

HSBC BANK (MAURITIUS) LIMITED

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2019

HSBC Bank (Mauritius) Limited

Annual Report

for the year ended 31 December 2019

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HSBC Bank (Mauritius) Limited

Management discussion and analysis

HSBC Bank (Mauritius) Limited (“the Bank”) was incorporated in Mauritius on 27 April 2006 (Company number: 62412) and the Bank was granted its banking licence under section 7 of the Mauritian Banking Act 2004 by the Bank of Mauritius (“BoM”) on 08 June 2006. The Bank’s registered office is HSBC Centre, 18 CyberCity, Ebène, Mauritius. The Bank is primarily involved in commercial and global business banking.

The Bank is a wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in England is the ultimate holding company. The Bank started its operations on 01 August 2006.

The directors are pleased to present the annual report of HSBC Bank (Mauritius) Limited (“the Bank”) for the year ended 31 December 2019.

The financial statements on pages 66 to 154 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, the directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and estimates that are reasonable and prudent;
- state whether International Financial Reporting Standards 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.

The directors have authorised the issue of this annual report on 24 February 2020 and they do not have the power to amend the financial statements after issue.

In addition, the annual report contains 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

During the year under review, the Bank’s revenue performance was negatively impacted by the three USD interest rate cuts. The global economic outlook remains a challenge with reduced GDP growth across key markets primarily due to factors such as the continued trade war between China and the USA, uncertainty in both the UK and European economies as a result of the ongoing Brexit negotiations, the potential impact of the coronavirus on global trade flows and the ongoing geopolitical tensions. Markets are now pricing in a nil USD interest rate scenario for 2020. However, the Bank expects to grow its assets and depositors base for the foreseeable future through diversification into other Asian markets.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives

Objectives for 2019	Performance for 2019	Objectives for 2020
1. Revenue Growth		
Maintain revenue at least above the 2018 levels.	Revenue fell by 3.6% compared to prior year. Lower average loans and advances to customers, lower average customer deposits balance and USD interest rates resulted in a decrease in interest income.	Reduced revenue target in line with USD interest rate expectations.
2. Return on tangible equity		
Deliver ongoing Return on Tangible Equity ("ROTE") above the HSBC Group ROTE target of 11%.	ROTE of 15.1% was achieved above the HSBC Group ROTE target of 11%.	Deliver ongoing ROTE above the HSBC Group ROTE target.
3. Expense Growth		
To maintain positive Jaws in line with HSBC Group target.	Revenue fell by 3.6 %, whereas costs grew by 8.4%, yielding a negative Jaws of 12.0%. Decrease in revenue is mainly attributable to lower interest income. Increase in operating expenses is mainly attributable to higher intercompany expenses and direct costs.	To maintain positive Jaws in line with HSBC Group target.
4. Portfolio Quality		
Proactively continue to manage credit risk within the loan book and keep Expected Credit Losses ("ECLs") at a minimum.	The Bank maintained the asset quality with no significant ECLs being reported during the year.	Proactively continue to manage credit risk within the loan book and keep ECLs at a minimum.
5. Capital and Liquidity Risk Management		
- To maintain capital above the Bank of Mauritius ("BoM") minimum regulatory requirement of 11.875% - To meet the BoM liquidity risk management guidelines.	The capital adequacy ratio at 31 December 2019 was at 27.7% and Core Equity Tier 1 (CET1) ratio was 26.5% under Basel III. Liquidity Coverage Ratio (LCR) stood at 190.3% as at year end well above the regulatory limit of 80%.	To maintain capital above the Bank of Mauritius ("BoM") minimum regulatory requirement of 12.5%. As per 2019 objectives.
6. Return on Average Assets		
At least maintain the return on average assets in 2019.	Return on Average assets has increased to 1.5% as compared to 1.3% in 2018.	Monitor return on the average assets to achieve profit in line with the target.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives (continued)

- The Bank recorded a profit before tax of USD50.9m (2018 – USD55.0m). The decrease in net interest income to USD58.0m (2018 – USD61.7m) is partially offset by the increase in net fee and commission income to USD6.0m (2018 – USD5.6m) and net trading income to USD3.3m (2018 – USD2.5m).
- Operating expenses amounted to USD16.9m (2018 – USD15.6m), which consisted of staff costs of USD3.8m (2018 – USD3.7m) and administrative costs of USD13.1m (2018 – USD11.9m). The increase in administrative costs is mainly attributed to higher group charges, IT costs and staff costs which is partially offset by decrease in operating lease expenses.
- Return on tangible equity decreased to 15.1% (2018 – 16.5%).
- Return on average assets increased to 1.5% (2018 – 1.3%) due to improved interest margins on trade and term assets.
- The increase in cash and cash equivalents to USD1.2bn (2018 – USD0.8bn) is mainly due to an increase in short term intergroup placements and balances with other banks.
- Loans and advances to banks decreased to USD0.2bn (2018 – USD0.4bn) as a result of lower trade facilities disbursements to banks outside Mauritius.
- Customer loans and advances decreased to USD1.4bn (2018 – USD1.8bn) on account of trade loan repayments during the year. The quality of the loan book remains strong with no significant level of impairment charges.
- Investment securities required for regulatory purposes remained at the same level at USD0.5bn.
- Decrease in other assets to USD 0.02bn (2018 – USD0.04bn) is largely due to Indian Revenue Authority refunds amounting to USD0.02bn (2018 - nil) received during the year plus interest of USD1.3m at 6% per annum.
- Deposits from customers decreased to USD2.0bn (2018 – USD2.2bn) mainly due to a decrease in term deposits.
- Other borrowed funds which consisted mainly of group entities increased to USD0.9bn (2018 – USD0.8bn). This is specifically in relation to core funding borrowing from the parent company.
- Capital adequacy ratio was maintained sufficiently above minimum regulatory requirement of 11.25%. At 31 December 2019, it stood at 27.7% (2018 – 23.0%). Ratio is expected to reduce to mid-teens upon the payment of dividend in 2020.
- During the year, dividends paid to the parent company amounted to USD0.03bn (2018 – USD0.06bn).

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

The Bank is only involved in two segments, namely: CMB and GB&M.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Financial Review (continued)

Commercial Banking

CMB aims to be the international bank of choice for global companies set up in Mauritius. It offers a full range of banking products and solutions. It also provides an international network and relationship management to support its customers in their development.

	2019 USD'000	2018 USD'000	2017 USD'000
Total Operating Income	51,267	47,824	35,108
Total Expenses	(10,946)	(9,142)	(9,685)
Profit Before Tax	40,321	38,682	25,423

As at 31 December 2019, CMB had a customer deposit base of USD1.6bn (2018 – USD1.8bn) and a customer lending book of USD1.4bn (2018 – USD1.8bn), representing 82.0% (2018 – 81.8%) and 100.0% (2018 – 99.9%) of the Bank's customer deposit and customer lending respectively.

CMB's pre-tax profit increased by 4.2% to USD40.3m mainly due to the impact of an increase in net interest income as a result of higher margin on assets.

Global Banking and Markets

GB&M primarily aims at serving the banking needs of large corporations and institutions, using Mauritius as a platform for investment in India. 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. Global Banking corporates are managed under CMB. 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.

	2019 USD'000	2018 USD'000	2017 USD'000
Total Operating Income	13,306	16,899	17,762
Total Expenses	(4,524)	(4,543)	(1,771)
Profit Before Tax	8,782	12,356	15,991

There was a decrease in profit before tax for GB&M to USD8.8m (2018 – USD12.4m) due to a decrease in average customer deposits and the impact of USD interest rates.

Corporate Centre

Corporate centre consist of Balance Sheet Management ("BSM"), Treasury activities as well as support functions, that is business operations.

	2019 USD'000	2018 USD'000	2017 USD'000
Total Operating Income	3,155	5,517	4,204
Total Expenses	(1,310)	(1,535)	(2,757)
Profit Before Tax	1,845	3,982	1,447

Corporate centre profits decreased by 54% due to lower interest rates and reduced level of placements.

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Management discussion and analysis (continued)

Financial Review (continued)

Key Ratios

	2019	2018	2017
	%	%	%
Net interest margin	1.8	1.5	1.3
Return on average assets	1.5	1.3	1.1
Cost / Income ratio	25.0	22.2	24.9

	2019	2018	2017
	USD'm	USD'm	USD'm
Assets			
Cash and cash equivalents	1,167.1	760.3	1,635.2
Loan and advances to banks	204.6	406.9	531.8
Loan and advances to customers	1,352.0	1,761.1	1,750.6
Investment securities	453.1	453.1	298.5
Total	3,176.8	3,381.4	4,216.1
Liabilities			
Deposits from customers	1,952.3	2,240.1	3,120.9
Other borrowed funds	885.0	845.3	783.2
Total	2,837.3	3,085.4	3,904.1

Net Interest Income analysis

	2019	2018	2017
	USD'm	USD'm	USD'm
Interest Income			
Cash and cash equivalents	12.7	19.3	11.8
Loans and advances to banks	14.2	19.1	12.8
Loans and advances to customers	48.8	51.2	38.1
Investment securities	9.5	7.8	0.3
Other	1.3	-	-
Total	86.5	97.4	63.0
Interest Expense			
Deposits from customers	(8.2)	(16.7)	(3.6)
Other borrowed funds	(20.2)	(19.0)	(11.7)
Other	(0.1)	-	-
Total	(28.5)	(35.7)	(15.3)
Net interest income	58.0	61.7	47.7

Interest income decreased from USD97.4m to USD86.5m in 2019 largely as a result of lower average loans and advances to banks and customers and the impact of the decrease in USD interest rates.

Interest expense decreased by USD7.2m mainly due to lower interest rates payable on customer deposits and lower average customer deposit balances.

As a result, net interest income for the year decreased by 6.0% to USD58.0m.

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Management discussion and analysis (continued)

Financial Review (continued)

Non-interest income

	2019 USD'm	2018 USD'm	2017 USD'm
Net fee and commission income	6.0	5.6	5.8
Net trading income	3.3	2.5	2.9
Other operating income	0.4	0.5	0.6
	9.7	8.6	9.3

Non-interest income increased to USD9.7m (2018 –USD8.6m) mainly because of an increase in net trading income due to an increase in foreign exchange volumes compared to prior year.

Non-interest expense

	2019 USD'm	2018 USD'm	2017 USD'm
Personnel expenses	(3.8)	(3.7)	(3.2)
Operating lease expenses	-	(0.2)	(0.2)
Other expenses	(13.1)	(11.7)	(10.8)
	(16.9)	(15.6)	(14.2)

Non-interest expense increased to USD16.9m (2018 – USD15.6m) mainly due to a rise in group charges, IT costs and staff costs.

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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 instruction manuals which are in compliance with regulatory requirements.

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 in 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.

Credit Exposures denominated in currencies other than the Mauritian Rupee

- Credit exposure to any single customer shall not exceed 50 per cent of the Bank's Tier 1 capital;
- Credit exposure to any group of closely-related customers shall not exceed 75 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 1200 per cent of the Bank's capital base. This limit is exclusive of the limit of 800 per cent imposed in Mauritian Rupee denominated credit.

As at 31 December 2019, the Bank is in compliance with the Bank of Mauritius *Guideline on Credit Concentration Risk*.

Gross customer advances by industry sector

	2019		2018		2017	
	USD'm	%	USD'm	%	USD'm	%
Manufacturing Industries	798.3	59.1	888.0	50.5	601.1	34.3
Construction	38.7	2.9	36.1	2.0	85.7	4.9
Financial and business services	184.9	13.7	303.0	17.2	276.9	15.8
International trade*	133.6	9.9	336.6	19.1	636.4	36.4
Telecommunication	113.0	8.4	42.1	2.4	34.9	2.0
Other	83.4	6.2	155.4	8.8	116.3	6.6
Total	1,351.9		1,761.2		1,751.3	

*International Trade relates to trade related exposure on HSBC group counterparties.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Credit exposure and quality (continued)

Off-balance sheet foreign exchange trading contracts by industry sector

	2019 USD'm	2018 USD'm	2017 USD'm
Banks :			
HSBC Group	123.1	134.8	52.9
Non HSBC Group	2.4	28.1	13.7
Total	125.5	162.9	66.6

A breakdown of the foreign exchange trading contract by country is disclosed under section Credit Risk Exposures on page 20.

Credit Quality

A breakdown of the loan portfolio for financial year ends 2019, 2018 and 2017 is enclosed in the following page. Advances are mostly extended to highly rated companies. The high quality of the book is reflected in the fact that the Bank does not have a default history since incorporation in August 2006.

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Management discussion and analysis (continued)

Credit Quality (continued)

Customer Advances by Market Sector

2019 USD'm	Manufacturing industries	Construction	Financial and business services	International trade	Telecommunication	Other	Total
Total Advances	798	39	185	133	113	84	1,352
Non Performing Advances As a % of Total Advances	-	-	-	-	-	-	-
Total Provisions As a % of Total Advances As a % of NPA's	0.2	-	-	-	-	-	0.2
2018 USD'm							
Total Advances	888	36	303	337	42	155	1,761
Non Performing Advances As a % of Total Advances	-	-	-	-	-	-	-
Total Provisions As a % of Total Advances As a % of NPA's	0.1	-	-	0.1	-	-	0.2
2017 USD'm							
Total Advances	601	86	277	636	35	116	1,751
Non Performing Advances As a % of Total Advances	-	-	-	-	-	-	-
Total Provisions As a % of Total Advances As a % of NPA's	0.3	-	0.1	0.3	-	-	0.7

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Credit Quality (continued)

Restructured Credits

No facilities have been restructured during the year.

Credit Impairment

A general banking reserve of USD15.4m (2018 – USD21.1m) 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*.

Net reversal of impairment on financial assets stood at USD0.2m (2018 – USD0.4m) for the year and are calculated under IFRS 9 ‘*Financial Instruments*’ methodology.

Credit-impaired (Stage 3)

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

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

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

Therefore, the definitions of credit-impaired and default are aligned as far as possible so that stage 3 represents all loans which are considered defaulted or otherwise credit-impaired.

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. Both risks are reviewed on a monthly basis by the Asset and Liability Management Committee (ALCO) and Risk Management Meeting (RMM). Risk management information relating to the trading activities and non-trading activities, are set out below and an analysis of the Bank’s risks profile is disclosed in note 34 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.	▪ Credit risk arises principally from direct lending and trade finance, but also from certain other products such as guarantees and derivatives.	Credit risk is: ▪ measured as the amount which could be lost if a customer or counterparty fails to make repayments; ▪ monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and ▪ managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers.

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Management discussion and analysis (continued)

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Liquidity and funding risk		
Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	▪ Liquidity risk arises from mismatches in the timing of cash flows. ▪ Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	Liquidity and funding risk is: ▪ measured using a range of metrics including liquidity coverage ratio and net stable funding ratio; ▪ assessed through the internal liquidity adequacy assessment process; ▪ monitored against the Bank's liquidity and BoM's Liquidity Risk Management framework which is in line with Basel III; and ▪ managed on a stand-alone basis with no reliance on any Group entity (unless pre-committed) or central bank unless this represents routine established business-as-usual market practice.
Market risk		
Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the income or the value of the Bank's portfolios.	Exposure to market risk is separated into two portfolios: ▪ Trading portfolios ▪ Non-trading portfolios	Market risk is: ▪ measured in terms of value at risk ('VaR'), which measures the potential losses on risk positions over a specified time horizon for a given level of confidence, and assessed using stress testing; ▪ monitored using VaR, stress testing and other measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and ▪ managed using risk limits approved by the Risk Management Meeting (RMM) for the Bank and the various global businesses.
Interest rate risk		
Interest rate risk is the risk that arises from fluctuating interest rates.	▪ Interest rate risk arises from interest earning assets (including investments) and interest-bearing liabilities that are matured or are re-priced at different times or in different amounts. ▪ In the case of floating rate assets and liabilities, the Bank is also exposed to basis risk, which is the difference in re-pricing characteristics of the various floating rate indices and different types of interest.	▪ Risk management activities are aimed at optimising net interest income consistent with the Bank's business strategies. ▪ The Bank uses Present Value of Basis Point ("PVBP") for quantifying outright interest rate risk. Refer to note 34.
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 Pound Sterling, Euro, the Japanese Yen and the Indian Rupee. As the currency in which the Bank presents its financial statements is US dollar, the Bank's financial statements are affected by movements in the exchange rates between these currencies and US dollar. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of profit or loss and other comprehensive income. 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 US dollars and for the remaining transactions the Bank finances its monetary assets in foreign currencies with borrowings in the same currencies or enters into cross currency swaps to mitigate its currency risk. The Bank's exposure in Indian Rupee receivables is hedged using non deliverable forwards ("NDF").	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 Liquidity Risk Management</i> and <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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Operational risk		
Operational risk is the risk to achieving the Bank's strategy or objectives as a result of inadequate or failed internal processes, people and systems or from external events.	- Operational risk arises from day-to-day operations or external events, and is relevant to every aspect of the Bank's business. - Regulatory compliance risk and financial crime risk are discussed below.	Operational risk is: - measured using the risk and control assessment process, which assesses the level of risk and effectiveness of controls; - monitored using key indicators and other internal control activities; and - managed primarily by establishing policies and control procedures as set out in the Bank's Group manuals which are periodically reviewed and updated and are in compliance with regulatory requirements. The RMM oversees the operational risk management framework of the Bank and amongst others, is mandated to: - set the Bank's risk appetite for operational risk; - review appropriate Key Performance Indicators, including operational loss and near miss figures, as well as specific operational risk incidents; - consider any action required from the ongoing review of operational incidents across the Bank; and - identify any unfavourable trend and escalate as required to Bank of Mauritius and the Board.
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 incurs fines and penalties and suffers damage to its business as a consequence.	Regulatory compliance risk is part of operational risk, and arises from the risks associated with the Bank breaching its duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory requirements.	Regulatory compliance risk is: - measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of our regulatory compliance teams; - monitored against the first line of 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.

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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").	Financial crime risk is part of operational risk and arises from day-to-day banking operations.	Financial crime risk is: - measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of the Bank's Financial Crime Risk teams; - monitored against the Bank's financial crime risk appetite 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.	Primary reputational risks arise directly from an action or inaction by HSBC, its employees or associated parties that are not the consequence of another type of risk. Secondary reputational risks are those arising indirectly and are a result of a failure to control any other risks.	Reputational risk is: - measured by reference to the Bank's reputation as indicated by its dealings with all relevant stakeholders, including media, regulators, customers and employees; - monitored through a reputational risk management framework that is integrated into the Bank's broader risk management framework; and - managed by every member of staff and is covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk.
Pension risk		
Pension risk is the risk that the performance of assets held in the defined benefit pension plans is insufficient to cover existing pension liabilities resulting in an increase in obligation to support the plans.	Pension risk arises from investments delivering an inadequate return, adverse changes in interest rates or inflation, or members living longer than expected. Pension risk includes operational risks listed previously.	Pension risk is: - measured in terms of the schemes' ability to generate sufficient funds to meet the cost of their accrued benefits; - monitored through the specific risk appetite; 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.	Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment.	Sustainability risk is: - Measured by 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.

