9,415
<u>Other</u>			
Other (including interest expense under IFRS 16)	4,435	-	-
Total interest expense	239,411	183,940	201,680
Net interest income	632,922	634,127	572,213
Segment B			
Interest income			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	29,695	12,807	11,332
Loans and advances to banks	408	554	915
Loans and advances to customers	100,880	46,917	3,285
Other	52	17	4
Total interest income	131,035	60,295	15,536
Interest expense			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from banks	25	1,101	989
Deposits from customers	11,163	11,153	10,431
Other borrowed funds	132,249	65,012	(1,155)
Total interest expense	143,437	77,266	10,265
Net interest income	(12,402)	(16,971)	5,271

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

9. Net fee and commission income

<i>Bank (Total)</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Fee and commission income			
Retail banking customer fees	87,073	88,179	89,875
Corporate banking credit related fees	76,562	62,696	63,809
Financial guarantee contracts	3,764	3,340	1,374
Global custody	24,009	27,069	25,248
Other	7,254	10,769	8,152
Total fee and commission income	198,662	192,053	188,458
Fee and commission expense			
Retail banking customer fees	37,883	25,467	38,645
Corporate banking credit related fees	1,093	1,878	2,558
Interbank transaction fees	-	37	-
Other	2,039	1,765	2,122
Total fee and commission expense	41,015	29,147	43,325
Net fee and commission income	157,647	162,906	145,133
<i>Segment A</i>			
Fee and commission income			
Retail banking customer fees	86,142	88,276	88,903
Corporate banking credit related fees	63,066	54,422	60,273
Financial guarantee contracts	3,665	3,202	1,374
Global custody	122	138	91
Other	1,518	3,364	1,322
Total fee and commission income	154,513	149,402	151,963
Fee and commission expense			
Retail banking customer fees	37,864	25,443	38,605
Corporate banking credit related fees	1,093	1,878	2,558
Interbank transaction fees	-	37	-
Other	63	-	(13)
Total fee and commission expense	39,020	27,358	41,150
Net fee and commission income	115,493	122,044	110,813
<i>Segment B</i>			
Fee and commission income			
Retail banking customer fees	931	(97)	972
Corporate banking credit related fees	13,496	8,274	3,536
Financial guarantee contracts	99	138	-
Global custody	23,887	26,931	25,157
Other	5,736	7,405	6,830
Total fee and commission income	44,149	42,651	36,495
Fee and commission expense			
Retail banking customer fees	19	24	40
Corporate banking credit related fees	-	-	-
Interbank transaction fees	-	-	-
Other	1,976	1,765	2,135
Total fee and commission expense	1,995	1,789	2,175
Net fee and commission income	42,154	40,862	34,320

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch
Notes to and forming part of the financial statements
for the year ended 31 December 2019 (continued)

10. Net trading income

<i>Bank (Total) and Segment A</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Foreign exchange	122,166	141,707	173,083
Net Revaluation gain on financial instruments	1,133	1,880	5
	123,299	143,587	173,088

11. Other operating income

<i>Bank (Total) and Segment A</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Intercompany recharges	234,775	356,891	315,955
Rental income	4,774	4,574	4,534
Gain/(loss) on disposal of property plant and equipment	(1,847)	3,651	(370)
Gain/(loss) on disposal of investment securities	24,038	-	-
Other	5,589	2,861	818
	267,329	367,977	320,937

Intercompany recharges relate to regionally allocated cost and IT costs.

12. Net impairment loss on financial assets

<i>Bank (Total) and Segment A</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Release/(provisions) for impairment losses for the year:			
Loans and advances to customers	10,783	(5,598)	(4,853)
Investment securities	(239)	(256)	-
Loans and advances to banks	(3)	333	-
Loan commitments and financial guarantees	(868)	1,152	-
Other assets	9	57	-
	9,682	(4,312)	(4,853)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

13. Personnel expenses

	Total		
	2019	2018	2017
<i>Bank (Total)</i>	MUR'000	MUR'000	MUR'000
Wages and salaries	320,730	321,766	283,468
Compulsory social security obligations	9,003	8,853	8,424
Contributions to defined contributions plans	16,720	9,988	7,846
Equity-settled share based payments	1,308	776	1,478
Defined benefit plan costs (Note 29)	38,315	35,579	31,561
Other personnel expenses	31,495	36,587	30,244
	417,571	413,549	363,021
<i>Segment A</i>			
Wages and salaries	311,321	307,569	271,322
Compulsory social security obligations	8,700	8,433	8,037
Contributions to defined contributions plans	16,619	9,513	7,410
Equity-settled share based payments	1,308	750	1,436
Increase in liability for defined benefit plans	37,138	33,792	30,105
Other personnel expenses	31,048	35,438	29,434
	406,134	395,495	347,744
<i>Segment B</i>			
Wages and salaries	9,409	14,197	12,146
Compulsory social security obligations	303	420	387
Contributions to defined contributions plans	101	475	436
Equity-settled share based payments	-	26	42
Increase in liability for defined benefit plans	1,177	1,787	1,456
Other personnel expenses	447	1,149	810
	11,437	18,054	15,277

14. Operating lease expenses

Non-cancellable operating lease rentals are payable as follows:

	2019	2018	2017
<i>Bank (Total)</i>	MUR'000	MUR'000	MUR'000
Minimum rental recognised in profit or loss	13,124	38,625	45,398
<i>Segment A</i>			
Minimum rental recognised in profit or loss	13,124	37,048	43,526
<i>Segment B</i>			
Minimum rental recognised in profit or loss	-	1,577	1,872
Operating lease commitments			
Future minimum rentals to be paid:			
- Less than one year	7,479	34,075	37,675
- Between one and five years	8,442	26,774	53,663
Total minimum rentals payable	15,921	60,849	91,338

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

14. Operating lease expenses (continued)

The leasing arrangements, which are short term in nature (less than one year), that the Bank have are mainly on a number of premises and office equipment. The premises are used for residence of expatriate staff 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.

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Bank (Total)			
Information and technology costs	16,924	14,667	14,673
Maintenance of premises costs	24,138	22,313	25,936
Other administrative expenses	124,825	93,150	100,603
Other expenses	248,837	376,440	343,706
	414,724	506,570	484,918
Segment A			
Information and technology costs	16,662	14,133	14,149
Maintenance of premises costs	24,124	21,483	24,977
Other administrative expenses	123,121	90,040	97,458
Other expenses	247,154	375,120	342,426
	411,061	500,776	479,010
Segment B			
Information and technology costs	262	534	524
Maintenance of premises costs	14	830	959
Other administrative expenses	1,704	3,110	3,145
Other expenses	1,683	1,320	1,280
	3,663	5,794	5,908

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

16. Income tax

<i>Bank (Total)</i>	2019	2018	2017
	MUR'000	MUR'000	MUR'000
<i>Current tax expense</i>			
Current year:			
Income tax	105,959	76,358	79,530
Deferred tax	6,151	(1,172)	7,353
Total tax expense per statement of profit or loss and other comprehensive income	112,110	75,186	86,883
<i>Reconciliation of effective tax rate</i>			
Profit before income tax per statement of profit or loss and other comprehensive income	295,143	315,341	307,050
Income tax at 17%/3%	48,123	53,608	52,199
Special levy on banks	64,793	33,083	31,004
Effect of non-deductible expenses	553	686	4,044
Overprovision/under provision of income tax in prior year	(8,465)	(11,986)	1,156
Overprovision of deferred tax in prior year	2,674	-	-
Other permanent differences - write off of loans	-	-	1,329
Tax credit on foreign income	-	-	(3,011)
Others	-	(205)	162
Difference in rates	(754)	-	-
Under provision of tax in current year	5,186	-	-
	112,110	75,186	86,883
<i>Current Tax Liabilities</i>			
As 01 January	48,184	47,003	54,846
Charge for the year	105,959	76,358	79,530
Payment	(78,053)	(75,177)	(87,373)
At 31 December	76,090	48,184	47,003
<i>Segment A</i>			
<i>Current tax expense</i>			
Current year:			
Income tax	105,518	75,779	78,829
Deferred tax	6,151	(1,172)	7,353
	111,669	74,607	86,182
<i>Reconciliation of effective tax rate</i>			
Profit before income tax per statement of profit or loss and other comprehensive income	280,491	316,874	290,517
Income tax at 17%	47,683	53,869	49,388
Special levy on banks	64,793	32,761	30,029
Effect of non-deductible expenses	552	680	4,042
Overprovision/under provision of income tax in prior year	(8,465)	(11,986)	870
Overprovision of deferred tax in prior year	2,674	-	-
Other permanent differences - write off of loans	-	-	1,329
Others	-	(717)	524
Difference in rates	(754)	-	-
Under provision of tax in current year	5,186	-	-
	111,669	74,607	86,182
<i>Current Tax Liabilities</i>			
As 01 January	41,938	42,072	49,979
Charge for the year	105,518	75,779	78,829
Payment	(76,424)	(75,913)	(86,736)
At 31 December	71,032	41,938	42,072

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

16. Income tax (continued)

<i>Segment B</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
<i>Current tax expense</i>			
Current year:			
(Tax loss)/Income tax	441	579	701
	441	579	701
<i>Reconciliation of effective tax rate</i>			
Profit/(loss) before income tax per statement of profit or loss and other comprehensive income	14,652	(1,533)	16,533
Income tax at 3%/17%	440	(261)	2,811
Special levy on banks	-	322	975
Effect of non-deductible expenses	1	6	2
Adjustment for prior years	-	-	286
Tax credit on foreign income	-	-	(3,011)
Other differences	-	512	(362)
	441	579	701
<i>Current Tax Liabilities</i>			
As 01 January	6,246	4,931	4,867
Charge for the year	441	579	701
Payment	(1,629)	736	(637)
At 31 December	5,058	6,246	4,931

17. Cash and cash equivalents

<i>Bank (Total)</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Cash in hand	264,035	287,214	144,757
Foreign currency notes and coins	12,487	10,176	18,579
Unrestricted balances with central bank	1,096,502	1,883,637	2,459,578
Money market placements	784,104	650,420	359,098
Balances with banks abroad	1,840,473	1,653,744	1,410,516
	3,997,601	4,485,191	4,392,528

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.

<i>Segment A</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Cash in hand	264,035	287,214	144,757
Unrestricted balances with central bank	1,096,502	1,883,637	2,459,578
Money market placements	401,867	202,600	4,000
	1,762,404	2,373,451	2,608,335
<i>Segment B</i>			
Foreign currency notes and coins	12,487	10,176	18,579
Money market placements	382,237	447,820	355,098
Balances with banks abroad	1,840,473	1,653,744	1,410,516
	2,235,197	2,111,740	1,784,193

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

18. Trading assets and liabilities

(a) Trading assets

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Bank (Total)			
Derivative assets			
- Currency spot	28	358	62
- Currency forwards	1,947	212	738
	1,975	570	800
Segment A			
Derivative assets			
- Currency spot	-	100	-
- Currency forwards	1,288	11	683
	1,288	111	683
Segment B			
Derivative assets			
- Currency spot	28	258	62
- Currency forwards	659	201	55
	687	459	117

(b) Trading liabilities

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Bank (Total)			
Derivative liabilities			
- Currency spot	9	5	18
- Currency forwards	3,761	2,125	9,425
	3,770	2,130	9,443
Segment A			
Derivative liabilities			
- Currency spot	-	-	-
- Currency forwards	1,974	660	1,636
	1,974	660	1,636
Segment B			
Derivative liabilities			
- Currency spot	9	5	18
- Currency forwards	1,787	1,465	7,789
	1,796	1,470	7,807

All trading assets and trading liabilities are current in nature.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

19. Loans and advances to banks

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Loans and advances to banks			
In Mauritius (Segment A)	248,858	384,000	527,000
Abroad (Segment B)	83,574	-	77,380
	332,432	384,000	604,380
Less Stage 1 and 2 impairment/ collective allowance	(10)	(7)	-
	332,422	383,993	604,380
<i>Remaining term to maturity</i>			
Up to 3 months	169,995	208,159	92,500
Over 3 months and up to 6 months	53,488	163,334	63,333
Over 6 months and up to 12 months	94,356	7,500	386,046
Over 1 year and up to 5 years	14,583	5,000	62,501
	332,422	383,993	604,380
Current	317,839	378,993	541,879
Non-Current	14,583	5,000	62,501
	332,422	383,993	604,380

20. Loans and advances to customers

	2019 MUR'000	2018 MUR'000	2017 MUR'000
<i>Total</i>			
Retail customers:			
Credit cards	304,677	322,636	356,197
Mortgages	4,390,214	4,306,951	4,152,795
Other retail loans	834,576	851,407	785,312
Corporate customers	6,059,268	6,240,534	7,644,256
Governments	532,327	341,773	41,538
Entities outside Mauritius	3,798,028	2,992,125	52,656
	15,919,090	15,055,426	13,032,754
Less Stage 3 impairment/ specific allowance	(16,872)	(27,103)	(16,694)
Less Stage 1 and 2 impairment/ collective allowance	(36,893)	(41,328)	(12,029)
	15,865,325	14,986,995	13,004,031
<i>Segment A</i>			
Retail customers:			
Credit cards	304,677	322,636	356,197
Mortgages	4,390,214	4,306,951	4,152,795
Other retail loans	834,576	851,407	785,312
Corporate customers	4,740,132	5,765,182	7,347,300
Governments	532,327	341,773	41,538
	10,801,926	11,587,949	12,683,142
Less Stage 3 impairment/ specific allowance	(16,872)	(27,103)	(16,694)
Less Stage 1 and 2 impairment/ collective allowance	(36,893)	(41,328)	(12,029)
	10,748,161	11,519,518	12,654,419

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

20. Loans and advances to customers (continued)

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Segment B			
Entities outside Mauritius	3,798,028	2,992,125	52,656
Global business license holders	1,319,136	475,352	296,956
	5,117,164	3,467,477	349,612

(a) Remaining term to maturity of loans and advances

Bank (Total)	2019 MUR'000	2018 MUR'000	2017 MUR'000
Within 3 months	5,849,573	3,661,899	4,836,423
Over 3 to 6 months	631,339	822,535	450,175
Over 6 to 12 months	131,480	136,701	20,561
Over 1 to 5 years	4,812,645	5,800,958	3,281,700
Over 5 years	4,494,053	4,633,333	4,443,895
	15,919,090	15,055,426	13,032,754
Current	6,612,392	4,621,135	5,307,159
Non-Current	9,306,698	10,434,291	7,725,595
	15,919,090	15,055,426	13,032,754

Segment A	2019 MUR'000	2018 MUR'000	2017 MUR'000
Within 3 months	4,709,098	3,547,807	4,825,799
Over 3 to 6 months	98,707	461,180	163,388
Over 6 to 12 months	71,755	136,646	19,459
Over 1 to 5 years	1,503,793	2,869,177	3,270,258
Over 5 years	4,418,573	4,573,094	4,404,238
	10,801,926	11,587,904	12,683,142
Segment B			
Within 3 months	1,140,475	114,092	10,624
Over 3 to 6 months	532,632	361,355	286,787
Over 6 to 12 months	59,725	55	1,102
Over 1 to 5 years	3,308,852	2,931,781	11,442
Over 5 years	75,480	60,239	39,657
	5,117,164	3,467,522	349,612

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

20. Loans and advances to customers (continued)

(b) Credit concentration of risk by industry sectors

Total credit facilities extended by the Bank to customers classified by industry sectors:

Bank (Total)	2019	2018	2017
	MUR'000	MUR'000	MUR'000
Agriculture and fishing	432,620	726,956	1,742,577
Manufacturing	2,964,980	3,545,053	4,263,331
<i>of which EPZ</i>	1,198,725	1,592,354	1,228,428
Tourism	303,439	135,611	160,961
Construction	4,981,812	4,403,195	4,231,803
Financial and business services	3,415,739	3,742,035	510,063
Traders	690,466	505,556	638,970
Personal	1,144,976	1,178,503	1,145,230
<i>of which credit card</i>	304,677	322,636	356,197
Global business license holders	1,319,136	475,352	296,956
Public non-financial corporations	532,327	341,773	41,538
Other (including infrastructure)	133,595	1,392	1,325
	15,919,090	15,055,426	13,032,754

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

Segment A	2019	2018	2017
	MUR'000	MUR'000	MUR'000
Agriculture and fishing	432,620	726,956	1,742,577
Manufacturing	2,856,148	3,545,053	4,263,331
<i>of which EPZ</i>	1,198,725	1,592,354	1,228,428
Tourism	303,439	135,611	160,961
Construction	4,390,214	4,338,255	4,182,868
Financial and business services	323,864	819,310	510,063
Traders	690,466	505,556	638,970
Personal	1,139,253	1,174,043	1,141,509
<i>of which credit card</i>	304,677	322,636	356,197
Public non-financial corporations	532,327	341,773	41,538
Other (including infrastructure)	133,595	1,392	1,325
	10,801,926	11,587,949	12,683,142

Segment B	2019	2018	2017
	MUR'000	MUR'000	MUR'000
Manufacturing	108,832	-	-
Construction	591,598	64,940	48,935
Financial and business services	3,091,875	2,922,725	-
Personal	5,723	4,460	3,721
Global business licence holders	1,319,136	475,352	296,956
	5,117,164	3,467,477	349,612

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

20. Loans and advances to customers (continued)

(c) Allowance for impairment losses

	Stage 3 MUR'000	Stage 1&2 MUR'000	Total MUR'000
Balance at 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
Provision/(release) for credit impairment for the year	(10,231)	(4,435)	(14,666)
Balance at 31 December 2019	16,872	36,893	53,765

	Specific allowances for impairment MUR'000	Collective portfolio and general provisions MUR'000	Total MUR'000
Balance at 01 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

2019	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	432,620	-	-	1	1
Manufacturing	2,964,980	-	-	491	491
of which EPZ	1,198,725	-	-	199	199
Tourism	303,439	-	-	136	136
Construction	4,981,812	55,972	10,912	16,967	27,879
Financial and business services	3,415,739	-	-	812	812
Traders	690,466	-	-	76	76
Personal	1,144,976	12,975	5,960	18,178	24,138
of which credit card	304,677	1,985	1,054	6,791	7,845
Global business licence holders	1,319,136	-	-	-	-
Public non-financial corporations	532,327	-	-	-	-
Other (including infrastructure)	133,595	-	-	232	232
	15,919,090	68,947	16,872	36,893	53,765

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

20. Loans and advances to customers (continued)

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

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
<i>of which EPZ</i>	<i>1,592,354</i>	-	-	-	-
Tourism	135,611	-	-	51	51
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
<i>of which credit card</i>	<i>322,636</i>	<i>1,767</i>	<i>874</i>	<i>7,678</i>	<i>8,552</i>
Global business licence holders	475,352	-	-	25	25
Other	343,165	-	-	223	223
	15,055,426	60,469	27,103	41,328	68,431

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
<i>of which EPZ</i>	<i>1,228,428</i>	-	-	-	-
Tourism	160,961	-	-	61	61
Construction	4,231,803	45,395	14,528	19	14,547
Financial and business services	510,063	-	-	46	46
Traders	638,970	-	-	960	960
Personal	1,145,230	13,625	2,166	8,795	10,961
<i>of which credit card</i>	<i>356,197</i>	<i>3,173</i>	-	<i>1,867</i>	<i>1,867</i>
Global business licence holders	296,956	-	-	-	-
Other	42,863	-	-	767	767
	13,032,754	59,020	16,694	12,029	28,723

Provision for impairment losses pertain to Segment A activities only.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

21. Investment securities

<i>Bank (Total) and Segment A</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Investment securities carried at FVOCI	7,762,913	6,572,059	6,175,741
Treasury Bills/Notes	7,754,728	6,562,795	6,166,477
Equity shares	8,185	9,264	9,264
	7,762,913	6,572,059	6,175,741
Current	5,209,045	3,943,227	3,743,269
Non-Current	2,553,868	2,628,832	2,432,472
	7,762,913	6,572,059	6,175,741

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

Treasury Bills/Notes	2019 MUR'000	2018 MUR'000	2017 MUR'000
At 01 January	6,563,449	6,166,477	5,695,764
Additions during the year	7,326,700	5,453,450	6,434,449
Disposed during the year	(1,425,000)	-	-
Matured during the year	(4,776,749)	(4,985,400)	(6,034,500)
Amortised discount/premium	(7,929)	(34,857)	69,811
Fair value (loss)/gain	75,150	(36,221)	953
Gross carrying amount	7,755,621	6,563,449	6,166,477
Less impairment	(893)	(654)	-
At 31 December	7,754,728	6,562,795	6,166,477

Equity shares	2019 MUR'000	2018 MUR'000	2017 MUR'000
At 01 January	9,264	9,264	9,264
Fair value (loss)/gain through other comprehensive income	(1,079)	-	-
At 31 December	8,185	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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

22. Property, plant and equipment

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Owned property, plant and equipment	312,920	312,332	248,766
Rights-of-use assets	117,763	-	-
At 31 December	430,683	312,332	248,766

Bank (Total) and Segment A	Right-of-use assets MUR'000	Land and buildings MUR'000	Computer and other equipment MUR'000	Other fixed assets MUR'000	Total MUR'000
Cost					
Balance at 01 January 2017	-	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
Acquisitions	-	-	-	18,991	18,991
Impact on transition of IFRS 16	134,931	-	-	-	134,931
Disposals	-	-	(50,108)	(58,655)	(108,763)
New leases	2,499	-	-	-	2,499
Balance at 31 December 2019	137,430	233,500	47,486	171,826	590,242
Accumulated depreciation					
Balance at 01 January 2017	-	-	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
Depreciation for the year	19,667	1,769	3,535	12,944	37,915
Disposals/write off	-	-	(50,043)	(56,796)	(106,839)
Revaluation adjustment	-	(1,769)	-	-	(1,769)
Balance at 31 December 2019	19,667	-	46,361	93,531	159,559
Net Book Value					
As at 31 December 2019	117,763	233,500	1,125	78,295	430,683
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

The last valuation was carried out on 31 December 2019 by an experienced, qualified independent valuer, Mr. Geoff Kruger who has relevant professional experience in the localities and categories of the properties held.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

22. Property, plant and equipment (continued)

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.

MUR'000	At 31 December 2019			At 31 December 2018			At 31 December 2017		
	Land	Buildings	Total	Land	Buildings	Total	Land	Buildings	Total
Level 3	139,500	94,000	233,500	139,500	94,000	233,500	141,441	84,559	226,000

IFRS 13 reconciliation for Level 3

Bank (Total)	2019 MUR'000	2018 MUR'000	2017 MUR'000
At 01 January	233,500	226,000	212,000
Disposals	-	(7,200)	-
Revaluation	-	14,700	14,000
At 31 December	233,500	233,500	226,000

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 2019, 2018 and 2017.

The cost of land is MUR 651,000 as at 31 December 2019 and is not depreciated (2018: MUR 651,000 and 2017: 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)	2019 MUR'000	2018 MUR'000	2017 MUR'000
Cost	27,500	27,500	27,960
Depreciation	(24,680)	(24,503)	(24,741)
Net book value	2,820	2,997	3,219

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

23. Deferred tax assets

	Retirement benefit obligations (MUR '000)	Revaluation of non- investment property (MUR '000)	Impairment allowances (MUR '000)	Accelerated capital allowances (MUR '000)	Lease (MUR '000)	Total (MUR '000)
At 01 January 2017	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
(Credited)/Charged to profit or loss	(4,960)	-	(949)	(141)	(101)	(6,151)
Charged/(Credited) to other comprehensive income	7,806	-	-	-	-	7,806
At 31 December 2019	48,129	(4,146)	3,919	(978)	(101)	46,823

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

24. Other assets

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Bank (Total)			
Mandatory balances with central bank*	1,490,384	1,416,977	1,502,194
Items in course of collection from other banks	91,225	57,750	55,110
Accrued interest receivable	90,962	92,875	65,940
Other	272,079	336,769	301,290
<i>of which Acceptance & Endorsement</i>	201,674	246,759	209,327
	1,944,650	1,904,371	1,924,534
Less Stage 1 and 2 impairment	(5)	(14)	-
	1,944,645	1,904,357	1,924,534
Segment A			
Mandatory balances with central bank*	1,490,384	1,416,977	1,502,194
Items in course of collection from other banks	91,225	57,750	55,110
Accrued interest receivable	69,223	92,374	65,940
Other	159,452	157,873	297,271
	1,810,284	1,724,974	1,920,515
Less Stage 1 and 2 impairment	(5)	(14)	-
	1,810,279	1,724,960	1,920,515
Segment B			
Accrued interest receivable	21,739	501	-
Other	112,627	178,896	4,019
	134,366	179,397	4,019

*Balance to be maintained with Central Bank as Cash Reserve Requirement. The Balance with Central Bank is non-interest bearing.