Concentration of risk policies

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

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Risk management policies and controls (continued)

Concentration of risk policies (continued)

As at 31 December 2019, the top 6 customer groups exposures accounted for 38.0% (2018 – 32.2%) of total advances extended to corporates. Credit quality remained acceptable with over 88.8% (2018 – 87.3%) of the total corporate exposure having a rating of BBB or better. The six most significant concentration cases are listed below.

Customer Group	Total USD'm	% of Total Corporate exposure	% of Tier 1 Capital* (Under Basel III)
Customer Group 1	200.0	14.2	62.3
Customer Group 2	115.3	8.2	35.9
Customer Group 3	75.2	5.3	23.4
Customer Group 4	60.0	4.2	18.7
Customer Group 5	55.0	3.9	17.1
Customer Group 6	31.3	2.2	9.7

* Capital base used includes audited profits for 2019

As at 31 December 2019, the Bank's credit concentration risk stood at 439.6% (2018 – 638.9%).

The facilities extended to the customer groups consist mostly of trade finance facilities and medium and long term loans.

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 I 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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Related party transactions policies and practices (continued)

Category 3

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

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

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

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

In line with the above guideline, the Board 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 RMCRC and to the Board.

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 USD'm	% of Tier 1 Capital
1. HSBC Hong Kong	1,742	542%
2. HSBC India	1,675	521%
3. HSBC Singapore	401	125%
4. HSBC Taiwan	400	125%
5. HSBC Mauritius Branch	321	100%
6. HSBC Bank Plc, GP Treasury London	313	97%

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.

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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III Disclosures (continued)

Capital Structure

HSBC Bank (Mauritius) Limited is a 100% owned subsidiary of The Hongkong and Shanghai Banking Corporation Ltd, a company registered in Hong Kong and regulated by the Hong Kong Monetary Authority. The authorised share capital of HSBC Bank (Mauritius) Limited is USD 100m made up of 100,000,000 ordinary shares of nominal value USD 1 each, of which 72,956,783 have been issued.

The Capital Base under Basel III stood as follows:

USD'000	2019	2018	2017
CET 1 capital	USD'000	USD'000	USD'000
Paid Up Capital	72,957	72,957	72,957
Statutory Reserve	72,957	72,957	72,957
Retained Earnings	175,444	148,907	156,818
CET 1 capital before regulatory adjustments	321,358	294,821	302,732
Regulatory adjustment: Deferred tax	(131)	(151)	(67)
CET 1 capital	321,227	294,670	302,665
Tier 2			
General Banking Reserve	13,915	15,673	14,367
Other regulatory adjustment to Tier 2 capital*	-	(665)	-
Tier 2 capital	13,915	15,008	14,367
Total Capital Base	335,142	309,678	317,032

*Regulatory adjustment agreed with Bank of Mauritius following the dispensation to exceed the Single Borrower's Limit ("SBL") following the payment of a special dividend during 2016.

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 regulatory requirement. Projections of regulatory capital ratios are also reviewed by ALCO on a regular basis, at least annually.

Capital Adequacy

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

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

Claims on corporate customers as well as claims on corporate public sector entities are assigned a standard risk weight of 100% when they are not rated by any of the ECAIs as mentioned on page 22, recognised rating agencies. A standard risk weight of 75% is applied to retail exposures who meet the criteria set in the Bank of Mauritius *Guideline on Standardised Approach to Credit Risk*; claims secured by residential property for purposes other than purchase/construction in Mauritius are allocated a risk weight of 35% subject to an exposure limit of MUR5m 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%, dependent on the proportion of specific provision to the outstanding amount of the exposure.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Basel III disclosures (continued)

Capital Adequacy (continued)

With on-balance sheet risk weighted assets of USD1,090.5m (2018 – USD1,237.8m), details of which are given in the Credit Risk: Standardised approach section on pages 22 and 23, minimum capital requirements for credit risk for portfolios subject to the Standardised Approach as at 31 December 2019 was USD129.5m (2018 – USD139.3m). Risk weighted assets of USD19.9m (2018 – USD16.0m) for market and non-market related off-balance sheet exposures and USD0.2m (2018 – USD0.4m) for market risk foreign currency exposure, generated further capital requirement of USD2.4m (2018 – USD1.8m).

Capital requirement for Operational Risk in accordance with the Basic Indicator Approach which, based on the average gross income for the last 3 years per annum of USD65.0m (2018 – USD61.2m), gave a capital charge for operational risk of USD9.8m (2018 – USD9.2m).

Total risk weighted asset capital requirement therefore stood at USD143.5m (2018 – USD151.4m) compared to the Bank's capital base of USD335.1m (2018 – USD309.7m).

The regulatory limits applicable to the Bank were as follows:

	2019	2018	2017
	%	%	%
CET 1 capital adequacy ratio	26.5	21.9	24.5
<i>Regulatory Limit – Minimum CET 1 CAR</i>	6.5	6.5	6.5
Tier 1 capital adequacy ratio	26.5	21.9	24.5
<i>Regulatory Limit – Minimum Tier 1 CAR</i>	8.0	8.0	8.0
Total capital adequacy ratio	27.7	23.0	25.7
<i>Regulatory Limit – Minimum Total CAR</i>	11.9	11.3	10.6

Capital adequacy ratios include audited profits for 2019. Capital adequacy ratios for 2018 and 2017 have been calculated on the same basis.

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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

The Credit Risk Policy Framework (continued)

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 HSBC 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 the parent company in Hong Kong. The Credit Risk team ensures that credit risk assessment standards remain in line with the HSBC Group's credit policy.

The identification, understanding and management of the Bank's 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. As outlined under the Statement on Corporate Governance Practices, risk governance is exercised in both an executive capacity, through the monthly Risk Management Meetings, and a non-executive capacity, through the quarterly Board of Directors' Meeting, advised and supported by the Risk Management and Conduct Review Committee. 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 the parent company in Hong Kong and to the Bank of Mauritius.

Credit Risk Exposures

Total gross credit risk exposures as at 31 December 2019 stood as follows:

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Credit Risk Exposures (continued)

Fund based:

Items	USD'000
Claims on Sovereign	453,132
Claims on Central Banks	36,889
Claims on Banks	1,339,416
Claims on Corporates	1,353,956
Claims on Other assets	17,160
Total	3,200,553

Non fund based:

Items	USD'000
Direct Credit Substitute	91
Transaction-related contingencies	45,825
Trade-related Contingent Items	3,206
Other commitments with an original maturity of up to one year	36,464
Unconditionally cancellable commitments *	474,256
Foreign Exchange Contracts	125,470
Total	685,312

* 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.

The geographical distribution of the gross credit exposures is disclosed below and is based on the country risk of the exposure.

Fund Based:

Items	Risk Country	USD'000
Claims on Sovereigns	United States	448,573
	Mauritius	4,559
Total		453,132

Items	Risk Country	USD'000
Claims on Central Banks	Mauritius	36,889
Total		36,889

Items	Risk Country	USD'000
Claims On Banks	Australia	141
	Belgium	1
	Canada	163
	China, P.R.	367
	France	7,568
	Germany	100,224
	Hong Kong	505,602
	India	128,675
	Japan	3,726
	Mauritius	79,594
	New Zealand	6
	Singapore	87,787
	South Africa	2,802
	Switzerland	200
	Thailand	178
	United Arab Emirates	13
	United Kingdom	1,901
	United States	393,658
	Vietnam	26,810
Total		1,339,416

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Credit Risk Exposures (continued)

Items	Risk Country	USD'000
Claims on Corporates	Hong Kong	12,506
	India	793,231
	Ireland	11,211
	Germany	8,502
	Kenya	15,044
	Madagascar	45,132
	Malaysia	13,925
	Mauritius	188,905
	Netherlands	6,130
	Seychelles	15,006
	Sri Lanka	17,927
	Switzerland	7,034
	United States	148,589
	United Kingdom	12,139
	Vietnam	58,675
Total		1,353,956

Non fund based:

Items	Risk Country	USD'000
Direct Credit Substitute	Hong Kong	85
	Mauritius	6
Total		91

Items	Risk Country	USD'000
Transaction-related Contingent Items	India	23,302
	Mauritius	22,506
	Hong Kong	17
Total		45,825

Items	Risk Country	USD'000
Trade-related Contingent Items	India	3,206

Items	Risk Country	USD'000
Other commitments with an original maturity of up to one year	Mauritius	5,067
	United Kingdom	10,288
	India	21,109
Unconditionally cancellable commitments	Mauritius	89,303
	India	254,468
	Vietnam	130,485
Total		510,720

Items	Risk Country	USD'000
Foreign Exchange Contracts	United Kingdom	164
	Mauritius	2,364
	Hong Kong	122,942
Total		125,470

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Credit Risk Exposures (continued)

The counterparty type distribution of exposures was as follows:

Fund based:

Items	USD'000
Financial Institutions	1,829,437
Corporates	1,353,956
Total	3,183,393

Non fund based:

Items	USD'000
Financial Institutions – Non banks	59,035
Financial Institutions – banks	149,715
Corporates	476,562
Total	685,312

The contractual maturity breakdown of the portfolio was as follows:

Fund based:

Items	USD'000							
Number of Months	0-3m	3-6m	6-12m	12-24m	24-36m	36-60m	> 60m	Total
Claims on Sovereigns	205,293	247,839	-	-	-	-	-	453,132
Claims on Central Banks	-	36,889	-	-	-	-	-	36,889
Claims on Banks	1,160,098	121,988	41,750	15,580	-	-	-	1,339,416
Claims on Corporates	260,594	49,219	205,275	228,941	305,679	169,889	134,359	1,353,956
Total	1,625,985	455,935	247,025	244,521	305,679	169,889	134,359	3,183,393

Non fund based:

Items	USD'000							
Number of Months	0-3m	3-6m	6-12m	12-24m	24-36m	36-60m	> 60m	Total
Direct Credit Substitute	-	-	-	85	6	-	-	91
Transaction-related Contingent Items	-	1	126	493	45,000	205	-	45,825
Trade-related Contingent Items	599	-	2,607	-	-	-	-	3,206
Other commitments with an original maturity of up to one year	36,464	-	-	-	-	-	-	36,464
Unconditionally cancellable commitments	2,683	4,136	103,685	108,666	103,783	3,009	148,294	474,256
Foreign Exchange Contracts	125,470	-	-	-	-	-	-	125,470
TOTAL	165,216	4,137	106,418	109,244	148,789	3,214	148,294	685,312

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

HSBC Bank (Mauritius) Limited

Management discussion and analysis (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”)
- Fitch India
- 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%.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Credit Risk Exposures (continued)

Credit Risk: Standardised Approach (continued)

Exposures after credit risk mitigation (CRM) subject to the standardised approach were as follows:

Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Risk Weight	RWA
	USD'000	USD'000	%	USD'000
Claims on Sovereigns	453,132	453,132	0	-
Claims on Central Banks	191	191	0	-
	36,698	36,698	50	18,349
Claims on Banks	481,861	481,861	0	-
	698,284	842,339	20	168,468
	106,225	120,150	50	60,075
	53,045	53,045	100	53,045
Claims on Corporates	355,839	355,839	20	71,168
	288,311	275,804	50	137,902
	709,807	564,334	100	564,334
Claims on Other assets	17,160	17,160	100	17,160
Total	3,200,553	3,200,553		1,090,501

Non Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Credit Conversion Factor	Credit Equivalent Amount	RWA
	USD'000	USD'000	%	USD'000	USD'000
Direct Credit Substitute	91	91	100	91	18
Transaction-related Contingent Items	45,825	45,825	50	22,912	13,879
Trade-related Contingent Items	3,206	3,206	20	641	285
Other commitments with an original maturity of up to one year	36,464	36,464	20	6,093	5,459
Unconditionally cancellable commitments	474,256	474,256	-	-	-
Total	559,842	559,842		29,737	19,641

Items	Notional principal amount	Credit Conversion Factor %	Potential Future Risk	Current Exposure	Credit Equivalent Amount	RWA
	USD'000		USD'000	USD'000	USD'000	USD'000
Foreign Exchange Contracts	125,470	1	1,255	37	1,292	279

Credit Risk Mitigation

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.

HSBC Bank (Mauritius) Limited

Management discussion and analysis (continued)

Credit Risk Mitigation (continued)

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; and
- fixed and floating charge on all assets.

Market Risk

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

It is the responsibility of the country Chief Executive Officer (CEO) or his delegate to ensure that market risk may only be taken by Global Markets businesses within authorised limits. Units other than Global Markets businesses must transfer market risk to the Global Markets business, either by an internal transaction between the two areas, or by the inclusion of the transaction in the Global 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, and HSBC Group Market Risk function in HSBC Group Head Office in London. Any exceptions are subject to the same control and reporting requirements as that applied to risk taken by Global Markets, including annual review of limits by HSBC Group Market Risk.

An Annual Limit Review (ALR) is prepared by HSBC Group Market Risk and reviewed by the Risk Management Meeting (RMM) of the HSBC 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 country CEO, or his delegate and, the local and regional Head of Global 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 USD0.2m (2018: USD0.4m) giving a capital requirement of USD0.03m (2018: USD0.05m).

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.

HSBC Bank (Mauritius) Limited

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 Standardised 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 stood as follows:

		Financial Year Ended 2019 USD'000	Financial Year Ended 2018 USD'000	Financial Year Ended 2017 USD'000
	<i>Annual Gross Income</i>	67,728	70,240	57,074
(1)	Number of Years with positive income	3		
(2)	Average Gross Income over last 3 years	65,014		
(3)	Capital charge for Operational Risk	9,752		

HSBC Bank (Mauritius) Limited

Management discussion and analysis (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 34 of the financial statements.



Matthew Lobner
Chairman



Dean Lam Kin Teng
Managing Director



Lukas Mandangu
Director

24 February 2020

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices

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 Board of HSBC Bank (Mauritius) Limited (the “Bank”) continuously assessed the requirements and provisions as specified in the Code, and took the necessary steps to ensure adherence thereto.

Throughout the year ended 31 December 2019, to the best of the Board’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 Board and its Committees
Principle 3: Director Appointment Procedures
Principle 4: Director 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 strives to ensure effective management in line with all these principles.

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

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;

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

Group Values, Charter and Code of Conduct (continued)

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

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

The Board ensures effective management in line with the above values and its Code of Conduct (Code of Ethics) which was reviewed and approved by the Board at its meeting held on 08 November 2018 and subsequently in October 2019. 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 Board also agreed to adhere to the Code in December 2019.

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

1. Governance Structure

1.1 Shareholding structure

The Bank is incorporated in Mauritius as a subsidiary 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 parent company. As at 31 December 2019, the Bank's issued capital was USD 72,956,783, solely held by The Hongkong and Shanghai Banking Corporation Limited.

1.2 Responsibilities of the Board

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

The Board 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.

The Board 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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

1. Governance Structure (continued)

1.2 Responsibilities of the Board (continued)

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

The Board 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.

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

The Board'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 Board 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.

1.3 Board & its Committees Terms of Reference

In line with the Code and the *Guideline on Corporate Governance* issued by the Bank of Mauritius, the composition, frequency of meetings and the responsibilities of the Board are set out in the Board Terms of Reference which was initially approved and adopted by the Board at its meeting held on 8 November 2018 and subsequently in October 2019. Similarly, responsibilities delegated to each Board Committee are embodied in respective Terms of Reference (ToRs), which have been formally approved and adopted by the Board in May 2019. All the ToRs are reviewed annually, as and when any amendments are required to align with the core terms of reference of the group from time to time.

The role of the Board is to provide entrepreneurial leadership of the Bank within a framework of prudent and effective controls which enables risks to be monitored, evaluated and managed. The Board is collectively responsible for the long-term success of the Bank and the delivery of sustainable value to shareholders. It sets the strategy and risk appetite for the Bank and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set.

The Board has the ultimate responsibility for the operations and the financial soundness of the Bank. In discharging its responsibilities, it takes into account the legitimate interests of shareholders, depositors and other relevant stakeholders. Directors act bona fide in the interest of the Bank, and on an informed and prudent basis, in accordance with the applicable laws, regulations and supervisory standards.

The Board is of sufficient size to discharge its responsibilities and allow changes to the Board's composition to be managed without undue disruption. The Board believes that based on Bank's size and operations, it possesses the right balance of executive and non-executive directors. The Constitution of the Bank allows for the Board to have a minimum of 7 Directors and a maximum of 9 Directors. During the year, there has been no new appointment. Mrs. Steer was appointed as Executive Director to the Board of the Bank in 2018, which also resulted in an improved gender balance in the Board composition.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

1. Governance Structure (continued)

1.3 Board & Board Committees ToRs (continued)

The Board has determined that each Director shall stand for re-election at each Annual Meeting or by means of ordinary shareholder resolution. In determining the re-election of Directors, the Board reviewed whether each Director remained qualified for his/her post.

The business and affairs of the Bank are managed by, or under the direction or supervision of the Board. In doing so, the Board exercises all the powers of the Bank, subject to any relevant laws and regulations and to its Constitution.

The Constitution of the Bank provides that the Board may appoint committees and may delegate all or any of their powers to any such committee and, from time to time, revoke any such delegation and discharge any such committee wholly or in part. In line with this, the Board has established the below committees:

- (1) Audit Committee
- (2) Risk Management and Conduct Review Committee

The Chairs of each Committee report matters of significance to the Board after each meeting and the minutes of the meetings are made available to all Board members.

2. The Structure of the Board and its Committees

2.1 Board Composition

A summary of the Board Charter and the Terms of Reference of the Board and its Committees are given as below:

Board of Directors		
Frequency of meetings	Quarterly	
Composition	Matthew Lobner Dean Lam Christopher Murray Laura Steer* Lukas Mandangu Timothy Evans Todd Wilcox Francois de Maricourt Mark Prothero	Chairman of the Board and Non-Executive Director Managing Director Executive Director Executive Director Executive Director Non-Executive Director Non-Executive Director Non-Executive Director Non-Executive Director
Main Responsibilities	The key responsibilities of the Board include: (i) setting and overseeing the objectives of the Bank and the strategies for achieving those objectives; (ii) risk governance; (iii) appointment and oversight of senior management, including the Managing Director, as and when required; (iv) setting corporate values and standards; (v) ensuring a suitable and transparent corporate structure; (vi) ensuring effective audit functions; and (vii) ensuring an appropriate degree of transparency in respect of the structure, operation and risk management of the Bank.	