All other assets are current in nature.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

25. Deposits from banks

<i>Bank (Total)</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Other deposits from banks	672,989	578,740	268,725
	672,989	578,740	268,725
<i>Segment A</i>			
Other deposits from banks	47,646	24,856	27,088
	47,646	24,856	27,088
<i>Segment B</i>			
Other deposits from banks	625,343	553,884	241,637

All deposits from banks are current.

26. Deposits from customers

<i>Bank (Total)</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Retail customers			
Current accounts	449,961	502,899	529,039
Savings accounts	10,687,295	10,750,071	11,613,308
Time deposits with remaining term to maturity			
Up to 3 months	528,603	237,473	244,926
Over 3 mths and up to 6 mths	381,952	256,548	98,066
Over 6 mths and up to 12 mths	644,994	592,008	201,813
Over 1 year and up to 5 years	731,882	636,298	363,529
Corporate customers			
Current accounts	3,903,047	4,049,547	3,490,588
Savings accounts	142,593	158,706	184,767
Time deposits with remaining term to maturity			
Up to 3 months	1,466,222	1,140,890	2,619,564
Over 3 mths and up to 6 mths	89,362	46,417	61,559
Over 6 mths and up to 12 mths	379,654	467,401	258,215
Over 1 year and up to 5 years	53,052	9,351	45,886
Government			
Current accounts	6,446	7,596	7,174
Savings accounts	-	-	-
Time deposits with remaining term to maturity			
Up to 3 months	2,304	384	1
	19,467,367	18,855,589	19,718,435
Current	18,682,433	18,209,940	19,309,020
Non-Current	784,934	645,649	409,415
	19,467,367	18,855,589	19,718,435

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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.

<i>Segment A</i>	2019 MUR'000	2018 MUR'000	2017 MUR'000
Retail customers			
Current accounts	428,120	460,736	486,102
Savings accounts	10,027,531	10,093,531	10,924,376
Time deposits with remaining term to maturity			
Up to 3 months	477,201	209,869	214,839
Over 3 mths and up to 6 mths	347,442	231,689	83,973
Over 6 mths and up to 12 mths	628,900	547,998	183,820
Over 1 year and up to 5 years	677,939	570,735	312,067
Corporate customers			
Current accounts	3,729,786	3,263,361	2,987,015
Savings accounts	142,593	158,706	184,767
Time deposits with remaining term to maturity			
Up to 3 months	1,440,703	1,005,974	2,086,407
Over 3 mths and up to 6 mths	89,362	43,491	60,152
Over 6 mths and up to 12 mths	175,772	269,365	257,970
Over 1 year and up to 5 years	53,052	9,006	45,886
Government			
Current accounts	6,446	7,596	7,164
Savings accounts	-	-	-
Time deposits with remaining term to maturity			
Up to 3 months	2,304	384	1
	18,227,151	16,872,441	17,834,549
<i>Segment B</i>			
Retail customers			
Current accounts	21,841	42,163	42,938
Savings accounts	659,764	656,540	688,932
Time deposits with remaining term to maturity			
Up to 3 months	51,402	27,604	30,086
Over 3 mths and up to 6 mths	34,510	24,859	14,093
Over 6 mths and up to 12 mths	16,094	44,010	17,993
Over 1 year and up to 5 years	53,943	65,563	51,462
Corporate customers			
Current accounts	173,261	786,186	503,573
Time deposits with remaining term to maturity			
Up to 3 months	25,519	134,916	533,158
Over 3 mths and up to 6 mths	-	2,926	1,407
Over 6 mths and up to 12 mths	203,882	198,036	244
Over 1 year and up to 5 years	-	345	
	1,240,216	1,983,148	1,883,886

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

27. Other borrowed funds

	2019	2018	2017
<i>Bank (Total)</i>	MUR'000	MUR'000	MUR'000
Borrowings from banks			
In Mauritius (Segment A)	1,800,500	1,838,025	2,520,938
Abroad (Segment B)	4,793,150	3,681,035	366,099
	6,593,650	5,519,060	2,887,037
Current	3,620,868	1,844,428	2,887,037
Non-Current	2,972,782	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 USD82m as at 31 December 2019. There have been no defaults during the year.

28. Other liabilities

	2019	2018	2017
<i>Bank (Total)</i>	MUR'000	MUR'000	MUR'000
Accrued interest payable	63,620	57,238	42,933
Accrued expenses	70,662	66,407	58,939
Retirement benefits (see note 29)	388,339	368,917	359,767
Other retirement obligations (unfunded)	10,866	-	-
Lease liabilities (note a)	115,193	-	-
Other	421,135	756,539	659,079
<i>of which: Acceptance and Endorsement</i>	<i>201,674</i>	<i>246,759</i>	<i>209,327</i>
<i>Intercompany recharge costs</i>	<i>37,339</i>	<i>324,835</i>	<i>297,013</i>
<i>Provision for off-balance sheet exposure</i>	<i>1,308</i>	<i>440</i>	<i>-</i>
	1,069,815	1,249,101	1,120,718
Current	681,476	880,184	751,742
Non-Current	388,339	368,917	368,976
	1,069,815	1,249,101	1,120,718
<i>Segment A</i>			
Accrued interest payable	56,651	42,585	42,909
Accrued expenses	70,662	66,407	58,939
Retirement benefits	388,339	368,917	359,767
Other retirement obligations (unfunded)	10,866	-	-
Lease liabilities	115,193	-	-
Other	306,445	579,006	655,626
	948,156	1,056,915	1,117,241
<i>Segment B</i>			
Accrued interest payable	6,969	14,653	24
Other	114,690	177,533	3,453
	121,659	192,186	3,477

Note a - Lease liabilities represent the present value of lease payments over the leases contract period inclusive of the extension option.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

29. Retirement benefits

(a) Defined benefits plan

The plan is a defined benefit arrangement, with benefits based on final salary. It provides for a pension at retirement and a benefit on death or disablement in service before retirement. In addition, the plan provides for a spouse's pension on a member's death in retirement. The spouse's pension is equal to one-third of the member's pension.

The pension plan is managed by a committee which comprise representatives from across the Bank and regulated by the Private Pension Scheme Act 2012. The committee is responsible of the investment policy with regards to the assets of the pension plan in accordance with the Private Pension Scheme Act 2012. The committee has outsourced the portfolio and administrative services of the pension plans to Swan Wealth Managers Ltd and Swan Pensions Ltd with effect from 21 December 2016.

The assets of the funded plan are held and administered by HSBC Superannuation Fund for Resident Officers ("ROCS") and HSBC Superannuation Fund for Staff Officers, Clerical and Subordinate Staff ("SOCS") respectively. The latter is expected to produce a smooth progression of return from one year to the next. As the fund is expected to produce a smooth return, a fairly reasonable indication of future returns can be obtained by looking at historical ones. Therefore, the long term expected return on asset assumption has been based on historical performance of the fund. In terms of the individual expected returns, the expected return on equities has been based on an equity risk premium above a risk free rate. The risk free rate has been measured in accordance to the yields on government bonds at the measurement date. The fixed interest portfolio includes government bonds, loan stocks and mortgages. The expected return for this asset class has been based on yields of government bonds at the measurement date. The actual return on plan assets was MUR20.6m (2018 – MUR22.7m).

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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

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:

	2019	2018	2017
Discount rate			
ROCS Funded	5.10%	6.20%	5.00%
SOCS Funded	5.10%	6.10%	5.00%
ROCS Unfunded	4.20%	5.10%	5.00%
SOCS Unfunded	4.40%	5.10%	5.00%
Future long-term salary increase	3.00%/4.40%	6.00%	4.00%
Future expected pension increase	4.00%	4.00%	3.00%

The retirement benefit liabilities as at 31 December 2019 are based on the report submitted by Swan Life Ltd.

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Equities	116,434	108,235	46,489
Fixed interest	385,177	307,889	88,412
Cash	160,474	143,794	328,114
Total market value of assets	662,085	559,918	463,015
Present value of plan liabilities	(1,050,424)	(928,835)	(822,782)
Net liability for retirement obligations recognised in statement of financial position	(388,339)	(368,917)	(359,767)

Expected contribution next year

The Bank is expected to contribute MUR111.7m (2018 MUR110.0m) to the pension scheme for the year ending 31 December 2020.

Maturity profile of the Defined Benefits Obligation

The average remaining working life of the employees at 31 December 2019 are as follows:

ROCS funded 13 years, ROCS unfunded 5 years, SOCS funded 13 years and SOCS unfunded 6 years.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

29. Retirement benefits (continued)

(a) Defined benefits plan (continued)

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Pension expense components for the year			
Current service cost	19,196	18,336	14,694
Interest cost	56,251	41,155	42,578
Interest income	(37,132)	(23,912)	(25,711)
Net interest cost	19,119	17,243	16,867
Total amount recognised in profit or loss	38,315	35,579	31,561
Movement in liability recognised in statement of financial position			
At start of the year	(368,917)	(359,767)	(295,547)
Total amount recognised in profit or loss	(38,315)	(35,579)	(31,561)
Actuarial losses	(89,287)	(83,394)	(112,584)
Employer's contributions	108,180	109,823	79,925
At end of the year	(388,339)	(368,917)	(359,767)
Change in defined benefit obligations			
Present value of defined benefit obligations			
At start of the year	(928,835)	(822,782)	(711,455)
Current service cost	(19,196)	(18,336)	(14,694)
Interest cost	(56,251)	(41,155)	(42,578)
Actuarial losses	(72,789)	(82,374)	(87,067)
Benefits paid	26,647	35,812	33,011
Present value of defined benefit obligations at end of the year	(1,050,424)	(928,835)	(822,782)
Change in plan assets			
Fair value of plan assets at start of the year	559,918	463,015	415,908
Interest income	37,132	23,912	25,711
Employer's contributions	108,180	109,823	79,925
Actuarial losses	(16,498)	(1,020)	(25,517)
Benefits paid	(26,647)	(35,812)	(33,011)
Fair value of plan assets at end of the year	662,085	559,918	463,015

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

29. Retirement benefits (continued)

(a) Defined benefits plan (continued)

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Analysis of amount recognised in statement of changes in equity			
Losses on pension scheme assets	(16,498)	(1,020)	(25,517)
Experience (losses)/gains on the liabilities	(17,411)	(41,678)	6,865
Changes in financial assumptions on the liabilities	(55,378)	(40,696)	(93,932)
Actuarial loss recognised in other comprehensive income	(89,287)	(83,394)	(112,584)
Net liability relating to the funded plans			
Present value of funded obligations	(1,050,424)	(928,835)	(822,782)
Fair value of plan assets	662,085	559,918	463,015
Deficit of funded plans	(388,339)	(368,917)	(359,767)

Sensitivity analysis

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Decrease in Defined Benefit Obligation due to 1% increase in discount rate	151,581	132,333	116,017
Increase in Defined Benefit Obligation due to 1% increase in future long-term salary assumption	47,181	45,311	34,027
Increase in Defined Benefit Obligation due to 1% increase in future long-term pension assumption	144,437	121,021	97,412

The sensitivity analysis above has been determined based on sensibly possible changes of the discount rate or salary increase rate occurring at the end of the reporting year if all other assumptions remained unchanged.

The sensitivity analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of the one another as some of the assumptions may be correlated.

The retirement benefits liabilities at 31 December 2019 are based on the report prepared by Swan Life Limited in December 2019.