**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.*

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

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

2.2 Audit Committee

Frequency of meetings	Quarterly	
Composition	Francois de Maricourt Todd Wilcox Mark Prothero	Chairman of Audit Committee Member and Non-Executive Director Member and Non-Executive Director
Main Responsibilities	The key responsibilities of the Audit Committee include: (i) reviewing the financial statements of the Bank before they are approved by the directors, to monitor the integrity of such statements; (ii) reviewing, evaluating and where necessary, approving, the Bank's financial and accounting policies and practices; (iii) reviewing the Bank's internal financial controls and its internal control and risk management systems; (iv) monitoring and reviewing the internal audit plan, the effectiveness of the internal audit function and co-ordination between the internal and external auditors, considering the major findings of internal investigations and management's response; (v) reviewing such transactions as could adversely affect the sound financial condition of the Bank as the auditors or any officers of the Bank may bring to the attention of the Committee; and (vi) reviewing the terms of appointment, re-appointment or removal of the external auditors and approve the terms of engagement. (vii) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process.	

Key topics considered during the year

- Interim and audited financial statements with recommendations made to the Board.
- Reports from internal and external auditors and actions taken accordingly.
- Audit plans for external auditors.
- Audit fees for external auditors.
- Bi-annual certifications to the parent entity.

2.3 Risk Management and Conduct Review Committee (RMCRC)

Frequency of meetings	Quarterly	
Composition	Todd Wilcox Dean Lam Christopher Murray* Francois de Maricourt Mark Prothero	Chairman of the RMCRC Member and Managing Director Member and Executive Director Member and Non-Executive Director Member and Non-Executive Director
Main Responsibilities	The key responsibilities of the Risk Management and Conduct Review Committee include: (i) overseeing and advising the Board on all high-level risk related matters; (ii) identifying principal risks, including those relating to credit, market, liquidity, operational, compliance, and reputation of the Bank, and actions to mitigate the risks; (iii) advising the Board on risk appetite and tolerance in determining strategy;	

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

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

2.3 Risk Management and Conduct Review Committee (RMCRC) (continued)

Main Responsibilities	(i) requiring regular risk management updates from management in the form of the Chief Risk Officer's report which enables the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; as well as giving clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Bank's vulnerability to hitherto unknown or unidentified risks; (ii) reviewing the effectiveness of the Bank's risk management framework and internal control systems; and (iii) seeking to embed and maintain throughout the Bank a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures.
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* Christopher Murray resigned from the RMCRC in May 2019

2.4 Management Committees

The Bank is headed by its Managing Director and is supported in the day to day running of the business by a team of senior executives managing customer service and operations, business development and marketing.

Support functions including IT, Finance, Human Resources, Credit Administration, Financial Crime Risk and Risk Management are provided by The Hongkong and Shanghai Banking Corporation - Mauritius branch via a service level agreement.

The following are the main Management Committees set up for specific matters:

- (1) Executive Committee
- (2) Assets and Liabilities Committee
- (3) Risk Management Meeting

The Terms of Reference and membership of these committees are disclosed on following pages.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

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

2.5 Executive Committee

Frequency	Monthly	
Composition	Christopher Murray	Country Chief Executive Officer (Chairman)
	Dean Lam	Managing Director
	Jennifer Hau	Chief Operating Officer
	Lukas Mandangu	Chief Financial Officer
	Nitin Ramlugon	Head of Retail Banking and Wealth Management
	Trang K N Nguyen*	Acting Head of Human Resources
	Vassan Caleemootoo	Head of Global Markets
	Annick Meerun	Communications Manager
	Laura Steer**	Chief Risk Officer
	Ashish Gowreesunker	Head of Financial Crime Compliance, Financial Crime Threat Mitigation and Regulatory Compliance
	Ashiti Prosand***	Head of Legal and Company Secretary
Purpose	The Executive Committee, which meets on a monthly basis, has the responsibility for business development initiatives, human resources and internal management structure, IT and operational issues, approval of major capital expenditure projects, social matters such as education and environmental protection, monitoring of annual budget and any other relevant issues. It also considers employee remuneration issues and reviews adequacy of senior employees' remuneration and key appointments. It ensures that all executives receive appropriate training on appointment and then subsequently as appropriate.	
Main Responsibilities	The key responsibilities of the Executive Committee include: (i) Monitoring actual performance against budgets and providing planning and budgeting guidance where appropriate; (ii) Managing profitability and revenue growth and profile, optimising the allocation and utilisation of all resources; (iii) Resolving inter-departmental issues that have impacts on business performance; and (iv) Making tactical decisions, based on the information presented and analysing business strategies of the Bank.	

* Effective from 10 October 2019

** On maternity leave from 26 July 2019

*** Effective from 22 March 2019

2.6 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 balance sheet strategy, funding and capital management, acquisition and divestment policy, and consideration of significant financing matters. It monitors the exposure to key business risks and reviews the strategic direction of the Bank and the impact of these risks on the balance sheet.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

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

2.6 Asset and Liability Committee (continued)

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

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

* On maternity leave from 26 July 2019

2.7 Risk Management Meeting (RMM)

The Risk Management Meeting is a formal governance committee established to provide recommendations and advice to the Chief Risk Officer (CRO) on enterprise-wide management of all risks, including key policies and frameworks for the management of risk within the Bank. It supports the CRO's individual accountability for the oversight of enterprise risk as set out in the Group's Enterprise Risk Management Framework ("ERMF") and in the context of all three Lines of Defence ("3LOD"). Both the "ERMF" and "3LOD" frameworks are outlined in more detail under "Risk Management".

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

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

2.7 Risk Management Meeting (RMM) (continued)

Decision-making authority in relation to all matters considered at the RMM remains with the CRO, pursuant to the authority delegated to him/her by the Board, except where decision-making authority has been allocated to an individual member in accordance with the ERMF.

The RMM and hence the CRO are accountable to the Board. The RMM provides risk management reports to the Board through the CRO in the format of the CRO's report which is presented to the quarterly Risk Management and Conduct Review Committee. The Chairman of the RMCRC in turn reports matters of significance to the Board.

Frequency	Monthly	
Composition	Laura Steer*	Chief Risk Officer (CRO) (Chairperson)
	Dean Lam	Managing Director
	Christopher Murray	Country Chief Executive Officer (CEO)
	Lukas Mandangu	Chief Financial Officer (CFO)
	Jennifer Hau	Chief Operating Officer (COO)
	Ashiti Prosand	General Counsel and Company Secretary
	Vassan Caleemoothoo	Head of Global Markets
	Ashish Gowreensunker	Head of Financial Crime Compliance, Financial Crime Threat Mitigation and Regulatory Compliance
	Trang K N Nguyen	Acting Head of Human Resources
	Annick Meerun	Communications Manager
Main Responsibilities	The RMM serves as the governance body for enterprise-wide risk management with particular focus on risk culture, risk appetite, risk profile and integration of risk management into the Bank's strategic objectives. Its key responsibilities include: The key responsibilities of the Risk Management Meeting include: (i) reviewing key enterprise-wide risk management policies and framework addendums, including but not limited to the Bank Risk Appetite Framework, Risk Appetite Statements and Stress Testing Framework prior to onward submission for Board approval where appropriate (ii) reviewing the Bank enterprise risk reports (including risk appetite profile, risk map and top and emerging risks report) (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.	

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

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

2.7 Risk Management Meeting (RMM) (continued)

Main Responsibilities	(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.
	(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.

* On maternity leave from 26 July 2019

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

2.8 Corporate Governance Committee

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

2.9 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.

3. Director Appointments Procedures

3.1 Appointment of Directors

The Board has a formal process and transparent process in place for appointment of directors which is led by the Chairman of the Board. The Chairman reviews the structure, size and composition of the Board annually, or whenever appointments are considered, to ensure that the Board has a diverse mix of competencies, knowledge and experience, in order to enrich Board discussions and improve the quality of decision making. Directors are appointed by ordinary resolution by the shareholder. There are no limits on the number of times a director may stand for re-election, subject to continued satisfactory performance.

3.2 Board Access to Information & Advice

Once appointed all directors have access to the advice and services of the Company Secretary, who is responsible for providing guidance to the Directors on their duties, responsibilities and powers. They also have access to Senior Executives to obtain information on items to be discussed at Board Meetings or meetings of Board Committees or on any other area they consider to be appropriate.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

3. Director Appointments Procedures (continued)

3.2 Board Access to Information & Advice (continued)

The Board and its Committees also have the authority to secure the attendance at meetings of third parties with relevant experience and expertise as and when required

3.3 Directors' Interests in Shares

None of the Directors holds a direct interest in the Bank.

3.4 Independent Directors

Pursuant to section 18 (4) (b) of the Mauritian Banking Act 2004, a subsidiary of a foreign bank is required to have 40 per cent non-executive directors instead of 40 per cent independent directors. In line with this requirement and given that the Bank is wholly owned subsidiary of a foreign bank, it has appointed more than 40 percent of non-executive Directors on its Board and no independent director.

The Board is of the opinion that the appointment of Non-Executive Directors from other Group entities is sufficient to ensure independence.

3.5 Evaluation of Board Performance

All the directors are employees of the Bank or the HSBC Group who are subjected to the Bank's rigorous objectives setting and performance evaluation in their roles as both employees and directors of the Bank. In reference to the year under review, the Board through the Company Secretary and the board Chairman conducted the self-assessment of the effectiveness of the board and its committees. No issues in relation to the performance of the directors have come to light in reference to the year under review.

3.6 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 assumes the responsibility that the Bank has an effective management team and actively participates in the development of management and succession planning in line with this group process.

3.7 Induction & Orientation Programme & Periodic Refresher Programme for Directors

It is crucial that new directors receive a proper induction when being appointed in office to ensure that they are familiarised, as soon as possible, with the Bank's operations, Senior Management, business environment and corporate strategy, as well as their fiduciary duties and responsibilities as directors.

All the executive and non-executive directors and employees of the Bank are familiar with the Bank's business model and expectations of the HSBC Group. In-country director induction has been implemented through a Director Handbook and may include further learning about the business and meeting EXCO Members.

The Directors are briefed on their legal duties and roles and responsibilities and kept informed on the Bank's operations and business environment, so as to enable them to effectively contribute to strategic discussions and oversight.

During the year there has been no new Director appointment.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

3. Director Appointments Procedures (continued)

3.8 Continuous Training & Development

Continuous training is essential to cope with the constant changes in the business environment. Whilst Directors have a duty to keep up-to-date with industry, legal and regulatory developments, it is also the responsibility of the Board to provide adequate training and development programme to its Directors.

All the directors are employees of the Bank and have attended mandatory trainings that are critical in their roles as both directors of the Bank and employee of the HSBC Group. In addition to the mandatory training that all HSBC staff including directors undergo, a training is provided on prevailing matters for the Board during the onsite Board meeting, at least on an annual basis.

3.9 Common directors between the Bank and its sole shareholder

There are no common directors between the Bank and The Hongkong and Shanghai Banking Corporation Limited and none of the Directors have any interest in the shareholding of the Bank.

4. Director Duties, Remuneration and performance

4.1 Position statement and Statement of accountabilities

The Position Statement and Statement of Accountabilities which have been approved are reviewed, in case of any change, by the Board, provide a clear definition of the roles of the Chairperson of Board and its subcommittees, Managing Director and Company Secretary. The role of the Chairperson is distinct and separate from that of the Managing Director and there is a clear division of responsibilities with the Chairperson leading the Board and the Chief Executive managing the Bank's day to day business operations.

The Position Statements and Statement of Accountabilities are published on the website of the Bank.

4.2 Role of Chairman

The role of the Chairman of the Bank is to provide leadership to the Board and to be responsible for the overall effective functioning of the Board. The Chairman possesses the requisite experience, competencies and personal qualities to fulfil these responsibilities. The Chairman is responsible for the development of strategy and the oversight of implementation of Board approved strategies and direction.

The Chairman ensures that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Bank. To this end, the Chairman, among other things:

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.2 Role of Chairman (continued)

- (i) sets the agenda for board meetings and ensures that all Directors are given an opportunity to include matters on the agenda;
- (ii) ensures that Directors receive accurate, timely and clear information for Board meetings;
- (iii) encourages and promotes open and critical discussion;
- (iv) ensures that any concerns and dissenting views are expressed and discussed within the decision making process;
- (v) participates in the selection of board members to ensure that the Board has an appropriate mix of competencies, experience skill and independence;
- (vi) encourages constructive relations and effective communication between the Board and management, and between the executive Directors and non-executive Directors; and
- (vii) ensures that Directors, especially non-executive Directors, have been granted access to independent professional advice at the Bank's expenses where they judge it necessary to discharge their responsibilities.

4.3 Role and Function of Managing Director

The Managing Director is responsible for:

- (i) developing and recommending to the board a long-term vision and strategy for the Bank that generates satisfactory levels of shareholder value and positive, reciprocal relations with relevant stakeholders;
- (ii) developing and recommending to the board annual business plans and budgets that the Bank's long term strategy. In development of these plans, it is essential that the managing director ensures that a proper assessment of the risks under a variety of possible or likely scenarios is undertaken and presented to the Board or sub-committee;
- (iii) ensuring implementation of the strategy and policy as established by the Board;
- (iv) managing and day-to-day running of operations; and
- (v) actively participating in the Executive, Risk Management Meeting and Asset and Liability Committees.

4.4 Role of Company Secretary

The Company Secretary, who is appointed by the Board, provides guidance to the Directors and ensures that the Directors are aware of their duties and responsibilities. She facilitates the evaluation of board and committee effectiveness and is responsible for the training and induction of new directors.

The Company Secretary assists the Chairman in drafting an agenda for each meeting of the Board. Directors may propose any matters for inclusion in the agenda through the Chairman or the Company Secretary. Board papers and agenda are targeted for distribution to Directors at least one week before the date of the meeting. Similar arrangements are in place for Board Committees.

4.5 Directors' Service Contracts

All executive directors, except for the Managing Director are in fixed term contracts with the Bank.

4.6 Directors' Emoluments

The HSBC Group policy does not allow both Executive and Non-Executive directors to receive a separate fee in their role as directors of subsidiary companies.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.6 Directors' Emoluments (continued)

During the financial year 2019, the Managing Director received emoluments, which includes salaries and other benefits, amounting to USD188,982 (2018: USD226,059). Other directors were not entitled to directors' fees and other remuneration during the year.

4.7 Job descriptions

The Board has approved the appropriate job descriptions of the key senior governance position and there were no changes to their roles compared to the previous year.

4.8 Statement of Remuneration Policy

The Board 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 of the Bank and individual employees and the assessment is tailored to both annual as well as long term objectives that have been agreed. The structure of remuneration is made up of fixed pay, benefits, annual incentive based on performance of the Bank and individual and the Group Performance Share Plan.

4.9 Conflict of Interest

Personal interests of a director or persons closely associated with the director must not take precedence over those of the Bank and the Shareholder. Directors should make the best effort to avoid conflicts of interests or situations which others may reasonably perceive to be conflicts of interests. The Board is satisfied that the Non-Executive Directors are free from any relationships or circumstances that are likely to affect their judgement.

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 Directors and Senior Officers of the Bank, but to all employees who can influence any decision of the Bank.

4.10 Information Governance

The Bank continuously seeks to foster frameworks that upholds the security of information and Information Technology (IT) systems in adherence to regulatory and industry norms keeping in mind the confidentiality, integrity and availability of information. The Board, through relevant committees ensures that set policies, are regularly reviewed and implemented by management 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 are normally wide-ranging duties of confidentiality with respect to customer information. Many of the jurisdictions in which HSBC 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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.10 Information Governance (continued)

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 Board maintains oversight on Information Technology expenditure and delegates the authority to Executive Committee via the Strategic Cost Working Group (SCWG). All key IT projects and expenditure are monitored and scrutinized by the SCWG.

4.11 Directors Profile

Matthew Lobner – Chairman and Non-Executive Director (Non - resident)

Mr. Lobner is Group General Manager, Head of International, Asia-Pacific and Head of Strategy and Planning, Asia-Pacific, at HSBC. Mr Lobner has responsibility for 10 international markets in Asia. He is responsible for the implementation of Group strategy in these markets and also for Strategy and Planning across all of Asia-Pacific. Mr Lobner joined the HSBC Group in 2005 from McKinsey & Company and has worked in various roles in the US, UK and Asia.

Prior to this, Mr Lobner was a US Naval Submarine Officer in the United States Navy. He has a Master of Science in Electrical Engineering from Massachusetts Institute of Technology, and graduated with distinction from the United States Naval Academy. Mr. Lobner is the Chairman of the Board of HSBC Bank (Mauritius) Limited.

Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2019:
None

Dean Lam – Managing Director (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

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.11 Directors Profile (continued)

Laura Steer – Executive Director (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.

Directorships held in companies listed on Market of the Stock Exchange of Mauritius Ltd as at 31 December 2019: None

Christopher Murray – Executive Director (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 es Salaam Investment Bank (Iraq). Prior to being appointed as Country CEO of HSBC Mauritius, Mr. Murray held the position of Chief Risk Officer in HSBC Thailand.

Directorships held in companies listed on Market of the Stock Exchange of Mauritius Ltd as at 31 December 2019: None

Lukas Mandangu – Executive Director (Resident)

Mr. Mandangu joined HSBC GB&M Finance in October 2010 and prior to this, held various finance roles in Société Générale 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, HSBC Global Banking/Principal Investments and Strategic Innovation Investments based in London prior to his appointment as country CFO for HSBC in Mauritius. Mr. Mandangu is both a Chartered Accountant and a Chartered Financial Analyst.

Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2019: None

Todd Wilcox – Non-Executive Director (Non – resident)

Mr. Wilcox is currently the Deputy Chief Executive Officer of HSBC China. Mr. Wilcox joined the HSBC Group in 2005 with HSBC Canada as Vice President, where he managed the retail network for HSBC Bank in Calgary. He also worked for HSBC Bermuda as Head of Financial Services and more recently as Chief Operating Officer HSBC Asia Pacific Risk, a regional role, with the additional role of Head of Risk, International Countries. Since 2013 to date, Mr. Wilcox occupies the post of CEO HSBC Brunei. Prior to joining the HSBC Group, he started his banking career with RBC Royal Bank, Canada in 1988 where he held a number of positions. As qualifications, Mr. Wilcox holds a Bachelor of Arts from the University of Calgary as well as a MBA from the Richard Ivey School of Business, University of Western Ontario.

Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2019: None

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.11 Directors Profile (continued)

Timothy Evans - Non-Executive Director (Non - resident)

Mr. Evans is the Chief Executive Officer of HSBC Vietnam & had held the role of Head of Commercial Banking, International Markets, Asia Pacific (ASP), HSBC prior to his current role. Mr. Evans also held various senior management positions within HSBC, including Regional Head of Middle Market Enterprises, ASP, Regional Head of Global Trade & Receivables Finance for Middle East & North Africa (MENA), and Chief Operating Officer for Commercial Banking, MENA. He previously served as Chief Operating Officer at Wells Fargo HSBC Trade Bank, an equity joint venture between Wells Fargo and the HSBC Group in the United States dedicated exclusively to the finance of international trade. Mr. Evans holds a BA in International Business from Loughborough University, UK, and is a member of the Chartered Institute of Bankers.

Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2019:
None

Francois de Maricourt – Non-Executive Director (Non - resident)

Mr. de Maricourt is the Chief Executive Officer of HSBC Bangladesh. He joined HSBC in 1994 and has been appointed in a number of senior leadership roles since his joining. He has more than 20 years of experience in banking spanning across various geographies in Europe, Asia, the Middle East and Africa. During his career in HSBC, Mr. de Maricourt has also been appointed in two CEO roles in Algeria and Lebanon respectively. Prior to joining HSBC Bangladesh, Mr. de Maricourt had worked in a senior management role in the HSBC Group Head Office in London. Mr. de Maricourt holds a Post Graduate Degree in Banking and Finance with academic distinction and a Master's Degree in Economics.

Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2019:
None

Mark Prothero – Non-Executive Director (Non – resident)

Mr. Prothero is currently the Chief Executive Officer of HSBC Sri Lanka and Maldives. Mr. Prothero joined HSBC Group as a graduate in 1990. As a Bank executive with a blend of experience spanning sales, relationship management, operations, risk management, compliance and internal audit, across Retail Banking, Commercial Banking, Trade Services and Securities Services. He held senior leadership positions across Asia, the Middle East, Europe and the Americas, in a 29 year career with the HSBC Group. He was also Chief Auditor for HSBC Holdings Ltd based in Middle East and North Africa. Mr. Prothero holds a BA (Hons) in Geography from the University of Nottingham and is CAMS qualified.

Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2019:
None

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.12 Board and Committee Attendance

		Board	Audit	RMCRC
Number of meetings held		4	4	4
Directors:				
Matthew Lobner	Chairman – Non Executive	4	-	-
Todd Wilcox	Non-Executive Director	4	4	4
Francois De Maricourt	Non-Executive Director	4	4	4
Mark Prothero	Non-Executive Director	4	3	3
Timothy Evans	Non-Executive Director	4	-	-
Dean Lam	Executive Director	4	-	4
Lukas Mandangu	Executive Director	4	-	-
Christopher Murray*	Executive Director	4	-	1
Laura Steer	Executive Director	3	-	-

*resigned from the RMCRC in May 2019

4.13 Senior Management's Profile

The organisation chart of the Bank is as follows:



Dean Lam – Managing Director

The background of Mr. Lam who performs the role of Managing Director of the Bank is already provided in the Directors' profile section.

Hajrah Sakauloo – Head of International

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

Karuna Ramchurn – Commercial Banking Head of Business Management

A holder of a BSC (Hons) in Economics, Mrs. Ramchurn joined HSBC in 1999 with the RBWM sales team, specialising in sales of wealth management products. Thereafter she was involved in various managerial roles as Branch Manager, Product Development Manager in Marketing and Business Management/Project Manager in RBWM Management. She has managed key projects successfully such as Foreign Account Tax Compliance Act ("FATCA") implementation, Monitor review and HSBC US ("HBUS") remediation as well as other de-risking, remediation initiatives and Global Standard ("GS") projects. She joined CMB as Head of Business Management in November 2016.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.13 Senior Management's Profile (continued)

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

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 HSBC Securities Services (“HSS”) and PCM sales before taking over as Country Head of PCM in August 2014. Prior to joining HSBC, Mr. Mahimkar spent four years with the leading Hedge Fund Administrator in Mauritius and had gained valuable exposure in the fields of compliance, regulatory, structuring and administration.

Feizal Hosany – Head of HSBC Securities Services

Mr Hosany joined HSBC Mauritius in June 2000. He is currently the Head of HSBC Securities Services. Prior to joining Securities Services, he was Relationship Manager at HSBC Bank (Mauritius) Limited looking after a portfolio of Global Business clients. During his past engagements with HSBC, he has worked and dealt with several international and local retail clients along with various local management companies. Mr Hosany has also been looking after the Sub Custody business at HSBC as Manager of Direct Custody and Clearing.

Ashiti Prosand – Head of Legal & Company secretary

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

Vassan Caleemootoo - Head of Global Markets

Mr Caleemootoo was appointed Head of Global Markets Mauritius in the last quarter of 2015. He graduated from Lander University, USA and has worked previously in audit and accounting firms. He joined HSBC Mauritius in 2002 in finance to eventually moved to global markets where he held various roles. Throughout his career with the bank, Mr Caleemootoo has gained significant experience in various products, systems, and policies related to Global Markets.

Vineet Arya – Associate Director – Commercial Banking

Vineet Arya was appointed as Associate Director - Commercial Banking, with effect from 09 October 2017. Vineet is a graduate from Delhi University with 16 years of work experience. He joined HSBC India in 2004 where he held various frontline roles in HSBC India Commercial Banking team. In 2012, he joined HSBC Mauritius as Global Banking Senior Relationship Manager with a primary focus on developing the India portfolio. And since March 2017, Vineet successfully led and managed the Bank's Global Business in the absence of a full time Associate Director. Throughout his career, Vineet has worked across different business segments in CMB and GB&M and through these various roles, he has built up a strong commercial awareness and has gained significant experience in various products, systems and policies related to Global Banking.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

4. Director Duties, Remuneration and performance (continued)

4.13 Senior Management's Profile (continued)

Jennifer Hau – Chief Operating Officer

Jennifer 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.

Ashish Gowreesunker – Head of Regulatory Compliance, Financial Crime Threat Mitigation and Financial Crime Compliance

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.

Trang K N Nguyen – Acting Head of Human Resources

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.

Nitin Ramlugon – Head of Retail Banking and Wealth Management

Holding a B.Sc. in Management and a 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.

Annick Meerun – Communications Manager

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 Mauritius as Communications Manager before taking up her job in the Communications Department at HSBC in 2012.

4.14 Interests register

The Interests Register has been in place with effect from 1 January 2019, which is available to the shareholder.

HSBC Bank (Mauritius) Limited

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 Board. The Board, advised by the Risk Management and Conduct Review Committee, 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 Bank (Mauritius) Limited Enterprise-wide Risk Management Framework		
Risk Governance	Non-Executive Risk Governance	The Board approves the Bank's risk appetite, plans and performance target. It sets the 'tone from the top' and is advised by the Risk Management and Conduct Review Committee The Risk Management Meeting (RMM) is responsible for the enterprise-wide risk management of the Bank. It is accountable to the Board through the CRO and the Risk Management and Conduct Review Committee
	Executive Risk Governance	
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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.2 Risk Governance

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

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 to the Board through the CRO Report to the Risk Management and Conduct Review Committee. In turn, the Chair of the Committee reports such matters of significance to the Board, as appropriate. The minutes of the Risk Management Meeting and Risk Management and Conduct Review Committee are made available to all Board 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 Risk Management and Conduct Review Committee and, ultimately, the Board.

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.4 Risk Processes and Tools

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;

- **Operational Risk now renamed 'Non-Financial Risk'** – the Bank continues to focus on continuous training like upscaling of local Risk Stewards, operational risk bootcamp follow up and proactive engagement with Regional Risk Steward.
- **Outsourcing and Third Party Services** – the Bank has strengthened essential governance processes and relevant policies relating to how it identifies, assesses, mitigates and manages risk across the range of third parties with which it does business.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.4 Risk Processes and Tools (continued)

- Cyber Threat and Unauthorised 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 (“WG”). 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.

5.5 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 Board derives assurance that the internal control systems are effective and that any identified risks or deficiencies have monitoring and mitigating action plans in place.
- Systems and Infrastructure: systems or processes which support the identification, capture and exchange of information in a form and time-frame which enables employees to carry out their responsibilities.

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

5.6 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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.6 Whistleblowing and HSBC Confidential (continued)

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 directors' responsibility

The Board 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 directors' responsibility for financial reporting at page 58 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 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 and Conduct Review Committee.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

6. Reporting with integrity (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 32 of the financial statements.

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

6.5 Website

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

7. Audit

7.1 Internal audit

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

Asia Pacific ("ASP") Internal Audit Department of the Global Internal Audit ("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 holds meetings during the year. The Head of Global Internal Audit, International participates in the Audit Committee to discuss audit plan status and key controls and risks observations. Internal Audit also has a separate meeting with the Chairman of the Audit Committee to discuss matters in the absence of executive directors. The Internal Audit function has direct access to the Audit Committee members and has no restrictions to access the records, employees or management of the Bank.

A risk based audit approach is adopted to focus on key risk areas and activities. The audit coverage is driven by the annual risk assessment results and regulatory expectations of the Bank. Executive management of the Bank is responsible for ensuring control issues raised by the Global Internal Audit function are adequately addressed within an appropriate and agreed time frame. The 2019 Internal Audit annual plan was presented to the Audit Committee on 8 February 2019 with regular updates being provided to the Board throughout 2019. The annual audit plan for 2020 has been presented to the Audit Committee in October 2019.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

7.2 External auditors

With a view to ensuring the overall adequacy of the Bank's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditor on an ongoing basis before making a recommendation to the Board on their appointment and retention. The proposal to re-appoint PricewaterhouseCoopers ("PwC") who were first appointed in 2015 as external auditor was approved by the Audit Committee and brought to the Board's attention for approval during 2019. 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, 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 external auditor is invited to attend the audit committee where they are given the opportunity to present their audit plan, audit findings and any significant or material changes in accounting policies and principles. During the year the external auditor also had an opportunity to meet the Chairman of the Audit Committee in the absence of the Executive Directors.

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

	2019 USD'000	2018 USD'000	2017 USD'000
Audit fees for statutory audit	90	91	79
Non-audit fees (Note a)	19	24	18
	109	115	97

Note a: We have 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 work for the years 2017 and 2018 and corporate governance gap analysis for 2018.

8. Relationship with shareholders and key stakeholders

8.1 Shareholder's meeting

There was no annual shareholder's meeting during the year 2019 and decisions that need to be taken by the shareholders at this meeting were taken through the shareholders' resolution dated 27th May 2019. An Annual Meeting will be conducted as and when necessary.

8.2 Shareholder feedback and concerns

The Bank is a wholly owned subsidiary of a foreign bank and decision making and has access to the Board to share feedback and concerns.

8.3 Shareholder's Calendar

The Annual Report is approved annually in February with the dividends usually paid in the fourth quarter of the financial year.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.4 Employee share plans

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

8.5 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 under certain circumstances, for example, on retirement. It may also be extended under certain conditions, for example upon the death of a participant, the executors of the latter's estate may exercise options up to six months beyond the normal exercise period.

There will be no further grants under the HSBC Holdings Savings-Related Share Option Plan International.

8.6 Dividend policy

The Group requires subsidiary companies to establish the levels of surplus capital based on local regulatory capital adequacy requirements and any surplus capital should be distributed to the entity parent company. The Group's aim is for subsidiaries to distribute 50% to 70% of their profits.

The Bank determines the optimal amount and composition of regulatory capital and working capital required, for compliance with local minimum capital requirements at all times and to support planned business growth. Surplus capital is distributed to the parent company as dividends

During the year under review, the Directors approved a dividend payment of USD 28,000,000 or USD 0.38 (2018: USD0.82) per share.

8.7 Material clauses to the Constitution

There are no clauses of the Constitution deemed material enough for special disclosure.

8.8 Shareholder's Agreement Affecting the Governance of the Bank by the Board

There is currently no shareholder's agreement affecting the governance of the Bank by the Board.

8.9 Third Party Management Agreement

No third party management agreement presently exists.

8.10 Rights to Minority Shareholders

The Bank is a wholly owned subsidiary of a Foreign Bank and there are no minority interests.

8.11 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).

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.11 Information for Key Stakeholders (continued)

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 Board places a strong emphasis on conduct, requiring adherence to high behavioural standards and adhering to the HSBC Values.

Employees

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

Diversity and inclusion

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

Employee development

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

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.

HSBC Bank (Mauritius) Limited

Statement on corporate governance practices (continued)

8.12 Corporate Social Responsibility and Donations (continued)

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, supporting charitable programmes aimed at saving the unique biodiversity of Mauritius from extinction has been a major focus in 2019. The Bank is deeply involved in environmental sustainability and restoring the country's native ecosystems, partnering with various organisations in that field.

The amount of provision made for Statutory Charitable Giving in line with Income Tax regulations was USD7,820 (2018: USD8,990). This amount was paid in full during the year.

There were no political donations made for the year 2019.



Matthew Lobner
Chairman



Dean Lam Kin Teng
Managing Director



Ashiti Prosand
Company Secretary

24 February 2020

HSBC Bank (Mauritius) Limited

STATEMENT OF COMPLIANCE

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

Name of Public Interest Entity (the “PIE”): HSBC Bank (Mauritius) Limited

Reporting Period: 31 December 2019

We, the Directors of HSBC Bank (Mauritius) Limited, 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).



Matthew Lobner
Chairman



Dean Lam Kin Teng
Managing Director



Lukas Mandangu
Director

24 February 2020

HSBC Bank (Mauritius) Limited

Statement of directors' responsibility for financial reporting

The Bank's financial statements have been prepared by the directors, who are 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 judgement 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 Board of Directors, acting in part through the Audit Committee and Risk Management and Conduct Review Committee, which is comprised of non- executive directors, oversees the management's responsibility for financial reporting, internal controls, assessment and control of major risk areas, and assessment of significant and related party transactions.

The Bank's internal auditor, who has full and free access to the Audit Committee, 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 and fairness of financial reporting and the adequacy of internal controls.



Matthew Lobner
Chairman



Dean Lam Kin Teng
Managing Director



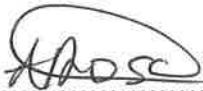
Lukas Mandangu
Director

24 February 2020

HSBC Bank (Mauritius) Limited

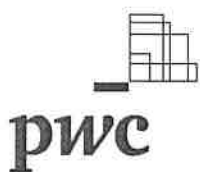
Secretary's Certificate under Section 166(d) of the Companies Act 2001

In accordance with section 166 (d) of the Mauritian Companies Act 2001 we certify that, to the best of our knowledge and belief, the Bank has filed with the Registrar of Companies, all such returns as are required of the Bank under the Mauritian Companies Act 2001.



Ashiti Prosand
Company Secretary

24 February 2020



Independent Auditor's Report

To the Shareholder of
HSBC Bank (Mauritius) 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 HSBC Bank (Mauritius) Limited (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 HSBC Bank (Mauritius) Limited set out on pages 66 to 154 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.

A handwritten signature in black ink, appearing to be 'MH' followed by a flourish.

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



Independent Auditor's Report

To the Shareholder of
HSBC Bank (Mauritius) 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 This is the second year that expected credit losses ('ECL') have been reported under IFRS 9 <i>Financial Instruments</i> . The underlying processes and controls have continued to mature during the year, with an increased focus on back-testing. The key areas of significant management judgement within the ECL calculations include: • 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"); • Incorporating forward economic guidance, specific to India, into the ECL measurement; and • Making post model adjustments.	Given the complexity of the model used for the ECL computation, specialist teams assisted us in performing certain procedures. Model performance monitoring and validation controls were tested, including periodic policy and independent model reviews and back testing of model performance. 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. 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. 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. We continued to critically assess the more judgmental decisions made by management, in particular the choice of using a proxy approach with data specific to India, especially with respect to the use of forward economic guidance and its impact on ECL.



Independent Auditor's Report

To the Shareholder of
HSBC Bank (Mauritius) Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters (continued)

Key audit matter	How our audit addressed the key audit matter
Indian Tax Assessment The Bank invests in Indian equity and debt markets, out of which it derives interest and fee income on loans and advances made to Indian borrowers and gains made on fixed income securities. The Bank has claimed exemption from Indian tax on these sources of income under the provisions of the India/ Mauritius double tax treaty. However, the Indian Revenue Authority has denied the Bank the exemption and has raised a total tax assessment of USD 52.2m for the assessment years 2009/10 to 2016/2017. As at date, the Bank has made demand deposits of USD 36.1m to the Indian Revenue Authority as it continues to appeal against the tax assessments. The appeals have reached advanced stages and the latest verdicts from the Commissioner of Income Taxes and the Income Tax Appellate Tribunal have been in favour of the Bank. Accordingly, the Bank received an amount of USD 23.8m during the year from the Indian Revenue Authority with respect to demand deposits made. An amount of USD12.3m was still shown as a receivable in the statement of financial position. Based on the latest favourable outcomes to the appeals made and the advanced discussions with their legal and tax representatives, management has assessed that the recovery of the advanced deposits made (see note 23) is virtually certain and no provisions ought to be booked in the financial statements of the Bank as at 31 December 2019.	We assessed the merits of the tax assessment by: - reviewing updated tax papers prepared by management and submitted to the Board; - reviewing the latest court verdicts; - reviewing minutes of Board meetings where the tax assessments were discussed; and - reviewing correspondences between the Bank and the legal advisors. We engaged with management and the Bank's legal advisors to understand the latest developments and read the various verdicts to date. We also involved our tax specialist and formed our own view of the likelihood of a tax expense crystallising, based on our appraisal of the facts and circumstances of the tax case.



Independent Auditor's Report

To the Shareholder of
HSBC Bank (Mauritius) Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Other Information

The directors are 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 the Directors for the Financial Statements

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

In preparing the financial statements, the directors are 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.

The directors are responsible for overseeing the financial reporting process.



Independent Auditor's Report

To the Shareholder of
HSBC Bank (Mauritius) Limited (Continued)

Report on the Audit of the Financial Statements (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

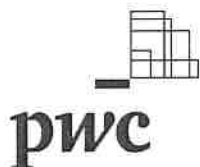
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

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

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

We communicate with the directors 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 black ink, appearing to be 'MH' followed by a flourish.



Independent Auditor's Report

To the Shareholder of
HSBC Bank (Mauritius) 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 the directors, 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.

A stylized, handwritten signature of PricewaterhouseCoopers in cursive script.

PricewaterhouseCoopers

24 February 2020

A handwritten signature of Michael Ho Wan Kau in cursive script.

Michael Ho Wan Kau, licensed by FRC

HSBC Bank (Mauritius) Limited

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

	Notes	2019 USD'000	2018 USD'000	2017 USD'000
Interest income		86,508	97,359	63,078
Interest expense		(28,474)	(35,705)	(15,338)
Net interest income	8	58,034	61,654	47,740
Fee and commission income		6,670	6,235	6,406
Fee and commission expense		(683)	(629)	(582)
Net fee and commission income	9	5,987	5,606	5,824
Net trading income	10	3,326	2,502	2,860
		67,347	69,762	56,424
Other operating income	11	381	478	650
Total operating income		67,728	70,240	57,074
Net reversal of impairment on financial assets	12	158	404	17
Personnel expenses	13	(3,802)	(3,693)	(3,202)
Depreciation	21	(148)	(36)	(32)
Other expenses	14	(12,988)	(11,895)	(10,996)
Total expenses		(16,938)	(15,624)	(14,230)
Profit before income tax		50,948	55,020	42,861
Income tax expense	15	(1,741)	(2,395)	(1,904)
Profit for the year		49,207	52,625	40,957
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of defined benefit liabilities		(378)	(443)	(529)
Related tax	22	(6)	93	14
		(384)	(350)	(515)
Items that may be reclassified to profit or loss				
Net change in fair value on debt instruments		206	99	(156)
Total other comprehensive income for the year		(178)	(251)	(671)
Total comprehensive income for the year		49,029	52,374	40,286

The notes on pages 71 to 154 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Statement of financial position at 31 December 2019

	Notes	2019 USD'000	2018 USD'000	2017 USD'000
Assets				
Cash and cash equivalents	16	1,167,107	760,298	1,635,210
Trading assets	17	37	1,283	120
Loans and advances to banks	18	204,607	406,873	531,831
Loans and advances to customers	19	1,351,969	1,761,050	1,750,583
Investment securities	20	453,108	453,121	298,499
Other assets	23	22,590	43,586	29,893
Property, plant and equipment	21	760	59	44
Deferred tax assets	22	131	151	67
Total assets		3,200,309	3,426,421	4,246,247

The notes on pages 71 to 154 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Statement of financial position (continued) at 31 December 2019

	Notes	2019 USD'000	2018 USD'000	2017 USD'000
Liabilities				
Deposits from customers	24	1,952,340	2,240,091	3,120,937
Trading liabilities	17	234	1,121	629
Other borrowed funds	25	884,985	845,254	783,201
Current tax liabilities	15	396	1,083	815
Other liabilities	26	25,431	22,977	17,067
Total liabilities		2,863,386	3,110,526	3,922,649
Shareholder's equity				
Stated capital	28	72,957	72,957	72,957
Retained earnings	29	175,444	148,907	156,818
Other reserves	29	88,522	94,031	93,823
Total equity attributable to equity holder		336,923	315,895	323,598
Total liabilities and shareholder's equity		3,200,309	3,426,421	4,246,247

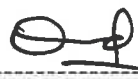
Approved by the Board of Directors on 24 February 2020 and signed on its behalf by:



Matthew Lobner
Chairman



Dean Lam Kin Teng
Managing Director



Lukas Mandangu
Director

The notes on pages 71 to 154 form part of the financial statements.

HSBC Bank (Mauritius) Limited

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

	Stated capital	Retained earnings	Statutory reserve	General banking reserve	Reserves for own shares	Fair value reserve	Total equity
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Balance at 01 January 2017	72,957	140,103	72,957	27,254	45	-	313,316
Profit for the year	-	40,957	-	-	-	-	40,957
Other comprehensive income	-	-	-	-	-	-	-
Net change in fair value	-	-	-	-	-	(156)	(156)
Remeasurements of defined benefit liabilities	-	(529)	-	-	-	-	(529)
Tax on other comprehensive income	-	14	-	-	-	-	14
Total other comprehensive income for the year	-	(515)	-	-	-	(156)	(671)
Total comprehensive income for the year	-	40,442	-	-	-	(156)	40,286
Transactions with owner of the Bank							
Dividends paid	-	(30,000)	-	-	-	-	(30,000)
Exchange difference	-	2	-	-	(6)	-	(4)
Transactions with owner of the Bank	-	(29,998)	-	-	(6)	-	(30,004)
Transfer from general banking reserve	-	6,271	-	(6,271)	-	-	-
Balance at 31 December 2017	72,957	156,818	72,957	20,983	39	(156)	323,598
Changes in initial application of IFRS 9	-	(76)	-	-	-	-	(76)
Restated balance at 01 January 2018	72,957	156,742	72,957	20,983	39	(156)	323,522
Profit for the year	-	52,625	-	-	-	-	52,625
Other comprehensive income	-	-	-	-	-	-	-
Net change in fair value	-	-	-	-	-	99	99
Remeasurements of defined benefit liabilities	-	(443)	-	-	-	-	(443)
Tax on other comprehensive income	-	93	-	-	-	-	93
Total other comprehensive income for the year	-	(350)	-	-	-	99	(251)
Total comprehensive income for the year	-	52,275	-	-	-	99	52,374
Transactions with owner of the Bank							
Dividends paid	-	(60,000)	-	-	-	-	(60,000)
Exchange difference	-	-	-	-	(1)	-	(1)
Transactions with owner of the Bank	-	(60,000)	-	-	(1)	-	(60,001)
Transfer to general banking reserve	-	(110)	-	110	-	-	-
Balance at 31 December 2018	72,957	148,907	72,957	21,093	38	(57)	315,895
Profit for the year	-	49,207	-	-	-	-	49,207
Other comprehensive income	-	-	-	-	-	-	-
Net change in fair value	-	-	-	-	-	206	206
Remeasurements of defined benefit liabilities	-	(378)	-	-	-	-	(378)
Tax on other comprehensive income	-	(6)	-	-	-	-	(6)
Total other comprehensive income for the year	-	(384)	-	-	-	206	(178)
Total comprehensive income for the year	-	48,823	-	-	-	206	49,029
Transactions with owner of the Bank							
Dividends paid	-	(28,000)	-	-	-	-	(28,000)
Exchange difference	-	-	-	-	(1)	-	(1)
Transactions with owner of the Bank	-	(28,000)	-	-	(1)	-	(28,001)
Transfer from general banking reserve	-	5,714	-	(5,714)	-	-	-
Balance at 31 December 2019	72,957	175,444	72,957	15,379	37	149	336,923

The notes on pages 71 to 154 form part of the financial statements.

HSBC Bank (Mauritius) Limited

Statement of cash flows

for the year ended 31 December 2019

	Notes	2019 USD'000	2018 USD'000	2017 USD'000
Cash flows from operating activities				
Profit before income tax		50,948	55,020	42,861
Adjustments for:				
Depreciation	21	148	36	32
Loss on sale of equipment		2	-	3
Net reversal of impairment on financial assets	12	(158)	(404)	(17)
Net interest income	8	(58,034)	(61,654)	(47,740)
Exchange differences in respect of cash and cash equivalents		(149)	3,280	5,297
		(7,243)	(3,722)	436
Change in:				
Other assets	23	14,257	(9,726)	(16,641)
Other liabilities	26	(219)	4,819	(4,709)
Trading assets	17	1,246	(1,163)	800
Trading liabilities	17	(887)	492	492
Loans and advances to banks	18	202,367	124,793	863,650
Loans and advances to customers	19	409,135	(9,971)	(136,888)
Deposits from customers	24	(287,751)	(880,846)	958,147
Other borrowed funds	25	45,623	59,032	(166,230)
		376,528	(716,292)	1,499,057
Interest received		93,348	93,074	63,490
Interest paid		(26,891)	(35,063)	(16,111)
Income tax paid	15	(2,414)	(2,116)	(1,873)
Net cash from/(used in) operating activities		440,571	(660,397)	1,544,563
Cash flows from investing activities				
Acquisition of property, plant and equipment		(28)	(51)	(27)
Purchase of investment securities	20	(1,429,536)	(2,401,923)	(298,305)
Proceed on maturity of investment securities	20	1,429,654	2,247,718	-
Net cash from/(used in) investing activities		90	(154,256)	(298,332)
Cash flows from financing activities				
Principal elements of lease payments		(109)	-	-
Dividends paid		(28,000)	(60,000)	(30,000)
Net cash used in financing activities		(28,109)	(60,000)	(30,000)
Net change in cash and cash equivalents		412,552	(874,653)	1,216,231
Cash and cash equivalents at 01 January		754,406	1,632,339	421,405
Exchange differences in respect of cash and cash equivalents		149	(3,280)	(5,297)
Cash and cash equivalents at 31 December	33	1,167,107	754,406	1,632,339

The notes on pages 71 to 154 form part of the financial statements.

HSBC Bank (Mauritius) Limited

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

1. Reporting entity

HSBC Bank (Mauritius) Limited (the “Bank”) is a company incorporated on 27 April 2006 and domiciled in the Republic of Mauritius. It holds a banking licence issued by the Bank of Mauritius on 08 June 2006. The Bank’s registered office is HSBC Centre, 18 CyberCity, Ebène, Mauritius. The Bank is primarily involved in commercial and global business banking.

2. Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

(b) Standards adopted during the year 31 December 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:

The Bank has adopted IFRS 16 *Leases* 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 4.78%.

	2019 USD’000
Operating lease commitment disclosed as at 31 December 2018	341
Discounted using the lessee’s incremental borrowing rate at the date of initial application	(47)
(less): low-value leases* recognised on a straight-line basis as expense	(53)
Add: adjustments as a result of a different treatment of extension and termination options	582
Lease liability recognised as at 01 January 2019	823

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

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 (“ROU”) – increase by USD 0.8m
- Other liabilities – lease liabilities – increase by USD 0.8m

HSBC Bank (Mauritius) Limited

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 31 December 2019 (continued)

Adjustments recognised on adoption of IFRS 16 (continued)

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 one office premises. The rental contract is typically made for fixed period of five years but may have extension options as described below. The lease agreement does not impose any covenants, but the leased asset may not be used as a security for borrowing purposes.

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

From 01 January 2019, the lease is recognised as a right-of-use asset and a corresponding liability at the date at which the leased asset is 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.

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

HSBC Bank (Mauritius) Limited

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

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 directors have 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.

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 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 obligations.

(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.

HSBC Bank (Mauritius) Limited

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 dollars 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.

Segment A activities are minimal and are not considered significant in relation to the entire business of the Bank. As such, disclosures relating to segmental reporting have not been presented in the financial statements in accordance with the Bank of Mauritius *Guideline on Public Disclosure of Information*.

Neither these guidelines nor IFRS mandate the application of IFRS 8 'Operating segments' 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 United States dollar (USD), which is the Bank's functional currency.

HSBC Bank (Mauritius) Limited

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 end of the reporting period 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 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.

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.

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).

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

HSBC Bank (Mauritius) Limited

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 income and expense and foreign exchange differences.

(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.

(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. The directors 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).

HSBC Bank (Mauritius) Limited

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 (continued)

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

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.

(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 5% as from 2018.

(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.

HSBC Bank (Mauritius) Limited

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)

(i) Measurement methods (continued)

The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial asset or financial liability to the gross carrying amount of a financial asset (i.e. its amortised cost before any impairment allowance) or to the amortised cost of a financial liability. The calculation does not consider expected credit losses and includes transaction costs, premiums or discounts and fees and points paid or received that are integral to the effective interest rate, such as origination fees. For POCI financial assets — assets that are credit-impaired (see definition on note 34(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 or minus, for an item not at fair value through profit or loss, transaction costs that are incremental and 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 fair value through other comprehensive income ('FVOCI'), as described in note 34(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.

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.

HSBC Bank (Mauritius) Limited

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)

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:

- (i) Fair value through profit or loss ('FVPL');
- (ii) Fair value through other comprehensive income ('FVOCI'); or
- (iii) Amortised cost.

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:

HSBC Bank (Mauritius) Limited

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 (continued)

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 34(b)(iii). Interest income from these financial assets is included in 'Interest income' using the effective interest rate method.

Fair value through other comprehensive income ('FVOCI')

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

Fair value through profit or loss ('FVPL')

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

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.

HSBC Bank (Mauritius) Limited

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)

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. The directors determined the classification of its investments at initial recognition and, in the case of assets classified as held to maturity, re-evaluated this designation at the end of each reporting period.

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.

HSBC Bank (Mauritius) Limited

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)

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.

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 'Gains less losses from financial investments'.

HSBC Bank (Mauritius) Limited

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)*

(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 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(s)).

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.

HSBC Bank (Mauritius) Limited

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

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.

HSBC Bank (Mauritius) Limited

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)

(i) Individually assessed loans and advances (continued)

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 the end of each reporting period 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.

(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 end of the reporting period 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.

HSBC Bank (Mauritius) Limited

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)

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

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

The Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition* also directs financial institutions to stand guided by the following minimum requirements with regards to classification and assessment of credit impairment:

HSBC Bank (Mauritius) Limited

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)

Statutory and other regulatory requirements (continued)

Classified Credits	Specific Provisioning Requirement
(i) Sub-standard Credit Credit that is currently performing but has weaknesses that throw doubt on the customer's ability to comply with the terms and conditions of the credit, may warrant to be classified as sub-standard. However, when it is impaired and is past due between 90 and 180 days, it must, as a minimum, be classified as sub-standard.	20 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)
(ii) Doubtful Credit Credit that is not in arrears or in arrears for less than 180 days, but has weaknesses that make collection in full highly improbable, may warrant to be classified as doubtful. However, when it is impaired and is past due for a period exceeding 180 days but less than one year, it must, as a minimum, be classified as doubtful.	50 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)
(iii) Loss Credit classified as loss and uncollectible although there may be some salvage or recovery value of security available. Such credit should not be kept on the books of the financial institution for the reason that there might be some recoveries in the long term. An impaired credit that is past due in excess of a year, must be classified as loss.	100 per cent of (outstanding amount of credit less any net realisable value of applicable collateral)

(i) 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.

HSBC Bank (Mauritius) Limited

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

3. Summary of significant accounting policies (continued)

(j) 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.

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 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 did not have any renegotiated loan in its portfolio.

(k) 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.

HSBC Bank (Mauritius) Limited

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

3. Summary of significant accounting policies (continued)

(l) Cash and cash equivalents

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

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

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

(m) Trading assets and liabilities

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

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

- 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.

(n) Equipment

(i) Recognition and measurement

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

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

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

Any gain or loss on disposal of an item equipment (calculated as the difference between the net proceeds from disposal and the carrying amount of the item) is recognised within other operating income in profit or loss.

HSBC Bank (Mauritius) Limited

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) Equipment (continued)

(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 period in which they are incurred.

(iii) Depreciation

Depreciation is calculated to write off the cost of items of equipment less their estimated residual values using the straight-line method over their estimated useful lives, and is recognised in profit or loss. The estimated useful lives of significant equipment are as follows:

Office furniture and equipment	– 5 years to 10 years
Computer and other IT equipment	– 1 year to 7 years

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

(o) Deposits and other borrowed funds

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

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

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

(p) 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.

HSBC Bank (Mauritius) Limited

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

3. Summary of significant accounting policies (continued)

(q) Employee benefits

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

(i) Defined contribution plans

A defined contribution plan is a pension plan under which the Bank pays fixed contributions into a separate entity. The Bank provides retirement benefits for its employees through a defined contribution plan which is funded by contributions from the Bank. Under the defined contribution plan, the Bank has no legal or constructive obligation to contribute further to what has been contributed into the fund as defined in the rules of the scheme. Pension contributions are charged to the 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.

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.

(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.

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.

HSBC Bank (Mauritius) Limited

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

3. Summary of significant accounting policies (continued)

(q) Employee benefits (continued)

(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 "Reserve for own shares" 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.

(r) Stated capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(s) 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 and loan commitments

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.

HSBC Bank (Mauritius) Limited

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

(ii) Financial guarantee contracts and loan commitments (continued)

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 34(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.

(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.

(t) *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.

HSBC Bank (Mauritius) Limited

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

4. Use of judgements and estimates

In preparing the financial statements, the directors have 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 in note 3.

(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 end of the reporting period. 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 34 (b)(iii), which also sets out key sensitivities of the ECL to changes in these elements.

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 PD, LGD and EAD models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. The Bank does not have any historical loss experience as at 31 December 2019. Therefore, the underlying models and their calibration, including how they react to forward-looking economic conditions, remain subject to review and refinement. This is particularly relevant for lifetime PDs, which have not been previously used in regulatory modelling and for the incorporation of 'Upside scenarios' which have not generally been subject to experience gained through stress testing.

Wholesale models are developed at different levels of granularity and complexity depending on data availability and materiality of each portfolio. For the Bank, a simplified approach based on a proxy model, India, has been used. The risk characteristics of the target and proxy portfolios have been analysed and compared to justify the use of India as a proxy model.

HSBC Bank (Mauritius) Limited

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)

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 34(b)(iii) and 34(b)(vi).

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 page 115.

HSBC Bank (Mauritius) Limited

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)

Provisions

Judgement is involved in determining whether a present obligation exists and in estimating the probability, timing and amount of any outflows.

Provisions for legal proceedings and regulatory matters typically require a higher degree of judgement than other types of provisions. When matters are at an early stage, accounting judgements can be difficult because of the high degree of uncertainty associated with determining whether a present obligation exists, and estimating the probability and amount of any outflows that may arise. As matters progress, management and legal advisers evaluate on an ongoing basis whether provisions should be recognised, revising previous judgements and estimates as appropriate. At more advanced stages, it is typically easier to make judgements and estimates around a better defined set of possible outcomes. However, the amount provisioned can remain very sensitive to the assumptions used. There could be a wide range of possible outcomes for any pending legal proceedings, investigations or inquiries.

As a result, it is often not practicable to quantify a range of possible outcomes for individual matters. It is also not practicable to meaningfully quantify ranges of potential outcomes in aggregate for these types of provisions because of the diverse nature and circumstances of such matters and the wide range of uncertainties involved.

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.

HSBC Bank (Mauritius) Limited

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

5. Fair values 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 end of the reporting period 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. However, as at the end of the reporting period, the Bank did not have any instruments whose valuation required significant unobservable input.

HSBC Bank (Mauritius) Limited

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

5. Fair values of financial instruments (continued)

(ii) Financial instruments measured at fair value - fair value hierarchy

The table below analyses financial instruments measured at fair value through profit and loss and through other comprehensive income at the end of the reporting period, by the level in the fair value hierarchy into which the fair value measurement is categorised as follows:

	Valuation techniques			Total USD'000
	Quoted market price Level 1 USD'000	Using observable inputs Level 2 USD'000	With significant unobservable inputs Level 3 USD'000	
At 31 December 2019				
Trading assets	-	37	-	37
Investment securities	-	453,108	-	453,108
Trading liabilities	-	234	-	234
At 31 December 2018				
Trading assets	-	1,283	-	1,283
Investment securities	-	453,121	-	453,121
Trading liabilities	-	1,121	-	1,121
At 31 December 2017				
Trading assets	-	120	-	120
Investment securities	-	298,499	-	298,499
Trading liabilities	-	629	-	629

The following table sets out the 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.

	Carrying Amount	Fair value			
		Valuation techniques			Total fair values
		Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	
Assets and Liabilities at 31 December 2019	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Loans and advances to banks	204,607	-	204,607	-	204,607
Loans and advances to customers	1,351,969	-	1,354,234	-	1,354,234
Liabilities					
Deposits from customers	1,952,340	-	1,952,340	-	1,952,340
Other borrowed funds	884,985	-	890,356	-	890,356

There has been no transfer between the stages during the year.