(b) Defined contribution plan

The Bank expects to contribute approximately MUR 11.2m to its post-employment defined contribution plans for the year ending 31 December 2020. As at 31 December 2019, the Bank has a liability, which relates to employees who are entitled to Retirement Gratuities payable under the Employment Rights Act (ERA). The latter provides for a lump sum at retirement based on final salary and years of service. For employees who are members of a pension plan, half of any lump sum and 5 years of pension (relating to Employer's share of contributions only) payable from the Defined Contribution plan have been offset from the Retirement Gratuities.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

29. Retirement benefits (continued)

(b) Defined contribution plan (continued)

The principal actuarial assumptions are:

	2019
Discount rate	5.40%
Future long-term salary increase	3.40%

Maturity profile of the Defined Contribution Obligation

The average remaining working life of the employees at 31 December 2019 are as follows is 22 years.

	2019 MUR'000
Pension expense components for the year	
Current service cost	424
Net interest cost	524
Total amount recognised in profit or loss	948
Movement in liability recognised in statement of financial position	
At start of the year	-
Total amount recognised in profit or loss	(948)
Actuarial losses	(9,918)
Employer's contributions	-
At end of the year	(10,866)
Change in defined contribution obligation	
Present value of defined contribution obligation	
At start of the year	-
Current service cost	(424)
Interest cost	(524)
Actuarial losses	(9,918)
Benefits paid	-
Present value of defined benefit obligation at end of the year	(10,866)
Analysis of amount recognised in statement of changes in equity	
Experience losses on the liabilities	(17,873)
Changes in assumptions underlying the present value of the scheme	7,955
Actuarial loss recognised in other comprehensive income	(9,918)
Cumulative actuarial (losses)/gains recognised	
Cumulative actuarial losses at start of year	-
Actuarial losses recognised this year	(9,918)
Cumulative actuarial losses at end of year	(9,918)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

29. Retirement benefits (continued)

(b) Defined contribution plan (continued)

Net liability relating to the unfunded plans

Unfunded defined contribution obligation

Actuarial (losses) / gains on plan liabilities

2019
MUR'000

(10,866)

(9,918)

Sensitivity analysis

Increase in Retirement Obligation due to 1% decrease in discount rate

Decrease in Retirement Obligation due to 1% increase in discount rate

Increase in Retirement Obligation due to 1% increase in future long-term salary assumption

Decrease in Retirement Obligation due to 1% decrease in future long-term pension assumption

2019
MUR'000

6,349

5,001

6,417

5,127

The sensitivity analysis above has been carried out by recalculating the present value of obligation at end of period after increasing the discount rate/salary increase rate while leaving all other assumptions unchanged. The results are particularly sensitive to a change in discount rate/salary increase rate due to the nature of the liabilities being the difference between the pure retirement gratuities under the Employment Rights Act 2008 and the deductions allowable, being five times the annual pension provided and half the lump sum received by the member at retirement from the pension fund with reference to the Bank's share of contributions.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

30. Capital and reserves

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Other Reserves			
Reserves for own shares	25,323	22,100	21,990
Revaluation reserve	204,101	203,407	195,333
Statutory reserve	306,835	279,380	243,185
General banking reserve	162,170	142,299	156,613
Fair value reserve	53,247	(20,824)	15,397
	751,676	626,362	632,518
Retained Earnings	1,347,030	1,511,499	1,516,703
	2,098,706	2,137,861	2,149,221

a) Assigned capital

The Bank's assigned capital is at MUR400m (2018: MUR300m) which is as per the minimum capital requirement of MUR400m as per Section 20 of the Mauritian Banking Act 2004.

b) Revaluation reserve

The revaluation reserve comprises the cumulative increase in the existing value of freehold land and buildings held by the Bank.

c) Statutory reserve

The Bank's statutory reserve was at MUR307m in accordance 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. To comply with the 1% minimum portfolio provisioning imposed by the Bank of Mauritius through the *Guideline on Credit Impairment and Income Recognition*, any shortfall between the 1% provision and the ECL booked under IFRS 9 is transferred to the General Banking Reserve.

e) Fair value reserve

The fair value reserve comprises the cumulative net change in the financial assets held at FVOCI until the assets are derecognised or impaired.

f) Retained earnings

Retained earnings relates to profit or loss carried forward at year-end.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

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.

	2019
	MUR'000
At 1 January 2017	22,722
Charge to profit or loss	1,478
Fair value movement on shares held	(1,973)
Other movement	(237)
At 31 December 2017	21,990
Charge to profit or loss	776
Fair value movement on shares held	(379)
Other movement	(287)
At 31 December 2018	22,100
Charge to profit or loss	1,308
Fair value movement on shares held	413
Other movement	1,502
At 31 December 2019	25,323

(ii) Share Save

The HSBC Holdings Savings-Related Share Option Plan: International are all-employee share plans under which eligible employees (those employed within the HSBC Group on the first working day of the year of grant) may be granted options to acquire HSBC Holdings ordinary shares. Employees may make contributions of up to £250 (or equivalent) each month over a period of one, three or five years which may be used on the first, third or fifth anniversary of the commencement of the relevant savings contract, at the employee's election, to exercise the options. Alternatively, the employee may elect to have the savings, plus (where applicable) any interest or bonus, repaid in cash. One-year options will be exercisable within three months following the first anniversary of the commencement of the savings contract.

Three or five-year options are exercisable within six months following the third or fifth anniversary of the commencement of the relevant savings contract. In the case of redundancy, retirement on grounds of injury or ill health, retirement, the transfer of the employing business to another party, or a change of control of the employing company, options may be exercised before completion of the relevant savings contract.

As from 2013, there has been no further grants under the HSBC Holdings Savings-Related Share Option Plan: International.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

30. Capital and reserves (continued)

g) Reserves for own shares (continued)

(ii) Share Save (continued)

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

<i>Share save – 5 - year plan</i>	2019	2018	2017
At 01 January	-	-	358
Granted during the year	-	-	-
Forfeited during the year	-	-	-
Expired during the year	-	-	(358)
Intercompany transfer	-	-	-
At 31 December	-	-	-

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.

	2019 MUR'000	2018 MUR'000	2017 MUR'000
<i>Bank (Total)</i>			
Guarantees on account of customers	2,023,620	1,986,894	2,202,844
Letters of credit and other obligations	1,580,895	3,390,324	68,970
	3,604,515	5,377,218	2,271,814
<i>Segment A</i>			
Guarantees on account of customers	1,038,630	1,327,805	819,046
Letters of credit and other obligations	113,647	194,785	68,970
	1,152,277	1,522,590	888,016
<i>Segment B</i>			
Guarantees on account of customers	984,990	659,089	1,383,798
Letters of credit and other obligations	1,467,248	3,195,539	-
	2,452,238	3,854,628	1,383,798

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

32. Commitments

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Bank (Total)			
Capital commitments	-	-	11,134
Undrawn credit facilities	10,456,997	7,579,614	7,430,326
	10,456,997	7,579,614	7,441,460
Segment A			
Capital commitments	-	-	11,134
Undrawn credit facilities	6,672,850	6,229,956	5,762,672
	6,672,850	6,229,956	5,773,806
Segment B			
Undrawn credit facilities	3,784,147	1,349,658	1,667,654

33. Analysis of cash and cash equivalents

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Bank (Total)			
Cash and cash equivalents (Note 17)	3,997,601	4,485,191	4,392,528
Other borrowed funds	(1,617)	(778,493)	(2,887,037)
	3,995,984	3,706,698	1,505,491

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:

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Loans	26,897	24,344	26,583
Interest income	672	614	625
Deposits	31,526	22,605	18,252
Interest expense	178	130	224
Key management compensation			
Short-term employee benefits	68,307	78,064	65,383
Share based payments	3,004	2,754	1,566
Other long-term benefits	14,934	8,953	-
Post-employment benefits	-	-	9,294
Key management exposure (MUR'000)	42,778	39,600	35,900
% of Tier 1 capital	2.1	2.0	1.9

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

Notes to and forming part of the financial statements
for the year ended 31 December 2019 (continued)

34. Related party transactions (continued)

Group Companies (continued)

	31 December 2017			
	HSBC Hong Kong	HSBC Bank Plc	Other related parties	Total
<i>Statement of financial position:</i>				
<i>Assets</i>				
Intercompany bank accounts	312,385	297,189	789,241	1,398,815
Balances and placements with banks	433,582	163	536,985	970,730
<i>Liabilities</i>				
Other accounts liabilities	655,684	-	2,525,326	3,181,010
Intercompany bank accounts	4,640	20,921	66,012	91,573
<i>Statement of profit or loss and other comprehensive income:</i>				
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

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 2019.

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 ALCO, RMM committees, which are responsible for developing and monitoring the Bank's risk management policies in their specified areas.

The Bank's risk management policies are established to identify and analyse the risks faced by the Bank, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions, products and services offered. The Bank, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment, in which all employees understand their roles and obligations.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(a) Introduction and overview (continued)

Risk management framework (continued)

The Group Audit Committee is responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank. The Group Audit Committee is assisted in these functions by Internal Audit. Internal Audit undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the Group Audit Committee.

The credit risk management framework of the Bank includes a Risk Management Meeting ("RMM"), which provides a holistic forum for oversight of the different aspects of risk management. The RMM reviews the risk profile of the Bank on a monthly basis and highlights risk issues across all businesses at an early stage. The Bank's information system, has been designed such that unauthorised excesses, overdue loan repayments and pending documentation are tracked and addressed in a timely manner. In addition, regular reporting on credit risk is made to the parent, The Hongkong and Shanghai Banking Corporation Limited, incorporated in Hong Kong, and to the Bank of Mauritius.

(b) Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and other banks and investment debt securities. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

For risk management purposes, credit risk arising on trading assets is managed independently; and information thereon is disclosed below. The market risk in respect of changes in value in trading assets arising from changes in market credit spreads applied to debt securities and derivatives included in trading assets is managed as a component of market risk.

(i) Management of credit risk

The Global Risk function, headed by the Group Chief Risk Officer, has functional responsibility for the management of the Bank's credit risk, including:

- formulating credit policies in consultation with business units, covering collateral requirements, credit assessment, risk grading and reporting, documentary and legal procedures, and compliance with regulatory and statutory requirements;
- establishing the authorisation structure for the approval and renewal of credit facilities;
- reviewing and assessing credit risk in excess of designated limits;
- reviewing and limiting concentrations of exposure to counterparties, geographies and industries and product types;
- developing and maintaining the Bank's risk rating systems; and
- providing advice, guidance and specialist skills to business units to promote best practice throughout HSBC Group in the management of credit risk.

Notes to and forming part of the financial statements
for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

Each business unit within the Group is required to implement HSBC Group credit policies and procedures, with credit approval authorities delegated from the HSBC Group Credit Committee. Each business unit has a Chief Risk Officer who is responsible for the implementation of the HSBC Group's credit policies and procedures and for monitoring and controlling all credit risks in its portfolios.

For rating assignment at individually significant customer level, businesses adopt an internal ratings-based ("IRB") approach and maintain risk rating methodologies incorporating the PD and the attribution of EAD and LGD values at facility level.

PD reflects the likelihood of the obligor default within the next 12 months or the life of the instrument, and is assigned to all corporate and other judgmentally assessed obligors, reviewed at least annually.

LGD, is an estimate of the severity of the loss that the Bank is likely to incur in the event that the borrower defaults, expressed as a percentage of exposure at default and applied as a rating at facility level. The use of EAD and LGD ensure the Bank complies with Group and local regulatory parameters to evaluate the severity of loss associated with judgmentally assessed credit exposures.

Regular audits of business units and HSBC Group Credit processes are undertaken by the Internal Audit function.