HSBC Bank (Mauritius) Limited

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

5. Fair values of financial instruments (continued)

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

	Carrying Amount	Fair value			
		Valuation techniques			Total fair values
		Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	
Assets and Liabilities at 31 December 2018	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Loans and advances to banks	406,873	-	406,873	-	406,873
Loans and advances to customers	1,761,050	-	1,765,177	-	1,765,177
Liabilities					
Deposits from customers	2,240,091	-	2,240,091	-	2,240,091
Other borrowed funds	845,254	-	848,717	-	848,717

	Carrying Amount	Fair value			
		Valuation techniques			Total fair values
		Quoted market price Level 1	Using observable inputs Level 2	With significant unobservable inputs Level 3	
Assets and Liabilities at 31 December 2017	USD'000	USD'000	USD'000	USD'000	USD'000
Assets					
Loans and advances to banks	531,831	-	531,831	-	531,831
Loans and advances to customers	1,750,583	-	1,756,562	-	1,756,562
Liabilities					
Deposits from customers	3,120,937	-	3,120,937	-	3,120,937
Other borrowed funds	783,201	-	783,201	-	783,201

The following is a list of financial instruments whose carrying amount is a reasonable approximation of fair value because, for example, they are short-term in nature or re-price to current market rates frequently:

Assets	Liabilities
Cash and cash equivalents	Other liabilities including:
Other Assets including:	- Acceptance and endorsements
- Mandatory balances with central bank	- Short-term payables
- Short-term receivables	

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 in the following section.

HSBC Bank (Mauritius) Limited

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

5. Fair values of financial instruments (continued)

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

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 considers as being 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 end of the reporting period and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of re-pricing between origination and the reporting date. The fair valuation of loans and advances to banks and customers is based on indirect observable inputs and are therefore classified under Level 2.

Deposits from customers

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 customer accounts are under the Level 2 valuation technique. The fair value of a deposit repayable on demand is approximated by its carrying value.

6. Operating segments

In compliance with the Mauritian Banking Act 2004, the banking business of licensed bank is divided into two segments. Segment B relates to the banking business that gives rise to "foreign source income." All other banking business is classified under Segment A.

The Bank deals mainly with Segment B business with little operations in Segment A. The table below provides a summary of the main operations of the Bank with Segment A business:

	Note	2019 USD'000	2018 USD'000	2017 USD'000
Assets				
Cash and cash equivalents	16	30,313	10,091	75,806
Loans and advances to banks	18	49,088	79,000	-
Loans and advances to customers	19	27,317	12,163	18,285
Investment securities	20	4,535	4,587	-
Total assets		111,253	105,841	94,091
Liabilities				
Deposits from customers	24	8,313	53,661	14,610
Other borrowed funds	25	16,122	17,060	15,798
Total liabilities		24,435	70,721	30,408

HSBC Bank (Mauritius) Limited

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

6. Operating segments (continued)

	2019 USD'000	2018 USD'000	2017 USD'000
Interest income	3,476	1,820	993
Interest expense	(465)	(582)	(478)
Net interest income	3,011	1,238	515
Other operating income	306	328	324
Total Operating income	3,317	1,566	839

Business segments

The Bank comprises the following main business segments:

Reportable Segments	Description
Commercial Banking	Involves 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.

Business Segments

USD'000	Commercial Banking	Global Banking and Markets	Corporate Centre	Consolidated
2019				
External revenue:				
Net interest income	45,875	10,797	1,362	58,034
Net fee and commission income	4,437	1,550	-	5,987
Net trading income	758	829	1,739	3,326
Other operating income	197	130	54	381
Total segment revenue	51,267	13,306	3,155	67,728
Segment profit before tax	40,321	8,782	1,845	50,948
Income tax expense				(1,741)
Profit for the year				49,207
Segment assets	1,813,043	393,799	993,467	3,200,309
Segment liabilities	1,604,973	359,588	898,825	2,863,386
Depreciation			148	148
Capital expenditure			28	28

HSBC Bank (Mauritius) Limited

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

6. Operating segments (continued)

USD'000	Commercial Banking	Global Banking and Markets	Corporate Centre	Consolidated
2018				
External revenue:				
Net interest income	42,936	13,888	4,830	61,654
Net fee and commission income	4,043	1,567	(4)	5,606
Net trading income	664	1,196	642	2,502
Other operating income	181	248	49	478
Total segment revenue	47,824	16,899	5,517	70,240
Segment profit before tax	38,682	12,356	3,982	55,020
Income tax expense				(2,395)
Profit for the year				52,625
Segment assets	1,997,694	477,081	951,646	3,426,421
Segment liabilities	1,805,818	438,849	865,859	3,110,526
Depreciation			36	36
Capital expenditure			51	51

USD'000	Commercial Banking	Global Banking and Markets	Corporate Centre	Consolidated
2017				
External revenue:				
Net interest income	30,552	13,882	3,306	47,740
Net fee and commission income	3,921	1,903	-	5,824
Net trading income	430	1,532	898	2,860
Other operating income	205	445	-	650
Total segment revenue	35,108	17,762	4,204	57,074
Segment profit before tax	25,423	15,991	1,447	42,861
Income tax expense				(1,904)
Profit for the year				40,957
Segment assets	1,747,664	442,173	2,056,410	4,246,247
Segment liabilities	2,601,430	522,972	798,247	3,922,649
Depreciation			32	32
Capital expenditure			27	27

HSBC Bank (Mauritius) Limited

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

7. Classification of financial assets and financial liabilities

See accounting policies in Note 3 (g).

The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments.

	IAS 39 Measurement Category	IFRS 9 Measurement Category	2019 USD'000	2018 USD'000	2017 USD'000
Assets					
	Amortised cost				
Cash and cash equivalents	(L&R)	Amortised cost	1,167,107	760,298	1,635,210
Trading assets	FVPL	FVPL	37	1,283	120
Loans and advances to banks	Amortised cost (L&R)	Amortised cost	204,607	406,873	531,831
Loans and advances to customers	Amortised cost (L&R)	Amortised cost	1,351,969	1,761,050	1,750,583
Investment securities	Available for sale	FVOCI	453,108	453,121	298,499
	Amortised cost				
Other assets	(L&R)	Amortised cost	22,278	43,243	29,570
			3,199,106	3,425,868	4,245,813
Liabilities					
Deposits from customers	Amortised cost	Amortised cost	1,952,340	2,240,091	3,120,937
Trading liabilities	FVPL	FVPL	234	1,121	629
Other borrowed funds	Amortised cost	Amortised cost	884,985	845,254	783,201
Other liabilities	Amortised cost	Amortised cost	23,617	21,334	15,638
			2,861,176	3,107,800	3,920,405

8. Net interest income

	2019 USD'000	2018 USD'000	2017 USD'000
Interest income			
<u>Recognised on financial assets measured at amortised cost</u>			
Cash and cash equivalents	12,696	19,270	11,824
Loans and advances to banks	14,220	19,135	12,790
Loans and advances to customers	48,781	51,151	38,114
Other	1,262	-	-
<u>Recognised on financial assets measured at FVOCI / (2017: Available-for-sale)</u>			
Investment securities	9,549	7,803	350
Total interest income	86,508	97,359	63,078
Interest expense			
<u>Recognised on financial liabilities measured at amortised cost</u>			
Deposits from customers	(8,226)	(16,741)	(3,629)
Other borrowed funds	(20,173)	(18,964)	(11,709)
<u>Other</u>			
Other (including interest expense under IFRS 16)	(75)	-	-
Total interest expense	(28,474)	(35,705)	(15,338)
Net interest income	58,034	61,654	47,740

HSBC Bank (Mauritius) Limited

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

9. Net fee and commission income

	2019 USD'000	2018 USD'000	2017 USD'000
Fee and commission income			
Corporate banking credit related fees	5,341	5,272	5,749
Financial guarantee contracts issued	40	1	-
Global custody	843	714	479
Other	446	248	178
Total fee and commission income	6,670	6,235	6,406
Fee and commission expense			
Other	(683)	(629)	(582)
Total fee and commission expense	(683)	(629)	(582)
Net fee and commission income	5,987	5,606	5,824

10. Net trading income

	2019 USD'000	2018 USD'000	2017 USD'000
Foreign exchange	3,326	2,502	2,860

11. Other operating income

	2019 USD'000	2018 USD'000	2017 USD'000
Intercompany management fees	358	454	592
External recovery – third party	25	24	62
Loss on disposal of equipment	(2)	-	(4)
	381	478	650

12. Net reversal of impairment on financial assets

	2019 USD'000	2018 USD'000	2017 USD'000
Release/(provisions) for impairment losses for the year:			
Loans and advances to customers	54	515	17
Investment securities	-	1	-
Loans and advances to banks	101	(108)	-
Loan commitments and financial guarantees	3	(4)	-
	158	404	17

HSBC Bank (Mauritius) Limited

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

13. Personnel expenses

	2019 USD'000	2018 USD'000	2017 USD'000
Wages and salaries	2,425	2,334	2,055
Compulsory social security obligations	65	64	56
Contributions to defined contribution plans	163	120	99
Contributions to defined benefit plans	299	231	203
Equity settled share based payments	-	1	11
Other personnel expenses	850	943	778
	3,802	3,693	3,202

14. Other expenses

	2019 USD'000	2018 USD'000	2017 USD'000
Premises and equipment	120	95	138
Administrative expenses	1,002	972	1,199
Intercompany IT charges	1,537	1,686	1,896
Intercompany regionally allocated costs	3,248	2,932	2,568
Intercompany management fees	6,621	5,600	4,468
Other intercompany expenses	447	450	576
Operating lease expense	13	160	151
	12,988	11,895	10,996

15. Income tax

	Note	2019 USD'000	2018 USD'000	2017 USD'000
Income tax charge		1,727	2,384	1,902
Deferred tax charge	22	14	11	2
Total tax expense per statement of profit or loss and other comprehensive income		1,741	2,395	1,904
<i>Reconciliation of effective tax rate</i>				
Profit before income tax per statement of profit or loss and other comprehensive income.		50,948	55,020	42,861
Income tax at 15%		7,642	8,253	6,429
Tax effect of non-deductible expenses		28	78	6
Prior years (over)/under- provision		(5)	12	13
Tax credit on foreign income		(5,984)	(8,661)	(6,623)
Special levy on banks		54	2,648	2,071
Corporate Social Responsibility		16	15	14
Other		(10)	-	(6)
Effect of change in tax rate		-	50	-
		1,741	2,395	1,904

HSBC Bank (Mauritius) Limited

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

15. Income tax (continued)

	2019 USD'000	2018 USD'000	2017 USD'000
Current tax liabilities at 01 January	1,083	815	786
Income tax charge	1,727	2,384	1,902
Tax paid in during the year	(2,414)	(2,116)	(1,873)
Current tax liabilities at 31 December	396	1,083	815

16. Cash and cash equivalents

	2019 USD'000	2018 USD'000	2017 USD'000
Bank			
Balances with banks in Mauritius or abroad	431,752	181,804	268,464
Unrestricted balances with Central Bank	36,355	40,228	82,382
Money market placements	699,000	538,266	1,284,364
	1,167,107	760,298	1,635,210
Current	1,167,107	760,298	1,635,210
Segment A			
Balances with banks in Mauritius	1,313	724	806
Money market placements	29,000	9,367	75,000
	30,313	10,091	75,806
Segment B			
Balances with banks abroad	430,439	181,080	267,658
Unrestricted balances with Central Bank	36,355	40,228	82,382
Money market placements	670,000	528,899	1,209,364
	1,136,794	750,207	1,559,404

Unrestricted balances with Central Bank include both interest and 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. Placements are measured at amortised cost, less impairment.

HSBC Bank (Mauritius) Limited

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

17. Trading assets and liabilities

Trading assets	2019 USD'000	2018 USD'000	2017 USD'000
Derivative assets	37	1,283	120
Current	37	1,283	120

Trading liabilities	2019 USD'000	2018 USD'000	2017 USD'000
Derivative liabilities	234	1,121	629
Current	234	1,121	629

18. Loans and advances to banks

	2019 USD'000	2018 USD'000	2017 USD'000
<u>Loan and advances to banks:</u>			
outside Mauritius	155,573	328,040	531,831
in Mauritius	49,100	79,000	-
	204,673	407,040	531,831
Less impairment	(66)	(167)	-
	204,607	406,873	531,831

Segment A

Remaining term of maturity:

Up to 3 months	19,093	-	-
Over 3 months and up to 6 months	15,000	79,000	-
Over 12 months	14,995	-	-
	49,088	79,000	-

Segment B

Remaining term of maturity:

Up to 3 months	101,403	228,247	345,051
Over 3 months and up to 6 months	42,368	72,091	177,725
Over 6 months and up to 12 months	11,716	27,535	9,055
Over 12 months	32	-	-
	155,519	327,873	531,831
Current	189,580	406,873	531,831
Non-current	15,027	-	-
	204,607	406,873	531,831

HSBC Bank (Mauritius) Limited

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

19. Loans and advances to customers

	2019 USD'000	2018 USD'000	2017 USD'000
Entities outside Mauritius	1,162,524	1,577,637	1,572,032
Entities in Mauritius	189,624	183,646	179,279
	1,352,148	1,761,283	1,751,311
Less impairment	(179)	(233)	(728)
	1,351,969	1,761,050	1,750,583
<u>Remaining term of maturity:</u>			
Up to 3 months	264,465	579,434	394,137
Over 3 months and up to 6 months	50,880	116,263	257,595
Over 6 months and up to 12 months	125,453	66,351	121,171
Over 1 year and up to 5 years	776,889	840,821	885,862
Over 5 years	134,282	158,181	91,818
	1,351,969	1,761,050	1,750,583
Segment A	27,317	12,163	18,285
Segment B	1,324,652	1,748,887	1,732,298
	1,351,969	1,761,050	1,750,583
Current	440,798	762,048	772,903
Non-current	911,171	999,002	977,680
	1,351,969	1,761,050	1,750,583
	2019 USD'000	2018 USD'000	2017 USD'000
<u>Credit Concentration of risk by industry sectors:</u>			
Manufacturing	798,279	888,004	601,144
Construction	38,695	36,075	85,750
Financial and business services	184,908	303,030	276,865
International trade	133,626	336,649	636,385
Telecommunication	113,048	42,117	34,879
Others	83,413	155,175	115,560
	1,351,969	1,761,050	1,750,583

The loans and advances to customers under Segment A are under the financial and business services industry sector.

HSBC Bank (Mauritius) Limited

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

20. Investment securities

	2019 USD'000	2018 USD'000	2017 USD'000
Segment A			
Government of Mauritius Treasury bills	4,535	4,587	-
Segment B			
US Treasury bills	448,573	448,534	298,499
	453,108	453,121	298,499
Current	453,108	453,121	298,499
	2019 USD'000	2018 USD'000	2017 USD'000
At 1 January	453,121	298,499	-
Additions during the year	1,429,536	2,401,923	298,305
Matured during the year	(1,429,654)	(2,247,718)	-
Accrual	(100)	319	350
Fair value gain/(loss) through other comprehensive income	206	99	(156)
Gross carrying amount	453,109	453,122	298,499
ECL allowance	(1)	(1)	-
At 31 December	453,108	453,121	298,499

Investments securities comprise US treasury bills and Government of Mauritius treasury bills that are held for regulatory purposes.

21. Property, plant and equipment

	2019 USD'000	2018 USD'000	2017 USD'000
Owned property, plant and equipment	57	59	44
Right-of-use assets	703	-	-
At 31 December	760	59	44

USD'000	Right-of-use assets	Computer and other IT equipment	Office furniture and equipment	Total
Cost:				
At 1 January 2017	-	81	203	284
Acquisitions	-	18	9	27
Disposals	-	(19)	(52)	(71)
At 31 December 2017	-	80	160	240
Acquisitions	-	10	41	51
At 31 December 2018	-	90	201	291
Acquisitions	-	5	23	28
Impact on transition of IFRS 16 - Leases	823	-	-	823
Disposals	-	(27)	(52)	(79)
At 31 December 2019	823	68	172	1,063

HSBC Bank (Mauritius) Limited

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

21. Property, plant and equipment (continued)

USD'000	Right-of-use assets	Computer and other IT equipment	Office furniture and equipment	Total
<i>Accumulated depreciation:</i>				
At 1 January 2017	-	49	183	232
Depreciation for the year	-	19	13	32
Disposals	-	(17)	(51)	(68)
At 31 December 2017	-	51	145	196
Depreciation for the year	-	21	15	36
At 31 December 2018	-	72	160	232
Depreciation for the year	120	12	16	148
Disposals	-	(26)	(51)	(77)
At 31 December 2019	120	58	125	303
Net book value at 31 December 2019	703	10	47	760
Net book value at 31 December 2018	-	18	41	59
Net book value at 31 December 2017	-	29	15	44

The Bank does not have any assets held under finance lease as at 31 December 2019 (2018 and 2017 – Nil).

22. Deferred tax assets

	Note	2019 USD'000	2018 USD'000	2017 USD'000
At 1 January		151	67	55
Impact of adoption of IFRS 9		-	2	-
Movement during the year recognised in other comprehensive income		(6)	93	14
Movement during the year recognised in profit or loss	15	(14)	(11)	(2)
At 31 December		131	151	67
Analysed as follows:				
Impairment of financial assets		12	20	22
Equipment		-	(2)	(1)
Pension liability		119	133	46
		131	151	67

HSBC Bank (Mauritius) Limited

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

23. Other assets

	2019 USD'000	2018 USD'000	2017 USD'000
Current:			
Mandatory balance with Central Bank (Note a)	430	362	1,339
Accrued interest receivable	6,191	13,031	8,746
Receivable from Indian Revenue Authority (Note b)	12,347	29,810	19,256
Others	3,622	383	552
	22,590	43,586	29,893

Note a - Non-interest bearing balances to be maintained with the Bank of Mauritius as cash reserve requirement.

Note b - The decrease in other assets is mainly due to tax refunds received from Indian Revenue Authority during the year, amounting to USD23.8m (2018 & 2017 - nil) netted off by additional tax demand of USD7m. It is virtually certain that the Bank will win its case and therefore the balance has been kept as a receivable at the end of the reporting period. The Bank will continue to assess the recoverability of the amount as the case progresses.

24. Deposits from customers

	2019 USD'000	2018 USD'000	2017 USD'000
Current:			
<u>Corporate customers:</u>			
Current account	1,765,512	1,670,969	1,993,377
Time deposits with remaining term to maturity:			
Up to 3 months	186,813	527,023	1,095,075
Over 3 months and up to 6 months	-	9,661	32,485
Over 6 months and up to 12 months	15	32,438	-
	1,952,340	2,240,091	3,120,937
 <u>Segment A</u>			
<u>Corporate customers:</u>			
Current account	7,251	53,661	13,843
Time deposits with remaining term to maturity:			
Up to 3 months	1,062	-	767
	8,313	53,661	14,610
 <u>Segment B</u>			
<u>Corporate customers:</u>			
Current account	1,758,261	1,617,308	1,979,534
Time deposits with remaining term to maturity:			
Up to 3 months	185,751	527,023	1,094,308
Over 3 months and up to 6 months	-	9,661	32,485
Over 6 months and up to 12 months	15	32,438	-
	1,944,027	2,186,430	3,106,327

HSBC Bank (Mauritius) Limited

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

25. Other borrowed funds

	2019 USD'000	2018 USD'000	2017 USD'000
Borrowings from banks:			
In Mauritius	16,122	17,060	15,798
Abroad	868,863	828,194	767,403
	884,985	845,254	783,201
Borrowings from banks:			
Segment A	16,122	17,060	15,798
Segment B	868,863	828,194	767,403
	884,985	845,254	783,201
Current	37,767	24,755	14,347
Non-current	847,218	820,499	768,854
	884,985	845,254	783,201

Other borrowed funds consist of borrowings from HSBC Group offices at floating rates.