The Bank assesses the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2. The five credit quality classifications defined below, each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. As at 31 December 2019, 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- BB+ to B and unrated	CRR3	0.170–0.740	Band 3	0.501–1.500
Satisfactory		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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

2019

	Gross carrying/nominal amount						Allowance for ECL	Net
	Strong MUR'000	Good MUR'000	Satisfactory MUR'000	Sub-standard MUR'000	Credit impaired MUR'000	Total MUR'000	MUR'000	MUR'000
Loans and advances to customers at amortised cost	15,427,878	263,755	18,902	139,608	68,947	15,919,090	(53,765)	15,865,325
– Personal	5,300,642	2,543	18,901	139,608	68,947	5,530,641	(52,032)	5,478,609
– corporate and commercial	6,889,887	261,212	1	-	-	7,151,100	(1,064)	7,150,036
– non-bank financial institutions	3,237,349	-	-	-	-	3,237,349	(669)	3,236,680
Loans and advances to banks at amortised cost	332,432	-	-	-	-	332,432	(10)	332,422
Other financial assets measured at amortised cost	5,470,730	1,507	93,131	798	-	5,566,166	(5)	5,566,161
– cash and cash equivalents*	3,721,079	-	-	-	-	3,721,079	-	3,721,079
– acceptance and endorsement	108,651	-	93,023	-	-	201,674	(5)	201,669
– mandatory balances with central bank	1,490,384	-	-	-	-	1,490,384	-	1,490,384
– accrued income and other assets	150,616	1,507	108	798	-	153,029	-	153,029
Investment securities measured at FVOCI	7,755,621	-	-	-	-	7,755,621	(893)	7,754,728
Trading assets measured at FVPL	1,502	-	-	473	-	1,975	-	1,975
Total gross carrying amount on balance sheet	28,988,163	265,262	112,033	140,879	68,947	29,575,284	(54,673)	29,520,611
Loan and other credit related commitments	5,217,578	2,503,799	2,713,740	21,880	-	10,456,997	(387)	10,456,610
Financial guarantee and similar contracts	2,454,788	398,948	747,942	1,987	850	3,604,515	(921)	3,603,594
Total nominal amount off-balance sheet	7,672,366	2,902,747	3,461,682	23,867	850	14,061,512	(1,308)	14,060,204
At 31 December 2019	36,660,529	3,168,009	3,573,715	164,746	69,797	43,636,796	(55,981)	43,580,815

*Cash and cash equivalents exclude cash in hand and foreign currency notes and coins.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

	Gross carrying/nominal amount						Allowance for	
	Strong	Good	Satisfactory	Sub-standard	Credit	Total	ECL	Net
	MUR'000	MUR'000	MUR'000	MUR'000	impaired	MUR'000	MUR'000	MUR'000
					MUR'000			
Loans and advances to customers at amortised cost	10,125,231	2,258,280	1,393,619	1,217,827	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	2,235,205	1,909,194	900,174	1,058,528	-	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 endorsement	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)	27,890,733
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)	40,847,125

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Total loans and advances at amortised cost by portfolio stage distribution

<u>2019</u>	<u>Gross carrying amount</u>				<u>Allowance for ECL</u>			
	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000
<u>By portfolio</u>								
<i>Personal lending</i>	5,300,641	161,052	68,947	5,530,640	(15,328)	(19,832)	(16,872)	(52,032)
Residential mortgages	4,190,510	136,157	55,972	4,382,639	(2,486)	(14,474)	(10,912)	(27,872)
				-				
Other personal lending	1,110,131	24,895	12,975	1,148,001	(12,842)	(5,358)	(5,960)	(24,160)
- other	809,982	22,352	10,990	843,324	(7,922)	(3,487)	(4,906)	(16,315)
- credit cards	300,149	2,543	1,985	304,677	(4,920)	(1,871)	(1,054)	(7,845)
<i>Wholesale</i>	7,838,038	2,882,844	-	10,720,882	(1,343)	(400)	-	(1,743)
Corporate and commercial	4,268,257	2,882,844	-	7,151,101	(670)	(394)	-	(1,064)
Non bank financial institutions	3,237,349	-	-	3,237,349	(663)	(6)	-	(669)
Bank	332,432	-	-	332,432	(10)	-	-	(10)
				-				
At 31 December 2019	13,138,679	3,043,896	68,947	16,251,522	(16,671)	(20,232)	(16,872)	(53,775)

For the purpose of credit risk disclosures, the renegotiated facilities are not included under Stage 3. Refer to page 154 for the disclosure on renegotiated facilities.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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

2018	Gross carrying amount				Allowance for ECL			
	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000
<u>By portfolio</u>								
Personal lending	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)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (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 carrying amount				Allowance for ECL				ECL coverage %
		Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	
	%									
Residential mortgages		4,190,510	136,157	55,972	4,382,639	(2,486)	(14,474)	(10,912)	(27,872)	0.64
Band 1	0.000 to 0.250	39,573	-	-	39,573	-	-	-	-	-
Band 2	0.251 to 0.500	4,150,937	-	-	4,150,937	(2,486)	-	-	(2,486)	0.06
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	-	136,157	-	136,157	-	(14,474)	-	(14,474)	10.63
Band 7	100.000	-	-	55,972	55,972	-	-	(10,912)	(10,912)	19.50
Other personal lending		1,110,131	24,895	12,975	1,148,001	(12,842)	(5,358)	(5,960)	(24,160)	2.10
Band 1	0.000 to 0.250	932,485	-	-	932,485	(12,733)	-	-	(12,733)	1.37
Band 2	0.251 to 0.500	177,646	-	-	177,646	(109)	-	-	(109)	-
Band 3	0.501 to 1.500	-	2,544	-	2,544	-	-	-	-	-
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	18,900	-	18,900	-	(4,983)	-	(4,983)	26.37
Band 6	20.001 to 99.999	-	3,451	-	3,451	-	(375)	-	(375)	10.87
Band 7	100.000	-	-	12,975	12,975	-	-	(5,960)	(5,960)	45.93
At 31 December 2019		5,300,641	161,052	68,947	5,530,640	(15,328)	(19,832)	(16,872)	(52,032)	0.94

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (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

2018	PD range	Gross carrying amount				Allowance for ECL				ECL coverage %
		Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	
Residential mortgages		4,168,591	155,128	50,147	4,373,866	(1,344)	(16,872)	(21,430)	(39,646)	0.91
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)	0.03
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)	10.88
Band 7	100.000	-	-	50,147	50,147	-	-	(21,430)	(21,430)	42.73
Other personal lending		1,132,832	35,349	10,322	1,178,503	(13,253)	(7,446)	(5,673)	(26,372)	2.24
Band 1	0.000 to 0.250	628,036	-	-	628,036	(8,015)	-	-	(8,015)	1.28
Band 2	0.251 to 0.500	40,293	-	-	40,293	(26)	-	-	(26)	0.06
Band 3	0.501 to 1.500	464,503	6,261	-	470,764	(5,212)	-	-	(5,212)	1.11
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	28,445	-	28,445	-	(7,373)	-	(7,373)	25.92
Band 6	20.001 to 99.999	-	643	-	643	-	(73)	-	(73)	11.35
Band 7	100.000	-	-	10,322	10,322	-	-	(5,673)	(5,673)	54.96
At 31 December 2018		5,301,423	190,477	60,469	5,552,369	(14,597)	(24,318)	(27,103)	(66,018)	1.19

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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

2019

	PD range %	Gross carrying amount				Allowance for ECL				ECL coverage %
		Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	
Corporate and Commercial		4,268,257	2,882,844	-	7,151,101	(670)	(394)	-	(1,064)	0.01
CRR1	0.000 to 0.053	80,936	-	-	80,936	(1)	-	-	(1)	0.00
CRR2	0.054 to 0.169	762,884	-	-	762,884	(5)	-	-	(5)	0.00
CRR3	0.170 to 0.740	915,672	567,120	-	1,482,792	(39)	(71)	-	(110)	0.01
CRR4	0.741 to 1.927	1,635,400	1,831,740	-	3,467,140	(154)	(204)	-	(358)	0.01
CRR5	1.928 to 4.914	873,365	430,389	-	1,303,754	(471)	(69)	-	(540)	0.04
CRR6	4.915 to 8.860	-	53,594	-	53,594	-	(50)	-	(50)	0.09
CRR7	8.861 to 15.000	-	1	-	1	-	-	-	-	-
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
Non bank financial institutions		3,237,349	-	-	3,237,349	(663)	(6)	-	(669)	0.02
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	-
CRR2	0.054 to 0.169	-	-	-	-	-	-	-	-	-
CRR3	0.170 to 0.740	3,088,849	-	-	3,088,849	(564)	-	-	(564)	0.02
CRR4	0.741 to 1.927	-	-	-	-	-	-	-	-	-
CRR5	1.928 to 4.914	148,500	-	-	148,500	(99)	(6)	-	(105)	0.07
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	-
CRR7	8.861 to 15.000	-	-	-	-	-	-	-	-	-
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	-
CRR9/10	100.000	-	-	-	-	-	-	-	-	-
Banks		332,432	-	-	332,432	(10)	-	-	(10)	0.00
CRR1	0.000 to 0.053	268,157	-	-	268,157	(8)	-	-	(8)	0.00
CRR2	0.054 to 0.169	64,275	-	-	64,275	(2)	-	-	(2)	0.00
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 2019		7,838,038	2,882,844	-	10,720,882	(1,343)	(400)	-	(1,743)	0.02

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (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

2018

	PD range	Gross carrying amount				Allowance for ECL				ECL coverage %
		Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	Stage 1 MUR'000	Stage 2 MUR'000	Stage 3 MUR'000	Total MUR'000	
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

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis

(A) *Expected credit loss measurement*

IFRS 9 outlines a 'three-stage' model for impairment based on changes in credit quality since initial recognition as summarised below:

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.
- If a significant increase in credit risk ("SICR") since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. A description of how the Bank determines when a significant increase in credit risk has occurred is given below.
- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. A description of how the Bank defines credit-impaired and default is given below.
- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is given below.
- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. An explanation of how the Bank has incorporated this in its ECL models is given below.
- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

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

In general, the Bank calculates ECL using three main components, a PD, a LGD, and the EAD. The 12-month ECL is calculated by multiplying the 12-month PD, LGD, and EAD. Lifetime ECL is calculated on a similar basis for the lifetime. The 12-month and lifetime PDs represent the probability of default occurring over the next 12 months and the remaining maturity of the instrument, respectively.

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

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

The measurement of ECL needs to take into account forecast of future economic conditions. This could be incorporated into the measurement of ECL in more than one way. In theory, forecast economic conditions could be expanded into full credit risk variables. These variables are incorporated into the risk parameters (PDs, LGDs and EADs) used to determine IFRS 9 stage allocation and ECL measurement. This is possible if the risk parameters are calculated using an economic response model. The projection of future economic conditions relies on point in time statistical models supplemented by judgement or based entirely on judgement where there is insufficient data and correlations to develop statistically based models. Where PDs are adjusted on a systemised basis, stage allocation is determined using PDs which are calculated on a probability weighted basis. The ECL is then measured on a probability weighted basis based on this stage allocation. In practice, methods that put less pressure on calculations performed during the reporting periods may be used, for example, the use of scalars provided that these methods meet the measurement objective. Simplified approaches which rely on the judgement of credit risk managers are applied where models do not support a systemised approach, e.g. the use of discounted cash flow models.

The following diagram summarises the impairment requirements under IFRS 9 (other than purchased or originated credit-impaired financial assets):

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

Stage 1 and 2

IFRS 9 credit risk models (IFRS 9 models) produce a number of risk component estimates that are used to measure ECL allowances and provisions for Stage 1 and 2 instruments. These models must be developed, implemented and maintained in line with approved global model standards. Stage 1 and 2 ECL allowances and provisions must be measured on either up to 12 months or lifetime ECL basis (depending on stage allocation) in a way that is unbiased and probability-weighted and incorporates forecasts of future economic conditions.

Stage 3

The ECL allowance assessment for financial instruments graded CRR 9/10 (i.e. Stage 3) must be determined on a Lifetime ECL basis.