26. Other liabilities

	Note	2019 USD'000	2018 USD'000	2017 USD'000
Accrued interest payable		3,213	1,630	988
Retirement benefit obligations	27	1,689	1,643	1,429
Other retirement obligation (unfunded)		125	-	-
Intercompany payable (HSBC Hong Kong)*		5,454	15,302	9,668
Lease liabilities		717	-	-
Other		14,233	4,402	4,982
		25,431	22,977	17,067
Current		23,006	21,334	15,638
Non-current		2,425	1,643	1,429
		25,431	22,977	17,067

*Intercompany payable (HSBC Hong Kong) represents the part funding of the deposit made to the Indian Tax Authorities in relation to the on-going tax investigation. This payable is non-interest bearing.

27. Retirement benefits

(a) Defined benefit 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 Mauritian 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 Mauritian Private Pension Scheme Act 2012.

HSBC Bank (Mauritius) Limited

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

27. Retirement benefits (continued)

(a) Defined benefit plan (continued)

The assets of the plan are invested in the following two funds: The Hongkong and Shanghai Banking Corporation Limited Mauritius Superannuation Fund for Staff Officers, Clerical and Subordinate Staff ("SOCS") and The Hongkong and Shanghai Banking Corporation Limited Superannuation Fund for Resident Officers ("ROCS"). As the funds are 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 funds. 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 USD30,845 (2018 – USD(15,769), 2017 – USD170,301).

The defined benefit plans expose the Bank to actuarial risks, such as longevity 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 funds' 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 USD219,145 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 principal actuarial assumptions were:

	2019	2018	2017
	%	%	%
Discount rate	5.10	6.20	5.00
Future long-term salary increase	3.00/4.00	6.00	4.00
Future expected pension increase*	4.00	4.00	3.00

HSBC Bank (Mauritius) Limited

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

27. Retirement benefits (continued)

(a) Defined benefit plan (continued)

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

	2019 USD'000	2018 USD'000	2017 USD'000
Equities	444	433	180
Fixed interest	1,431	1,222	387
Cash	640	552	1,327
Total market value of assets	2,515	2,207	1,894
Present value of plan liabilities	(4,204)	(3,850)	(3,323)
Deficit	(1,689)	(1,643)	(1,429)
Net liability for retirement obligations recognised in the statement of financial position	(1,689)	(1,643)	(1,429)

Expected contribution next year

The Bank is expected to contribute USD390,378 to the pension scheme for the year ending 31 December 2020.

Maturity profile of the defined benefit obligations

The average remaining working life of the employees at 31 December 2019 is 13 years.

(i) Pension expense components for the year ended

	2019 USD'000	2018 USD'000	2017 USD'000
Current service cost	195	160	136
Interest cost	283	170	156
Interest income	(179)	(99)	(89)
Net interest cost	104	71	67
Total amount recognised in profit or loss	299	231	203

(ii) Movement in liability recognised in statement of financial position

	2019 USD'000	2018 USD'000	2017 USD'000
At start of the year	(1,643)	(1,429)	(999)
Total amount recognised in profit or loss	(299)	(231)	(203)
Actuarial losses	(327)	(472)	(462)
Employer's contributions	444	427	312
Exchange differences arising on translation	136	62	(77)
At end of the year	(1,689)	(1,643)	(1,429)

HSBC Bank (Mauritius) Limited

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

27. Retirement benefits (continued)

(a) Defined benefit plan (continued)

(iii) Change in defined benefit obligations

	2019 USD'000	2018 USD'000	2017 USD'000
Present value of defined benefit obligations			
At start of the year	(3,850)	(3,323)	(2,347)
Current service cost	(195)	(160)	(136)
Interest cost	(283)	(170)	(156)
Remeasurement Actuarial losses	(215)	(357)	(543)
Benefits paid	75	34	34
Exchange differences arising on translation	264	126	(175)
Present value of defined benefit obligations at end of the year	(4,204)	(3,850)	(3,323)

(iv) Change in plan assets

	2019 USD'000	2018 USD'000	2017 USD'000
Fair value of plan assets at start of the year	2,207	1,894	1,348
Interest income	179	99	89
Employer's contributions	444	427	312
Actuarial (losses)/gains arising from changes in financial assumptions	(112)	(115)	81
Benefits paid	(75)	(34)	(34)
Exchange differences arising on translation	(128)	(64)	98
Fair value of plan assets at end of the year	2,515	2,207	1,894

(v) Analysis of amount recognised in other comprehensive income

	2019 USD'000	2018 USD'000	2017 USD'000
(Losses)/gains on pension scheme assets	(112)	(115)	81
Experience losses on the liabilities	(167)	(80)	(136)
Changes in financial assumptions on the liabilities	(48)	(277)	(407)
Actuarial losses recognised in other comprehensive income	(327)	(472)	(462)

(vi) Net liability relating to the funded plans

	2019 USD'000	2018 USD'000	2017 USD'000
Present value of funded obligations	(4,204)	(3,850)	(3,323)
Fair value of plan assets	2,515	2,207	1,894
Deficit of funded plans	(1,689)	(1,643)	(1,429)

(vii) Sensitivity analysis

	2019 USD'000	2018 USD'000
Decrease in Defined Benefit Obligations due to 1% increase in Discount Rate	751	692
Increase in Defined Benefit Obligation due to 1% decrease in Discount rate	989	907
Increase in Defined Benefit Obligations due to 1% increase in Future long-term Salary assumption	308	324
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Salary assumption	283	294
Increase in Defined Benefit Obligation due to 1% increase in future long-term Pension assumption	661	555
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Pension assumption	540	458

HSBC Bank (Mauritius) Limited

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

27. Retirement benefits (continued)

(a) Defined benefit plan (continued)

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 period 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.

(b) Defined contribution plan

The Bank expects to contribute approximately USD140,960 to its post-employment defined contribution plans for the year ending 31 December 2020.

	2019 USD'000	2018 USD'000	2017 USD'000
Present value of unfunded obligations	125	-	-

28. Stated capital

	2019 USD'000	2018 USD'000	2017 USD'000
<i>Authorised</i>			
100,000,000 ordinary shares	100,000	100,000	100,000
Stated Capital – 72,956,783 shares issued at par	72,957	72,957	72,957

The Bank's issued stated capital was USD 72,956,783 (2018:USD 72,956,783), which is above the minimum capital requirement of MUR400m or equivalent in foreign currency in compliance with Section 20 of the Mauritian Banking Act 2004.

29. Reserves

	2019 USD'000	2018 USD'000	2017 USD'000
Other reserves:			
Statutory reserve	72,957	72,957	72,957
General banking reserve	15,379	21,093	20,983
Reserve for own shares	37	38	39
Fair value reserve	149	(57)	(156)
	88,522	94,031	93,823
Retained earnings	175,444	148,907	156,818
	263,966	242,938	250,641

During the year under review, the Directors approved a dividend payment of USD28,000,000 (2018: USD60,000,000 and 2017: USD30,000,000) or USD 0.38 per share (2018: USD 0.82 and 2017: USD0.41). The dividend was paid out of retained earnings.

HSBC Bank (Mauritius) Limited

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

29. Reserves (continued)

(a) Retained earnings

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

(b) Statutory reserve

The Bank's statutory reserve was at USD 72,956,783 (2018 & 2017: USD 72,956,783) 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.

(c) General banking reserve

This represents amount set aside by the Bank as appropriation of earnings for unforeseeable risks and future credit losses. The general banking reserve relates to the provision created to comply with the Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition*.

(d) Reserves for own shares

This represents reserves for restricted share plan granted to employees.

	Reserves for own shares USD'000
At 1 January 2017	45
Charge to profit or loss	11
Fair value movement on shares held	(15)
Other movement	(2)
At 31 December 2017	39
Charge to profit or loss	1
Fair value movement on shares held	1
Other movement	(3)
At 31 December 2018	38
Charge to profit or loss	-
Fair value movement on shares held	-
Other movement	(1)
At 31 December 2019	37

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.

HSBC Bank (Mauritius) Limited

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

29. Reserves (continued)

(e) Fair value reserve

The fair value reserve comprises the cumulative net change in the fair value of investment securities until the assets are derecognised.

30. Contingent liabilities

The Bank provides 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 period 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 USD'000	2018 USD'000	2017 USD'000
Guarantees on account of customers	45,915	82,515	6,661
Letters of credit and other obligations	3,206	-	11,968
	49,121	82,515	18,629

31. Commitments

	2019 USD'000	2018 USD'000	2017 USD'000
<i>Loans and other facilities</i>			
Undrawn credit facilities	510,719	234,320	167,437

HSBC Bank (Mauritius) Limited

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

32. Related party transactions

Key management personnel

The total remuneration of the senior officers of the Bank is disclosed below:

	2019 USD'000	2018 USD'000	2017 USD'000
<i>Key management compensation</i>			
Short term employee benefits	512	493	402
Post-employment benefits	226	225	212
	738	718	614

There was no termination benefits paid during the year.

The Bank is a wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited ("HSBC Hong Kong") and has a related party relationship with it. The Bank has also a related party relationship with other HSBC Group companies, including HSBC Bank plc.

The Bank has identified key management as being the senior officers communicated to the Bank of Mauritius.

The Bank has bank accounts (nostro) with the above related parties and bank loans from other related parties. Interests, fees and commissions were paid and/or received in relation to these bank accounts.

The following table summarises the transactions during the year and the balances at year-end with related parties.

	31 December 2019 USD'000			
	HSBC Hong Kong	HSBC Bank plc	Other related parties	Total
<i>Statement of financial position</i>				
Assets				
Intercompany bank accounts	1,745	1,902	427,386	431,033
Balances and placements with banks	500,182	92	214,285	714,559
Liabilities				
Intercompany deposit	-	-	413	413
Intercompany bank loans	868,863	-	15,985	884,848
Other liabilities	9,233	45	60	9,338
<i>Statement of profit or loss and other comprehensive income</i>				
Other interest income	4,237	63	8,396	12,696
Other interest expense	19,652	-	521	20,173
Fee and commissions income	-	-	7	7
Fee and commissions expense	357	2	254	613
Other income	52	-	306	358
Other expenses	4,964	-	6,889	11,853
Dividends paid	28,000	-	-	28,000

HSBC Bank (Mauritius) Limited

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

32. Related party transactions (continued)

31 December 2018				
USD'000				
	HSBC Hong Kong	HSBC Bank plc	Other related parties	Total
<i>Statement of financial position</i>				
Assets				
Intercompany bank accounts	940	6,990	172,504	180,434
Balances and placements with banks	415,048	53,002	101,328	569,378
Liabilities				
Intercompany deposit	-	-	583	583
Intercompany bank loans	828,405	-	17,188	845,593
Other liabilities	15,513	45	142	15,700
<i>Statement of profit or loss and other comprehensive income</i>				
Other interest income	8,717	89	10,464	19,270
Other interest expense	18,342	38	582	18,962
Fee and commissions income	-	-	6	6
Fee and commissions expense	309	2	268	579
Other income	126	-	328	454
Other expenses	-	125	10,543	10,668
Dividends paid	60,000	-	-	60,000
31 December 2017				
USD'000				
	HSBC Hong Kong	HSBC Bank plc	Other related parties	Total
<i>Statement of financial position</i>				
Assets				
Intercompany bank accounts	1,415	17,995	248,366	267,776
Balances and placements with banks	1,295,863	7	109,394	1,405,264
Liabilities				
Intercompany deposit	-	-	704	704
Intercompany bank loans	767,695	79	16,407	784,181
Other liabilities	9,668	-	-	9,668
<i>Statement of profit or loss and other comprehensive income</i>				
Other interest income				
Other interest expense	7,070	266	4,488	11,824
Fee and commissions income	11,199	31	479	11,709
Fee and commissions expense	-	-	20	20
Other income	268	4	309	581
Other expenses	207	-	1	208
Pension contribution expenses	-	190	9,318	9,508
Dividends paid	30,000	-	-	30,000

None of the facilities extended during the year to related parties was non-performing.

HSBC Bank (Mauritius) Limited

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

33. Cash and cash equivalents analysis

Reconciliation of cash flow statement

	Note	2019 USD'000	2018 USD'000	2017 USD'000
Cash and cash equivalents	16	1,167,107	760,298	1,635,210
Other borrowed funds less than 3 months		-	(5,892)	(2,871)
		1,167,107	754,406	1,632,339

34. 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 risk)

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 34(b)(iii).

Risk management framework

The Board of Directors ("the Board") has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the RMCRC which is responsible for developing and monitoring the Bank's risk management policies in specific areas. The RMCRC has both executive and/or non-executive members and report regularly to the Board on its activity.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Managements (continued)

(a) Introduction and overview (continued)

Risk management framework (continued)

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

The Audit Committee of the Bank consists of three non-executive directors, excluding the Chairman of the Board. The Bank's Internal Auditors, GBL INA, report to the Audit Committee as well as to other Bank's senior management to consider and review the Bank's financial statements, the nature and scope of audit reviews, and the effectiveness of the systems of internal control and compliance. The Bank's external auditor, PricewaterhouseCoopers, reports to the shareholder.

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 in corporate bonds. 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 corporate bonds 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 HSBC 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;

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Managements (continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

- 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, 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 the HSBC Group in the management of credit risk.

Each business unit 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 Credit Ratings-Based (IRB) approach and maintain risk rating methodologies incorporating the probability of default ('PD'), the attribution of the exposure at default ('EAD') and the loss given default ('LGD') values at facility level.

PD reflects the likelihood of obligor default within the next 12 months, and is assigned to all corporate and other judgmentally assessed obligors, is 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 EAD and applied as a rating at facility level. The use of EAD and LGD ensures that the Bank complies with Group and local regulatory parameters to evaluate the severity of loss associated with judgmentally assessed credit exposures.

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.

Credit quality classification	Debt securities and other bills	Wholesale lending	
	External credit rating	Internal credit rating	12-month Basel probability of default %
Strong	A- and above	CRR1 to CRR2	0.000–0.169
Good	BBB+ to BBB-	CRR3	0.170–0.740
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914
Sub-standard	B- to C	CRR6 to CRR8	4.915–99.999
Credit-impaired	Default	CRR9 to CRR10	100.000

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

	Gross carrying/hominal amount					Allowance for ECL USD '000	Net USD '000
	Strong USD '000	Good USD '000	Satisfactory USD '000	Sub-standard USD '000	Total USD '000		
2019							
Loans and advances to customers at amortised cost							
– corporate and commercial	590,445	610,777	145,056	5,870	1,352,148	(179)	1,351,969
– non-bank financial institutions	586,834	429,455	145,056	5,870	1,167,215	(152)	1,167,063
	3,611	181,322	-	-	184,933	(27)	184,906
Loans and advances to banks at amortised cost	170,931	27,643	6,099	-	204,673	(66)	204,607
Other financial assets measured at amortised cost	1,185,587	2,358	1,415	25	1,189,385	-	1,189,385
– cash and cash equivalents	1,166,589	518	-	-	1,167,107	-	1,167,107
– accrued income and other assets	18,998	1,840	1,415	25	22,278	-	22,278
Investment securities measured at FVOCI	453,109	-	-	-	453,109	(1)	453,108
Total gross carrying amount on balance sheet					3,199,315	(246)	3,199,069
Loan and other credit related commitments	154,699	321,579	30,305	4,136	510,719	(1)	510,718
Financial guarantee and similar contracts	23,898	2,717	22,506	-	49,121	-	49,121
Total nominal amount off-balance sheet	178,597	324,296	52,811	4,136	559,840	(1)	559,839
At 31 December 2019					3,759,155	(247)	3,758,908

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (Continued)

	Gross carrying/nominal amount					Allowance for ECL USD'000	Net USD'000
	Strong USD'000	Good USD'000	Satisfactory USD'000	Sub-standard USD'000	Total USD'000		
2018							
Loans and advances to customers at amortised cost	848,305	689,491	176,623	46,864	1,761,283	(233)	1,761,050
– corporate and commercial	848,305	676,478	176,623	46,864	1,748,270	(233)	1,748,037
– non-bank financial institutions	-	13,013	-	-	13,013	-	13,013
Loans and advances to banks at amortised cost	249,943	1,283	155,814	-	407,040	(167)	406,873
Other financial assets measured at amortised cost	796,630	4,631	1,998	282	803,541	-	803,541
– cash and cash equivalents	759,821	477	-	-	760,298	-	760,298
– accrued income and other assets	36,809	4,154	1,998	282	43,243	-	43,243
Investment securities measured at FVOCI	453,121	-	-	-	453,121	-	453,121
Total gross carrying amount on balance sheet					3,424,985	(400)	3,424,585
Loan and other credit related commitments	73,528	152,994	5,122	2,676	234,320	(3)	234,317
Financial guarantee and similar contracts	59,598	93	22,500	324	82,515	(2)	82,513
Total nominal amount off-balance sheet	133,126	153,087	27,622	3,000	316,835	(5)	316,830
At 31 December 2018					3,741,820	(405)	3,741,415

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis

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).

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

The key judgements and assumptions adopted by the Bank in addressing the requirements of the standard are discussed on the next page.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

Significant increase in credit risk (SICR)

The Bank considers a financial instrument to have experienced a significant increase in credit risk when one or more of the following quantitative or qualitative criteria have been met:

Quantitative criteria:

The remaining Lifetime PD at the end of the reporting period has increased, compared to the residual Lifetime PD expected at the end of the reporting period when the exposure was first recognised, so that it exceeds the relevant threshold per the table below:

Wholesale

Lifetime PD band at initial recognition	Increase in Lifetime PD at the end of the reporting period which is considered significant
CRR 0.1 - 1.2	15bps
CRR 2.1-3.3	30bps
Greater than CRR3.3 and not impaired	2 times

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

Qualitative criteria:

For Wholesale and Treasury portfolios, if the borrower is on the Watchlist and/or the instrument meets one or more of the following criteria:

- Significant increase in credit spread
- Significant adverse changes in business, financial and/or economic conditions in which the borrower operates
- Actual or expected forbearance or restructuring
- Actual or expected significant adverse change in operating results of the borrower
- Significant change in collateral value (secured facilities only) which is expected to increase risk of default
- Early signs of cash flow/liquidity problems such as delay in servicing of trade creditors/loans

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

Significant increase in credit risk (SICR) (continued)

Qualitative criteria: (continued)

The assessment of SICR incorporates forward-looking information (refer to note 34(b)(vi) for further information). In relation to Wholesale and Treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the customer level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Credit Risk team.