Furthermore, expected credit losses of any financial instrument should also be measured in a way that reflects:

- 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.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

Stage 3 (continued)

The ECL under stage 3 is determined on an individual basis using a discounted cash flow (“DCF”) methodology. The expected future cash flows are based on the credit risk officer’s estimates as at the 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 for both retail and wholesale. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

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:

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

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. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

Under IFRS 9, the scope of impairment now covers amortised cost of financial assets, loan commitments and financial guarantees, as well as debt instruments measured at FVOCI. Impairment is calculated in three stages and financial instruments are allocated into one of the three stages where the transfer mechanism depends on whether there is a significant increase in credit risk between its first recognition and the relevant reporting period. After the allocation, the measurement of ECL, which is the product of PD, LGD and EAD, will reflect the change in risk of default occurring over the remaining life of the instruments.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(E) *Definition of default and credit-impaired assets*

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 unlikelihood to pay. The criteria for unlikelihood to pay are similar to the definition of credit-impaired under IFRS 9 and in general, default for regulatory reporting purposes does not occur later than when a financial asset is 90 days past due as well.

In view of the above, the Bank has decided to align the IFRS 9 definition of default and Basel definition of 'default' whenever possible. The Bank has decided not to rebut the presumption introduced by IFRS 9, that is, default does not occur later than when a financial asset is 90 days past due. The use of the same default definition ensures that a single and consistent view of credit risk is applied for internal risk management, regulatory capital, and impairment calculations. In addition, since the criteria for credit-impaired under IFRS 9 can be interpreted consistently with the accounting default definition, all accounting defaults are considered to be credit-impaired and all credit-impaired assets are considered to be defaulted for accounting purposes.

(F) *Movement between stages*

Financial assets can be transferred between the different categories (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.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(G) *Write-off policy*

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Bank's RMM determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. A total amount of MUR9.0m (2018: MUR11.4m) was written off during the year, which is still subject to enforcement activity. The Bank is complying with BoM *Guideline on Write-Off of Non-Performing Assets* issued in July 2019.

(H) *Collaterals*

Although collateral can be an important mitigant of credit risk, it is the Bank's general practice to lend on the basis of the customer's ability to meet their obligations out of their cash flow resources rather than rely on the value of security offered. Depending on the customer's standing and the type of product, facilities may be provided unsecured. For other lending, a charge over collateral is obtained and considered in determining the credit decision and pricing. In the event of default, the Bank may use the collateral as a source of repayment. There has been no change in the Bank's collateral policy for the year and there are no financial instruments for which the underlying collaterals would have resulted in no impairment allowance.

The Bank holds collateral against loans and advances to customers in the form of mortgage on property, deposit and securities under lien and charge on plant and machinery. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated every 3 years and every year when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2019, 31 December 2018 and 31 December 2017. Additional information on collaterals is available in note 35 (b)(iv).

(I) *Modification of financial assets*

The Bank sometimes modifies the terms of loans provided to customers due to commercial renegotiations, or for distressed loans, with a view to maximising recovery.

Such restructuring activities include extended payment term arrangements, payment holidays and payment forgiveness. Restructuring policies and practices are based on indicators or criteria which, in the judgement of management, indicate that payment will most likely continue. These policies are kept under continuous review. Restructuring is most commonly applied to term loans.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(I) Modification of financial assets (continued)

The risk of default of such assets after modification is assessed at the reporting date and compared with the risk under the original terms at initial recognition, when the modification is not substantial and so does not result in derecognition of the original asset. The Bank monitors the subsequent performance of modified assets. The Bank may determine that the credit risk has significantly improved after restructuring, so that the assets are moved from Stage 3 or Stage 2 (Lifetime ECL) to Stage 1 (12-month ECL). This is only the case for assets which have performed in accordance with the new terms for a minimum period of one year or more.

The Bank continues to monitor if there is a subsequent significant increase in credit risk in relation to such assets through the use of specific models for modified assets.

(J) *Renegotiated loans and forbearance*

The following table shows the gross carrying amounts of the Bank's holdings of renegotiated loans and advances to customers by industry sector and by stages. The Bank does not hold any wholesale renegotiated loans as at 31 December 2019, however renegotiated loans are 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 cost by stage allocation

	Stage 3 MUR'000 2019	Total MUR'000 2019	Stage 3 MUR'000 2018	Total MUR'000 2018
<u>Gross carrying amount</u>				
Personal lending	23,967	23,967	22,585	22,585
– Residential mortgages	23,967	23,967	22,585	22,585
– Other personal lending	-	-	-	-
At 31 December	23,967	23,967	22,585	22,585
<u>Allowance for ECL</u>				
Personal lending	(3,785)	(3,785)	(3,511)	(3,511)
– Residential mortgages	(3,785)	(3,785)	(3,511)	(3,511)
– Other personal lending	-	-	-	-
At 31 December	(3,785)	(3,785)	(3,511)	(3,511)

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(K) *Forward looking economic inputs*

The recognition and measurement of expected credit loss (“ECL”) is highly complex and involves the use of significant judgement and estimation. This includes the formulation and incorporation of multiple forward-looking economic conditions into the ECL estimates to meet the measurement objective of IFRS 9.

The HSBC group has adopted the use of 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 2019, the impact of the FEG was insignificant.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for ECL. 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 credit risks are managed.

	Gross carrying/nominal amount MUR'000 2019	Allowance for ECL MUR'000 2019	Gross carrying/nominal amount MUR'000 2018	Allowance for ECL MUR'000 2018
Loans and advances to customers at amortised cost:	15,919,090	(53,765)	15,055,426	(68,431)
- Personal	5,530,641	(52,032)	5,552,369	(66,018)
- Corporate and Commercial	7,151,100	(1,064)	6,103,101	(2,274)
- Non-bank financial institutions	3,237,349	(669)	3,399,956	(139)
Loans and advances to banks at amortised cost:	332,432	(10)	384,000	(7)
Other financial assets at amortised costs:	5,566,166	(5)	6,004,880	(14)
- cash and cash equivalents	3,721,079	-	4,187,801	-
- acceptance and endorsement	201,674	(5)	246,759	(14)
- mandatory balances with central bank	1,490,384	-	1,416,977	-
- accrued income and other assets	153,029	-	95,593	-
Total gross carrying amount on balance sheet	21,817,688	(53,780)	21,444,306	(68,452)
Loan and other credit related commitments	10,456,997	(387)	7,579,614	(337)
Financial guarantee and similar contracts	3,604,515	(921)	5,377,218	(103)
Total nominal amount off-balance sheet	14,061,512	(1,308)	12,956,832	(440)
At 31 December 2019	35,879,200	(55,088)	34,401,138	(68,892)
	Fair Value	Allowance for	Fair Value	Allowance for
	MUR'000	ECL	MUR'000	ECL
	2019	2019	2018	2018
At 31 December 2019	7,757,596	(893)	6,573,283	(654)
Investment securities measured at FVOCI (Stage 1)	7,755,621	(893)	6,572,713	(654)
Trading assets measured at FVPL	1,975	-	570	-

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

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

2019

	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:	12,806,248	3,043,896	110,919	12,678	68,947	15,919,090	(16,661)	(20,232)	(8,208)	(2,150)	(16,872)	(53,766)	0.1%	0.7%	7.4%	17.0%	24.5%	0.3%
- Personal	5,300,642	161,052	69,580	12,678	68,947	5,530,641	(15,328)	(19,832)	(8,195)	(2,150)	(16,872)	(52,032)	0.3%	12.3%	11.8%	17.0%	24.5%	0.9%
- Corporate and Commercial	4,268,257	2,882,844	41,339	-	-	7,151,100	(670)	(394)	(14)	-	-	(1,064)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Non-bank financial institutions	3,237,349	-	-	-	-	3,237,349	(663)	(6)	-	-	-	(669)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances to banks at amortised cost:	332,432	-	-	-	-	332,432	(10)	-	-	-	-	(10)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other financial assets measured at amortised cost	5,488,175	77,991	-	-	-	5,566,166	(1)	(4)	-	-	-	(5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan and other credit related commitments:	9,915,732	541,265	-	-	-	10,456,997	(318)	(69)	-	-	-	(387)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial guarantee and similar contracts	2,551,009	1,052,656	-	-	850	3,604,515	(27)	(44)	-	-	(850)	(921)	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%
At 31 December 2019	31,093,596	4,715,807	110,919	12,678	69,797	35,879,200	(17,018)	(20,349)	(8,208)	(2,150)	(17,722)	(55,089)	0.1%	0.4%	7.4%	17.0%	25.4%	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).

2018

	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	6,312,479	71,056	-	-	-	6,383,535	(12)	(2)	-	-	-	(14)	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	(184)	(153)	-	-	-	(337)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial guarantee and similar contracts	4,589,443	786,925	-	-	850	5,377,218	(21)	(40)	-	-	(42)	(103)	0.0%	0.0%	0.0%	0.0%	4.9%	0.0%
At 31 December 2018	30,961,206	3,757,268	100,781	18,850	61,319	34,779,793	(16,855)	(24,892)	(8,762)	(1,890)	(27,145)	(68,892)	0.1%	0.7%	8.7%	10.0%	44.3%	0.2%

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

Collateral and other credit enhancements

The Bank employs a range of policies and practices to mitigate credit risk. The most common of these is accepting collateral for funds advanced. The Bank has internal policies on the acceptability of specific classes of collateral or credit risk mitigation.

The Bank prepares a valuation of the collateral obtained as part of the loan origination process. This assessment is reviewed periodically. The principal collateral types for loans and advances are:

- Mortgages over residential properties;
- Margin agreement for derivatives, for which the Bank has also entered into master netting agreements;
- Charges over business assets such as premises, inventory and accounts receivable; and
- Charges over financial instruments such as debt securities and equities.

Longer-term finance and lending to corporate entities are generally secured; revolving individual credit facilities are generally unsecured.

Collateral held as security for financial assets other than loans and advances depends on the nature of the instrument. Debt securities, treasury and other eligible bills are generally unsecured, with the exception of asset-backed securities and similar instruments, which are secured by portfolios of financial instruments. Derivatives are also collateralised.

The Bank's policies regarding obtaining collateral have not significantly changed during the reporting period and there has been no significant change in the overall quality of the collateral held by the Bank since the prior period.

The Bank closely monitors collateral held for financial assets considered to be credit-impaired, as it becomes more likely that the Bank will take possession of collateral to mitigate potential credit losses. Financial assets that are credit-impaired and related collateral held in order to mitigate potential losses are shown below:

	Gross exposure MUR'000	Impairment allowance MUR'000	Carrying amount MUR'000	Fair value of collateral held MUR'000
Credit-impaired assets				
Loans to customers				
Personal				
- Mortgages	55,972	(10,912)	45,060	44,906
- Credit cards	1,985	(1,054)	931	-
- Other personal lending	10,990	(4,906)	6,084	4,911
Total credit-impaired assets	68,947	(16,872)	52,075	49,817

As at 31 December 2019, the Bank did not have any repossessed collateral (2018: nil, 2017: nil).

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

Collateral and other credit enhancements (continued)

The following table shows the distribution of LTV ratios for the Bank's mortgage credit-impaired portfolio:

Mortgage portfolio - LTV distribution	Credit-impaired (Gross carrying amount)
	MUR'000
Lower than 50%	1,596
50% to 60%	9,502
60% to 70%	8,232
70% to 80%	9,488
80% to 90%	17,401
90% to 100%	9,753
Higher than 100%	-
Total	55,972

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

The loss allowance recognised in the period is impacted by a variety of factors, as described below:

- Transfers between Stage 1 and Stages 2 or 3 due to financial instruments experiencing significant increases (or decreases) of credit risk or becoming credit-impaired in the period, and the consequent "step up" (or "step down") between 12-month and Lifetime ECL;
- Additional allowances for new financial instruments recognised during the period, as well as releases for financial instruments de-recognised in the period;
- Impact on the measurement of ECL due to changes in PDs, EADs and LGDs in the period, arising from regular refreshing of inputs to models;
- Impacts on the measurement of ECL due to changes made to models and assumptions;
- Discount unwind within ECL due to the passage of time, as ECL is measured on a present value basis;
- Foreign exchange retranslations for assets denominated in foreign currencies and other movements; and
- Financial assets derecognised during the period and write-offs of allowances related to assets that were written off during the year (see note 3(g)(vi)).

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

2019	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January 2019	24,648,727	(16,844)	3,686,212	(24,890)	61,319	(27,145)	28,396,258	(68,879)
Transfers of financial instruments:	(2,708,525)	(50,873)	2,696,544	51,497	11,981	(624)	-	-
- transfers from stage 1 to stage 2	(3,882,448)	1,740	3,882,448	(1,740)	-	-	-	-
- transfers from stage 2 to stage 1	1,173,923	(52,613)	(1,173,923)	52,613	-	-	-	-
- transfers to stage 3	-	-	(22,089)	3,036	22,089	(3,036)	-	-
- transfers from stage 3	-	-	10,108	(2,412)	(10,108)	2,412	-	-
Net remeasurement of ECL arising from transfer of stage	-	36,611	-	(15,423)	-	(10)	-	21,178
Net new and further lending/repayments	6,925,249	(5,772)	-	-	-	-	6,925,249	(5,772)
Changes in risk parameters - credit quality	(1,635,019)	15,011	(587,671)	(36,279)	89,454	(6,003)	(2,133,236)	(27,271)
Asset derecognised (including final repayment)	(1,625,011)	4,852	(1,157,269)	4,749	(83,938)	7,041	(2,866,218)	16,642
Assets written off	-	-	-	-	(9,019)	9,019	(9,019)	9,019
At 31 December 2019	25,605,421	(17,015)	4,637,816	(20,346)	69,797	(17,722)	30,313,034	(55,083)
ECL release/(charge) for the year	-	(174)	-	4,544	-	9,425	-	13,795
Recoveries	-	-	-	-	-	-	-	5,136
Write off	-	-	-	-	-	(9,019)	-	(9,019)
Total change in ECL for the year	-	-	-	-	-	-	-	9,912

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

2018	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 01 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
Assets written off	-	-	-	-	(11,406)	11,406	(11,406)	11,406
At 31 December 2018	24,648,727	(16,844)	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)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure

Maximum exposure to credit risk

The Bank's credit exposure is spread across a broad range of asset classes, including trading assets, loans and advances to customers, loans and advances to banks. The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities. Total exposure to credit risk remained broadly unchanged in 2019 with loans and advances continuing to be the largest element.

		2019	2018	2017
	Note	MUR'000	MUR'000	MUR'000
Cash and cash equivalents	(A)	3,721,079	4,187,801	4,229,192
Trading assets	(B)	1,975	570	800
Loans and advances to banks	(C)	332,422	383,993	604,380
Loans and advances to customers	(C)	15,865,325	14,986,995	13,004,031
Investment securities	(D)	7,762,913	6,572,059	6,175,741
Other assets	(E)	1,845,082	1,759,315	1,920,332
Financial guarantees and other credit-related contingent liabilities	(F)	3,603,594	5,377,115	2,271,814
Loan and other credit-related commitments	(G)	10,456,610	7,579,277	7,430,326
		43,589,000	40,847,125	35,636,616

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 MUR3.7bn (2018: MUR4.2bn) which represents its maximum credit exposure on these assets, which excludes cash in hand and foreign currency notes and coins.

(B) Trading Assets

The Bank held trading assets of MUR2.0m at 31 December 2019 (2018: MUR0.6m). An analysis of the credit quality of the maximum credit exposure is as follows:

		2019	2018	2017
		MUR'000	MUR'000	MUR'000
Government bonds and treasury bills		-	-	-
Derivatives assets:				
- Bank counterparties	18	687	570	117
- Non-bank counterparties	18	1,288	-	683
		1,975	570	800

The derivatives assets are with Group banks and local corporates.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (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		
	2019 MUR'000	2018 MUR'000	2017 MUR'000	2019 MUR'000	2018 MUR'000	2017 MUR'000
Neither past due nor impaired	15,577,539	14,758,972	12,752,957	332,432	384,000	1,513,897
Past due but not impaired	272,604	235,985	220,777	-	-	-
Individually impaired	68,947	60,469	59,020	-	-	-
Gross	15,919,090	15,055,426	13,032,754	332,432	384,000	1,513,897
Less: allowance for impairment	(53,765)	(68,431)	(28,723)	(10)	(7)	-
Net	15,865,325	14,986,995	13,004,031	332,422	383,993	1,513,897

The total impairment charge of MUR53.8m 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		
	2019 MUR'000	2018 MUR'000	2017 MUR'000	2019 MUR'000	2018 MUR'000	2017 MUR'000
CRR 1	1,012,143	5,293,151	3,439,312	332,432	384,000	1,513,897
CRR 2	4,984,782	5,157,929	4,481,092	-	-	-
CRR 3	4,570,288	1,910,142	2,011,322	-	-	-
CRR 4	3,467,140	711,667	1,690,350	-	-	-
CRR 5	1,429,272	1,212,803	895,618	-	-	-
CRR 6	113,914	471,183	34,254	-	-	-
CRR 7	-	2,097	201,009	-	-	-
CRR 8	-	-	-	-	-	-
Total	15,577,539	14,758,972	12,752,957	332,432	384,000	1,513,897

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure (continued)

Maximum exposure to credit risk (continued)

(C) *Loans and advances past due but not impaired*

Loans and advances where contractual interest or principal payments are past due but the Bank believes that impairment is not appropriate on the basis of the level of security/collateral available and/ or the stage of collection of amounts owed to the Bank.

Gross amount of loans and advances that were past due but not impaired were as follows:

	Loans and advances to customers		
	2019 MUR'000	2018 MUR'000	2017 MUR'000
Past due up to 30 days	259,926	217,136	158,185
Past due 30 - 60 days	8,937	12,744	56,408
Past due 60 - 90 days	3,741	6,105	6,184
Total	272,604	235,985	220,777

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.

	2019 MUR'000	2018 MUR'000	2017 MUR'000
Gross amount	68,947	60,469	59,020
Individual allowance	16,872	27,103	16,694

(D) *Investment securities*

Investment securities amounting to MUR 7.8bn (2018: MUR 6.6bn) as at 31 December 2019 consist mainly of Treasury Bill / Notes held with the Bank of Mauritius.

(E) *Other assets*

Other assets consisted mainly of mandatory balance of MUR1.5bn (2018: MUR1.4bn) held with the Bank of Mauritius.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure (continued)

Maximum exposure to credit risk (continued)

(F) Financial guarantees and other credit-related contingent liabilities

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. As at 31 December 2019, the Bank held MUR3.6bn (2018: MUR5.4bn) financial guarantees mainly with corporate customers.

(G) Loan commitments

As at 31 December 2019, the Bank held MUR10.5bn (2018: MUR7.6bn) as undrawn credit facilities with both retail and corporate customers which were mainly below CRR 5.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

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 MUR7.4m (2018: MUR6.0m) and have been excluded from other assets.

2019 (MUR '000)	Retail	Corporate	Sovereign	Bank	Other	Total
Cash & cash equivalents	-	-	1,096,502	2,624,577	-	3,721,079
Loans & advances to customers	5,562,281	9,770,717	532,327	-	-	15,865,325
Loans & advances to banks	-	-	-	332,422	-	332,422
Financial assets held for trading	-	-	-	1,975	-	1,975
Investment securities	-	-	7,754,728	-	8,185	7,762,913
Other assets	-	263,736	1,490,384	4,115	86,847	1,845,082
As at 31 December 2019	5,562,281	10,034,453	10,873,941	2,963,089	95,032	29,528,796
Undrawn Commitments	953,244	9,503,366	-	-	-	10,456,610
Financial guarantees and other credit related contingencies	1,260	3,049,728	-	552,606	-	3,603,594
	954,504	12,553,094	-	552,606	-	14,060,204
2018 (MUR '000)						
Cash & cash equivalents	-	-	1,883,637	2,304,164	-	4,187,801
Loans & advances to customers	5,413,763	9,231,460	341,772	-	-	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	1,416,976	4,960	87,915	1,759,315
As at 31 December 2018	5,413,763	9,480,924	10,214,444	2,693,687	87,915	27,890,733
Undrawn Commitments	1,003,131	6,562,146	-	-	14,000	7,579,277
Financial guarantees and other credit related contingencies	1,270	5,317,397	-	58,448	-	5,377,115
	1,004,401	11,879,543	-	58,448	14,000	12,956,392
2017 (MUR '000)						
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	2,212,096	-	58,448	-	2,271,814
	963,910	8,679,782	-	58,448	-	9,702,140

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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.

2019 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	1,512,340	202,137	470,033	38,202	1,498,367	3,721,079
Loans & advances to customers	5,488	11,966	3,632,142	149,288	12,066,441	15,865,325
Loans & advances to banks	-	-	83,574	-	248,848	332,422
Financial assets held for trading	16	12	659	-	1,288	1,975
Investment securities	-	-	-	-	7,762,913	7,762,913
Other assets	-	-	76,370	36,353	1,732,359	1,845,082
As at 31 December 2019	1,517,844	214,115	4,262,778	223,843	23,310,216	29,528,796
Undrawn Commitments	394	318	2,655,375	812,092	6,988,431	10,456,610
Financial guarantees and other credit related contingencies	6,722	274,921	1,964,027	134,183	1,223,741	3,603,594
	7,116	275,239	4,619,402	946,275	8,212,172	14,060,204
2018 (MUR '000)						
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	1,758,864	1,759,315
As at 31 December 2018	748,844	441,090	3,804,582	92,045	22,804,172	27,890,733
Undrawn Commitments	394	437	1,098,382	190	6,479,874	7,579,277
Financial guarantees and other credit related contingencies	-	154,570	3,692,900	6,788	1,522,857	5,377,115
	394	155,007	4,791,282	6,978	8,002,731	12,956,392
2017 (MUR '000)						
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	1,967,837	33,613	252,167	2,271,814
	467	18,570	1,967,897	33,763	7,681,443	9,702,140

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(c) Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities.

(i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation. 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 2019, the Bank maintained an LCR ratio of 460% against a set limit of 80% for BoM reporting.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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 2019	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
<i>Non -derivative liabilities</i>						
Deposits from banks	(673)	-	-	-	-	(673)
Deposits from customers	(16,742)	(635)	(1,361)	(785)	-	(19,523)
Other borrowed funds	(1,075)	(2,001)	(546)	(2,972)	-	(6,594)
Other liabilities	(138)	(252)	(133)	(98)	(14)	(635)
<i>Of which lease liabilities</i>	-	(6)	(17)	(79)	(13)	(115)
	(18,628)	(2,888)	(2,040)	(3,855)	(14)	(27,425)
<i>Derivative liabilities</i>						
<i>Trading:</i>						
Outflow	(987)	(8)	(126)	-	-	(1,121)
Inflow	984	8	125	-	-	1,117
	(3)	(0)	(1)	-	-	(4)
Unrecognised loan commitments	(800)	(6,128)	(3,400)	(7)	(122)	(10,457)
Financial guarantees and other credit related contingencies	(49)	(381)	(1,897)	(860)	(417)	(3,604)
<i>Non-derivative assets</i>						
Cash and cash equivalents	3,998	-	-	-	-	3,998
Loans and advances to banks	165	5	148	14	-	332
Loans and advances to customers	3,730	2,099	760	4,797	4,479	15,865
Investment securities	499	747	3,963	2,546	8	7,763
Other assets	1,722	164	50	-	-	1,936
	10,114	3,015	4,921	7,357	4,487	29,894
<i>Derivative assets</i>						
<i>Trading:</i>						
Outflow	(102)	(46)	(41)	-	-	(189)
Inflow	103	47	41	-	-	191
	1	1	-	-	-	2
Net liquidity gap	(9,365)	(6,381)	(2,417)	2,635	3,934	(11,594)

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

<i>In MUR millions</i>	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
<u>Year 2018</u>						
<i>Non-derivative liabilities</i>						
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)
<i>Derivative liabilities</i>						
<i>Trading:</i>						
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 and other credit related contingencies	(24)	(135)	(3,362)	(1,284)	(572)	(5,377)
<i>Non-derivative assets</i>						
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 asset	1,629	149	120	-	-	1,898
	9,481	1,521	4,304	8,400	4,621	28,327
<i>Derivative assets</i>						
<i>Trading:</i>						
Outflow	(416)	-	-	-	-	(416)
Inflow	417	-	-	-	-	417
	1	-	-	-	-	1
<i>Net liquidity gap</i>	(13,305)	(1,178)	(2,665)	2,714	3,765	(10,669)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

<i>In MUR millions</i>	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
Year 2017						
<i>Non-derivative liabilities</i>						
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)	(1,042)	(400)	(87)	(23,657)
<i>Derivative liabilities</i>						
<i>Trading:</i>						
Outflow	(2,547)	-	-	-	-	(2,547)
Inflow	2,537	-	-	-	-	2,537
	(10)	-	-	-	-	(10)
Unrecognised loan commitments	(1,428)	(3,471)	(2,423)	(4)	(104)	(7,430)
<i>Non-derivative assets</i>						
Cash and cash equivalents	4,393	-	-	-	-	4,393
Loans and advances to banks	15	78	449	63	-	605
Loans and advances to customers	3,745	1,069	470	3,278	4,442	13,004
Investment securities	347	704	2,693	2,422	9	6,175
	8,500	1,851	3,612	5,763	4,451	24,177
<i>Derivative assets</i>						
<i>Trading:</i>						
Outflow	(99)	(17)	(11)	-	-	(127)
Inflow	99	17	11	-	-	127
	-	-	-	-	-	-
Net liquidity gap	(14,505)	(2,181)	147	5,359	4,260	(6,920)

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.

The gross nominal inflow/ (outflow) disclosed in the previous tables represents the contractual undiscounted cash flows relating to the principal and interest on the financial liability or commitment. The disclosure for derivatives shows a net amount for derivatives that are net settled, but a gross inflow and outflow amount for derivatives that have simultaneous gross settlement (e.g., forward exchange contracts and currency swaps).

Assets have been shown at carrying amount in the above tables.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(d) Market risks

Market risk is the risk that changes in market prices, such as interest rates, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's / issuer's credit standing) will affect the Bank's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(i) Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are mainly held by the Global Banking and Markets unit, and include positions arising from market making and proprietary position taking, together with financial assets and liabilities that are managed on a fair value 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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(d) Market risks (continued)

(ii) Exposure to market risks – trading portfolios (continued)

Management also uses Present Value of Basis Point (“PVBP”) which is one of the most widely used methods for quantifying outright interest rate risk. It expresses the impact on the present value of a position of a one basis point (1bp) rise in the interest rate used to calculate the present value – for example a change from 5.25% to 5.26%.

PVBP is calculated net within each currency and gross across currencies.

This is a more accurate expression of interest rate sensitivity and exposure than any other method and is the most appropriate method for books where the value of the book is very sensitive to interest rate movements.

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

A summary of the risk position of the Bank’s trading portfolios as at 31 December 2019 is as follows:

	At 31 December	Average	Maximum	Minimum
<i>In MUR Million</i>				
2019				
Interest rate risk (PVBP)	0.00689	0.00666	0.01463	0.00141
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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (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 2019	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
<i>In MUR thousand</i>								
Cash and cash equivalents	17	3,997,601	3,111,450	-	-	-	-	886,151
Trading assets	18	1,975	-	-	-	-	-	1,975
Loans and advances to banks	19	332,422	169,995	53,488	94,356	14,583	-	-
Loans and advances to customers	20	15,865,325	15,206,348	565,107	752	15,668	77,450	-
Investment securities	21	7,762,913	1,246,592	1,663,303	2,299,150	2,545,683	-	8,185
Other assets		1,936,307	-	-	-	-	-	1,936,307
		29,896,543	19,734,385	2,281,898	2,394,258	2,575,934	77,450	2,832,618
Deposits from banks	25	672,989	672,989	-	-	-	-	-
Deposits from customers	26	19,467,367	13,837,869	471,314	1,024,648	784,933	-	3,348,603
Other borrowed funds	27	6,593,650	1,256,492	545,625	1,818,750	2,972,783	-	-
Other liabilities		635,428	5,832	8,567	8,567	78,863	13,364	520,235
		27,369,434	15,773,182	1,025,506	2,851,965	3,836,579	13,364	3,868,838
Interest sensitivity gap		2,527,109	3,961,203	1,256,392	(457,707)	(1,260,645)	64,086	(1,036,220)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(d) Market risks (continued)

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

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
<i>In MUR thousand</i>								
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)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (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
<i>In MUR thousand</i>								
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)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(d) Market risks (continued)

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

PVBP is used by the Bank's treasury trading system to monitor interest rate risk and the outstanding position as at 31 December 2019 in the banking book by time buckets stood as follows:

2019

USD PVBP	1M	2M	3M	6M	9M	1Y	2Y	3Y	4Y	5Y	7Y
Currency Limit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total Position	101	1,291	762	608	1,161	634	2,423	2,263	70	1,939	-

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	-

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(d) Market risks (continued)

(iv) Exposure to currency risk

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's main foreign transactions are in US Dollar, 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 was as follows:

	2019	2018	2017
	MUR Million	MUR Million	MUR Million
Euro	(1)	1	(1)
USD	41	50	39
Other foreign currencies	(2)	-	(4)
	38	51	34

(e) Capital management

Regulatory capital

The Bank's lead regulator, the Bank of Mauritius, sets and monitors capital requirements for the whole banking sector in Mauritius.

As per the guideline on scope of application of Basel III and eligible capital issued in June 2014, the Bank of Mauritius adopted Basel III with effect from 01 July 2014.

Basel III is a comprehensive set of reform measures, established by the Basel Committee on Banking Supervision (BCBS), to reinforce the regulation, supervision and risk management of the banking sector. The objective of the reforms is to improve the banking sector's ability to absorb shocks arising from financial and economic stress, whatever the source, thus reducing the risk of spillover from the financial sector to the real economy. Basel III seeks to improve the quality of capital that banks hold and provide a more transparent definition of different types of capital.

The Bank's regulatory capital consists of the sum of the following elements:

- (a) Tier 1 capital, which comprises
 - (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.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital is analysed as follows:

- Tier 1 capital (all qualifies as CET1 capital), which includes ordinary 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 2019.

The Bank's regulatory capital position at 31 December 2019 was as follows:

MUR'000	Reference	2019 Basel III	2018 Basel III	2017 Basel III
CET1 Capital				
Assigned Capital	A	400,000	300,000	239,265
Statutory Reserve	B	306,835	279,380	243,185
Retained Earnings	C	1,347,030	1,511,499	1,516,703
CET1 before regulatory adjustments		2,053,865	2,090,879	1,999,153
Other intangible assets		-	-	-
Deferred tax assets	D	(46,823)	(45,168)	(89,067)
Total regulatory adjustments to CET1		(46,823)	(45,168)	(89,067)
CET1 Capital (T1)		2,007,042	2,045,711	1,910,086
Tier 2 Capital				
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	E	91,845	91,533	87,900
General Banking Reserve	F	88,210	113,666	144,584
Portfolio Provisions	F	38,259	42,401	12,029
Tier 2 Capital (T2)		218,314	247,600	244,513
Total Capital Base (T1 + T2)		2,225,356	2,293,311	2,154,599
		2019 MUR'000	2018 MUR'000	2017 MUR'000
Total on-balance sheet risk-weighted credit exposures		9,536,087	11,830,900	12,839,160
Total non-market-related off-balance sheet risk-weighted credit exposures		576,527	653,429	477,170
Total market-related off-balance sheet risk-weighted credit exposures		4,868	1,004	3,233
Risk weighted assets for operational risk		1,791,915	1,818,490	1,771,000
Aggregate net open foreign exchange position		43,968	52,728	39,022
Total risk weighted assets		11,953,365	14,356,551	15,129,585
Risk asset ratio (%)		18.6%	16.0%	14.2%

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

Each component of the capital base is mapped by cross reference to a full reconciliation of the Bank's statement of financial position as at 31 December 2019 as described in the table below:

(MUR'000)	As Published	Capital Base under Basel III	Reference
ASSETS			
Cash and cash equivalents	3,997,601		
Trading assets	1,975		
Loans and advances to banks	332,422		
Loans and advances to customers	15,865,325		
<i>of which,</i>			
- Gross loans			
- Stage 3 impairment		38,259	F
- Stage 1&2 impairment			
Investment securities	7,762,913		
Property, plant and equipment	430,683		
Deferred tax assets	46,823	46,823	D
Other assets	1,944,645		
Total assets	30,382,387		
LIABILITIES			
Deposits from banks	672,989		
Deposits from customers	19,467,367		
Trading liabilities	3,770		
Other borrowed funds	6,593,650		
Current tax liabilities	76,090		
Other liabilities	1,069,815		
Total liabilities	27,883,681		
Shareholder's funds			
Assigned capital	400,000	400,000	A
Retained earnings	1,347,030	1,347,030	C
Other reserves	751,676		
<i>of which,</i>			
- Statutory Reserve	306,835	306,835	B
- General Banking Reserve	162,170	88,210	F
- Fixed Assets Revaluation Reserves	204,101	91,845	E
Total shareholder's funds	2,498,706		
Total liabilities and shareholder's funds	30,382,387		

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

As from 01 January 2019, 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) 12.625% 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 1.00 per cent as additional loss absorbency under BoM Domestic Systemically Important Banks (“DSIB”) framework.

Various limits and minima are applied to elements of the capital base. The restriction applicable to the Bank is on the amount of general banking reserves that may be included as part of tier 2 capital.

The Bank’s policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholders’ return is also recognised and the Bank recognises the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The Bank has complied with all externally imposed capital requirements throughout the year.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements for the year ended 31 December 2019 (continued)

35. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital position at 31 December 2019 was as follows:

	2019	2018	2017
	%	%	%
CET 1 capital adequacy ratio*	16.8	14.2	12.6
<i>Regulatory Limit - Minimum CET 1 CAR</i>	6.5	6.5	6.5
Tier 1 capital adequacy ratio	16.8	14.2	12.6
<i>Regulatory Limit - Minimum Tier 1 CAR</i>	8.0	8.0	8.0
Total capital adequacy ratio*	18.6	16.0	14.2
<i>Regulatory Limit - Minimum Total CAR</i>	12.625	12.0	11.1

Management uses regulatory capital ratios in order to monitor its capital base and these capital ratios remain the international standards for measuring capital adequacy.

Main features of capital

The Bank's assigned capital is at MUR400m which is as per the minimum capital requirement of MUR400 million for banks as per Section 20 of the Mauritian Banking Act 2004. The main feature of the assigned capital is that it is perpetual and there are no circumstances under which distributions are mandatory.

Capital allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimisation of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon HSBC Group Internal Ratings Based Approach ("IRBA"). ALCO then manages the balance between the notional capital allocated to businesses and the actual invested capital to ensure the Bank does not fall below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible for the operation and is subject to review by ALCO as appropriate.

Although maximisation of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within the Bank to particular operations or activities, it is not the sole basis used for decision-making. Account also is taken of synergies with other operations and activities, the availability of management and other resources, and the fit of the activity with the Bank's longer term strategic objectives. The Bank's policies in respect of capital management and allocation are reviewed regularly by management.

Notes to and forming part of the financial statements

for the year ended 31 December 2019 (continued)

36. Post reporting date events

The existence of novel coronavirus (Covid-19) was confirmed in early 2020 and has spread worldwide causing disruptions to businesses and economic activity.

We continue to assess and monitor the increasingly heightened risk environment and its impact on our operations, liquidity, funding and capital. We have robust operational procedures and contingencies in place and we will continue to ensure that we respond rapidly to the evolving situation, supporting our clients, enabling market liquidity and protecting the wellbeing of our employees and stakeholders.

As the situation is fluid and rapidly evolving, we do not consider it practicable to provide a quantitative estimate of the potential impact of this outbreak on the Bank's financial position. However, the impact of this outbreak on the macroeconomic forecasts will be incorporated into the Bank's IFRS 9 model and estimates of the expected credit loss provisions in 2020 and beyond. In addition, the impact on the Bank's retirement benefit obligations will also be assessed for the financial year 2020 in view of the increased market volatility which will adversely impact the fair value of the Plan Assets of the Defined Benefit Pension Scheme. Consequently, the Bank considers the impact of Covid-19 to be a non-adjusting post balance sheet event as at 31 December 2019.

37. Ultimate holding company

The Bank is registered in Mauritius as a branch of The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in the United Kingdom is the ultimate holding company and controlling party.