Definition of default and credit-impaired assets

IFRS 9 requires an assessment of the extent of increase in credit risk of a financial instrument since initial recognition. This assessment is performed by considering the change in the risk of default occurring over the remaining life of the financial instrument. As a result, the definition of default is important.

IFRS 9 does not specifically define default, but requires it to be applied on a consistent basis with internal credit risk management practice for the relevant instruments and consider qualitative factors where appropriate. In addition, IFRS 9 also introduces a rebuttable presumption that default does not occur later than when a financial asset is 90 days past due unless there is reasonable and supportable information to demonstrate that a more lagging criterion is more appropriate.

In addition, default is defined under Basel for regulatory reporting purposes. The Basel regulation provides a clear definition by referring to the number of days past due and criteria for unlikeliness to pay. The criteria for unlikeliness to pay are similar to the definition of credit-impaired under IFRS 9 and in general, default for regulatory reporting purposes does not occur later than when a financial asset is 90 days past due as well.

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

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.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

Write-off policy

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no reasonable expectation 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.

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.

Measuring ECL – Explanation of inputs, assumptions and estimation techniques

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

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

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

Measuring ECL – Explanation of inputs, assumptions and estimation techniques (continued)

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.

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.

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.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

Summary of credit risk

The disclosure below presents the gross carrying/nominal amount of financial instruments to which the impairment requirements in IFRS 9 are applied and the associated allowance for expected credit losses ('ECL'). Due to the forward-looking nature of IFRS 9, the scope of financial instruments on which ECL are recognised is greater than the scope of IAS 39.

The following tables analyse loans by industry sector which represents the concentration of exposures in which how credit risks are managed.

	2019		2018	
	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000
Loans and advances to customers at amortised cost	1,352,148	179	1,761,283	233
– corporate and commercial	1,167,215	152	1,748,270	233
– non-bank financial institutions	184,933	27	13,013	-
Loans and advances to banks at amortised cost	204,673	66	407,040	167
Other financial assets measured at amortised cost	1,189,385	-	803,541	-
– cash and cash equivalents	1,167,107	-	760,298	-
– accrued income and other assets	22,278	-	43,243	-
Total gross carrying amount on balance sheet	2,746,206	245	2,971,864	400
Loan and other credit related commitments	510,718	1	234,320	3
Financial guarantee and similar contracts	49,121	-	82,515	2
Total nominal amount off-balance sheet	559,839	1	316,835	5
At 31 December	3,306,045	246	3,288,699	405
	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000	Gross carrying/ nominal amount USD'000	Allowance for ECL USD'000
At 31 December	453,109	1	453,122	1
Investment securities measured at FVOCI	453,109	1	453,122	1

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector

Gross carrying/nominal amount										Allowance for ECL			ECL coverage %						
		Stage 1		Stage 2		Total		Stage 1		Stage 2		Total		Stage 1		Stage 2		Total	
		12-month ECL USD '000		Lifetime ECL USD '000		USD '000		12-month ECL USD '000		Lifetime ECL USD '000		USD '000		%		%		%	
Loans and advances to customers at amortised cost		1,333,281		18,867		1,352,148		172		7		179		-%		-%		-%	
-	Corporate and commercial	1,148,348		18,867		1,167,215		145		7		152		-%		-%		-%	
-	non-bank financial institutions	184,933		-		184,933		27		-		27		-%		-%		-%	
Loans and advances to banks at amortised cost		198,575		6,098		204,673		55		11		66		-%		0.2%		-%	
Other financial assets measured at amortised cost		1,189,385		-		1,189,385		-		-		-		-%		-%		-%	
Loan and credit other credit related commitments		510,719		-		510,719		1		-		1		-%		-%		-%	
-	Corporate and commercial	451,683		-		451,683		1		-		1		-%		-%		-%	
-	Financial	59,036		-		59,036		-		-		-		-%		-%		-%	
Financial guarantee and similar contracts		49,121		-		49,121		-		-		-		-%		-%		-%	
-	Corporate and commercial	22,512		-		22,512		-		-		-		-%		-%		-%	
-	Financial	26,609		-		26,609		-		-		-		-%		-%		-%	
At 31 December 2019		3,281,081		24,965		3,306,046		228		18		246		-%		0.1%		-%	

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

Stage 2 days past due analysis for loans and advances to customers at 31 December 2019

	Gross carrying amount			Allowance for ECL			ECL coverage %		
	Stage 2 USD '000	Of which: 1 to 29 DPD USD '000	Of which: 30 and > DPD USD '000	Stage 2 USD '000	Of which: 1 to 29 DPD USD '000	Of which: 30 and > DPD USD '000	Stage 2 %	Of which: 1 to 29 DPD %	Of which: 30 and > DPD %
Loans and advances to customers at amortised cost	18,867	-	-	7	-	-	-%	-%	-%
- Corporate and commercial	18,867	-	-	7	-	-	-%	-%	-%

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

Summary of credit risk (excluding debt instruments measured at FVOCI) by stage distribution and ECL coverage by industry sector

	Gross carrying/nominal amount				Allowance for ECL			ECL coverage %	
	Stage 1 12-month ECL USD'000	Stage 2 Lifetime ECL USD'000	Total USD'000	12-month ECL USD'000	Stage 1 Lifetime ECL USD'000	Total USD'000	Stage 1 %	Stage 2 %	Total %
Loans and advances to customers at amortised cost	1,692,708	68,575	1,761,283	134	99	233	-%	0.1%	-%
- Corporate and commercial	1,679,695	68,575	1,748,270	134	99	233	-%	0.1%	-%
- non-bank financial institutions	13,013	-	13,013	-	-	-	-%	-%	-%
Loans and advances to banks at amortised cost	407,040	-	407,040	167	-	167	-%	-%	-%
Other financial assets measured at amortised cost	803,541	-	803,541	-	-	-	-%	-%	-%
Loan and credit other credit related commitments	234,320	-	234,320	3	-	3	-%	-%	-%
- Corporate and commercial	175,809	-	175,809	2	-	2	-%	-%	-%
- Financial	58,511	-	58,511	1	-	1	-%	-%	-%
Financial guarantee and similar contracts	82,191	324	82,515	2	-	2	-%	-%	-%
- Corporate and commercial	59,343	324	59,667	2	-	2	-%	-%	-%
- Financial	22,848	-	22,848	-	-	-	-%	-%	-%
At 31 December 2018	3,219,800	68,899	3,288,699	306	99	405	-%	0.1%	-%

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

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

	Gross carrying amount			Allowance for ECL			ECL coverage %	
	Stage 2 USD'000	Of which: 1 to 29 DPD USD'000	Of which: 30 and > DPD USD'000	Stage 2 USD'000	Of which: 1 to 29 DPD USD'000	Of which: 30 and > DPD USD'000	Stage 2 %	Of which: 1 to 29 DPD % and > DPD %
Loans and advances to customers at amortised cost	68,575	-	-	99	-	-	-%	-%
- Corporate and commercial	68,575	-	-	99	-	-	-%	-%

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

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)).

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

	Non-credit impaired					
	Stage 1			Stage 2		
	Gross carrying/ nominal amount USD '000	Allowance for ECL USD '000	Gross carrying/ nominal amount USD '000	Allowance for ECL USD '000	Gross carrying/ nominal amount USD '000	Allowance for ECL USD '000
At 01 January 2019	2,416,259	(306)	68,899	(99)	2,485,158	(405)
Transfers of financial instruments:						
- transfers from stage 1 to stage 2	37,460	(26)	(37,460)	26	-	-
- transfers from stage 2 to stage 1	(66,259)	11	66,259	(11)	-	-
	103,719	(37)	(103,719)	37	-	-
Net remeasurement of ECL arising from transfer of stage	-	9	-	(3)	-	6
Net new and further lending/repayments	1,923,723	(188)	-	-	1,923,723	(188)
Changes in risk parameters - credit quality	(359,161)	44	(881)	58	(360,042)	102
Asset derecognised (including final repayment)	(1,926,585)	238	(5,593)		(1,932,178)	238
At 31 December 2019	2,091,696	(229)	24,965	(18)	2,116,661	(247)
ECL release for the year		77		81		158
Total change in ECL for the year						158

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iii) Credit risk measurement and analysis (continued)

	Non-credit impaired					
	Stage 1		Stage 2		Total	
	Gross carrying/ nominal amount USD '000	Allowance for ECL USD '000	Gross carrying/ nominal amount USD '000	Allowance for ECL USD '000	Gross carrying/ nominal amount USD '000	Allowance for ECL USD '000
At 01 January 2018	2,056,168	(181)	412,312	(628)	2,468,480	(809)
Transfers of financial instruments:						
- transfers from stage 1 to stage 2	85,930	(135)	(85,930)	135	-	-
- transfers from stage 2 to stage 1	(29,974)	10	29,974	(10)	-	-
	115,904	(145)	(115,904)	145	-	-
Net remeasurement of ECL arising from transfer of stage	-	59	-	(1)	-	58
Net new and further lending/repayments	2,602,584	(626)	-	-	2,602,584	(626)
Changes in risk parameters - credit quality	(210,422)	247	(105,587)	127	(316,009)	374
Asset derecognised (including final repayment)	(2,118,001)	330	(151,896)	268	(2,269,897)	598
At 31 December 2018	2,416,259	(306)	68,899	(99)	2,485,158	(405)
ECL release for the year		(125)		529		404
Total release in ECL for the year						404

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iv) Credit exposure

Maximum exposure

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

		2019 USD'000	2018 USD'000	2017 USD'000
Cash and cash equivalents	(A)	1,167,107	760,298	1,635,210
Trading assets	(B)	37	1,283	120
Loans and advances to banks	(C)	204,607	406,873	531,831
Loans and advances to customers	(C)	1,351,969	1,761,050	1,750,583
Investment securities	(D)	453,108	453,121	298,499
Other assets	(E)	22,278	43,243	29,570
Financial guarantees and other credit-related contingent liabilities	(F)	49,121	82,515	18,629
Loan and other credit-related commitments	(G)	510,719	234,320	167,437
At 31 December		3,758,946	3,742,703	4,431,879

Total exposure to credit risk remained broadly unchanged in 2019 with loans and advances continuing to be the largest element.

(A) Cash and cash equivalents

The Bank held cash and cash equivalents of USD1.2bn at 31 December 2019 (2018: USD0.8bn, 2017: USD1.6bn) which represent its maximum credit exposure on these assets. The cash and cash equivalents are held mainly with the Bank of Mauritius and other HSBC Group companies.

(B) Trading assets

The Bank held trading assets of USD37,000 as at 31 December 2019 (2018: USD1,283,000, 2017: USD120,000). An analysis of the credit quality of the maximum credit exposure is as follows:

		2019 USD'000	2018 USD'000	2017 USD'000
Derivative assets:	17			
Bank counterparties		34	442	-
Non - bank counterparties		3	841	120
		37	1,283	120

The derivative assets are held mainly with other HSBC Group companies.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iv) Credit exposure (continued)

Maximum exposure (continued)

(C) Loans & advances neither past due nor impaired

The table below set out information about the credit quality of financial assets:

	Loans and advances to customers			Loans and advances to banks		
	2019	2018	2017	2019	2018	2017
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Neither past due nor impaired	1,352,148	1,761,283	1,751,311	204,673	407,040	531,831
Gross	1,352,148	1,761,283	1,751,311	204,673	407,040	531,831
Less: allowance for impairment	(179)	(233)	(728)	(66)	(167)	-
Net	1,351,969	1,761,050	1,750,583	204,607	406,873	531,831

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	2018	2017	2019	2018	2017
		USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Credit quality classification	IRB						
Strong	CRR 1	-	-	-	15,000	31,000	120,000
	CRR 2	590,446	848,305	739,414	155,931	218,943	153,623
Good	CRR 3	610,777	689,491	670,515	27,643	1,283	208,496
Satisfactory	CRR 4	29,925	103,831	252,643	-	155,814	49,712
	CRR 5	115,130	72,792	84,214	6,099	-	-
Sub-standard	CRR 6	5,870	46,864	2,549	-	-	-
	CRR 7	-	-	1,976	-	-	-
Total		1,352,148	1,761,283	1,751,311	204,673	407,040	531,831

(D) Investment securities

Investment securities of USD453m (2018: USD453m, 2017: USD298m) represents investment in US Government Treasury Bills and Government of Mauritius Treasury Bills which are held for liquidity purposes.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(iv) Credit exposure (continued)

Maximum exposure (continued)

(E) Other assets

The Bank held a mandatory balance of USD430,000 (2018: USD362,000, 2017: USD1,339,000) with the Bank of Mauritius.

(F) Financial guarantees

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.

(G) Loan commitments

As at 31 December 2019, the Bank held USD510.7m (2018: USD234.3m, 2017: USD167.4m) as undrawn credit facilities with corporate customers CRR 6 or below.

(v) Concentration of exposure

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the end of the reporting period is shown below:

2019		Sovereign	Corporate	Banks	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	36,355	-	1,130,752	-	1,167,107
Trading assets	17	-	3	34	-	37
Loans and advances to banks	18	-	-	204,607	-	204,607
Loans and advances to customers	19	-	1,351,969	-	-	1,351,969
Investment securities	20	453,108	-	-	-	453,108
Other assets	23	12,777	5,725	558	3,218	22,278
		502,240	1,357,697	1,335,951	3,218	3,199,106
Financial guarantees and other credit-related contingent liabilities		-	22,512	26,609	-	49,121
Loan commitments	31	-	510,719	-	-	510,719
		-	533,231	26,609	-	559,840

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(v) Concentration of exposure (continued)

2018		Sovereign	Corporate	Banks	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	40,228	-	720,070	-	760,298
Trading assets	17	-	442	841	-	1,283
Loans and advances to banks	18	-	-	406,873	-	406,873
Loans and advances to customers	19	-	1,761,050	-	-	1,761,050
Investment securities	20	453,121	-	-	-	453,121
Other assets	23	30,172	13,031	-	40	43,243
		523,521	1,774,523	1,127,784	40	3,425,868
Financial guarantees and other credit-related contingent liabilities		-	59,667	22,848	-	82,515
Loan commitments	31	-	234,320	-	-	234,320
		-	293,987	22,848	-	316,835
2017		Sovereign	Corporate	Banks	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	82,382	-	1,552,828	-	1,635,210
Trading assets	17	-	-	120	-	120
Loans and advances to banks	18	-	-	531,831	-	531,831
Loans and advances to customers	19	-	1,750,583	-	-	1,750,583
Investment securities	20	298,499	-	-	-	298,499
Other assets	23	1,339	7,989	900	19,342	29,570
		382,220	1,758,572	2,085,679	19,342	4,245,813
Financial guarantees and other credit-related contingent liabilities		-	5,328	13,301	-	18,629
Loan commitments	31	-	167,437	-	-	167,437
		-	172,765	13,301	-	186,066

Concentration by location for loans and advances is measured based on the location of the borrower.

2019		North America	Europe	India	Other Asia Pacific	Middle East and Africa	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	393,925	109,671	97	593,783	69,484	147	1,167,107
Trading assets	17	-	-	-	34	3	-	37
Loans and advances to banks	18	-	-	93,334	37,177	74,096	-	204,607
Loans and advances to customers	19	147,965	44,959	815,485	79,022	264,538	-	1,351,969
Investment securities	20	448,581	-	-	-	4,527	-	453,108
Other assets	23	627	161	15,800	881	4,809	-	22,278
		991,098	154,791	924,716	710,897	417,457	147	3,199,106
Financial guarantees and other credit-related contingent liabilities		-	-	26,508	101	22,512	-	49,121
Loan commitments	31	-	10,288	275,576	130,485	94,370	-	510,719
		-	10,288	302,084	130,586	116,882	-	559,840

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(v) Concentration of exposure (continued)

2018		North America	Europe	India	Other Asia Pacific	Middle East and Africa	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	155,458	66,584	87	483,809	54,067	293	760,298
Trading assets	17	-	25	-	816	442	-	1,283
Loans and advances to banks	18	-	-	245,431	82,474	78,968	-	406,873
Loans and advances to customers	19	147,980	117,326	1,230,173	63,436	202,135	-	1,761,050
Investment securities	20	448,534	-	-	-	4,587	-	453,121
Other assets	23	889	705	38,780	877	1,992	-	43,243
		752,861	184,640	1,514,471	631,412	342,191	293	3,425,868
Financial guarantees and other credit-related contingent liabilities		-	5,000	22,759	89	54,667	-	82,515
Loan commitments	31	-	11,222	30,897	85,322	106,879	-	234,320
		-	16,222	53,656	85,411	161,546	-	316,835

2017		North America	Europe	India	Other Asia Pacific	Middle East and Africa	Others	Total
	Note	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Cash and cash equivalents	16	238,395	18,140	60	1,204,742	173,438	435	1,635,210
Trading assets	17	-	-	-	-	120	-	120
Loans and advances to banks	18	-	-	391,831	140,000	-	-	531,831
Loans and advances to customers	19	-	252,748	1,288,182	10,546	199,107	-	1,750,583
Investment securities	20	298,499	-	-	-	-	-	298,499
Other assets	23	-	885	25,222	1,427	2,036	-	29,570
		536,894	271,773	1,705,295	1,356,715	374,701	435	4,245,813
Financial guarantees and other credit-related contingent liabilities		-	-	11,968	-	5,372	1,289	18,629
Loan commitments	31	-	-	13,818	-	153,619	-	167,437
		-	-	25,786	-	158,991	1,289	186,066

(vi) Measurement uncertainty and sensitivity analysis of ECL estimates

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.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(b) Credit Risk (continued)

(vi) Measurement uncertainty and sensitivity analysis of ECL estimates (continued)

Methodology for developing forward looking economic scenarios

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.

The Directors have incorporated the forward economic guidance “FEG” in the impairment model and as at 31 December 2019, the impact of the FEG was insignificant.

HSBC Bank (Mauritius) Limited

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

34. 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 that are settled by delivering cash or another financial asset.

(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.

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 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 business units and subsidiaries are met through short-term loans from Global Markets 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 borrowings from banks as its primary sources of funding. Deposits from customers and banks generally have short maturities and a large proportion of them are repayable on demand. The short-term nature of these deposits increases the Bank's liquidity risk and the Bank actively manages this risk through maintaining competitive pricing and constant monitoring of market trends.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(c) Liquidity risk (continued)

(ii) Exposure to liquidity risk

The Bank 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 190% (2018: 122%) against a set limit of 80% (2018: 70%).

(iii) Maturity analysis for financial assets and financial liabilities

The table below sets out the remaining contractual maturities of the Bank’s financial assets and financial liabilities.

	Note	Less than 1 month USD'000	1-3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	TOTAL USD'000
2019							
<i>Non-derivative liabilities</i>							
Deposits from customers	24	(1,949,363)	(3,268)	(15)	-	-	(1,952,646)
Other borrowed funds	25	(7,573)	(22,720)	(7,473)	(847,219)	-	(884,985)
Other liabilities	26	(11,903)	(18)	(84)	(606)	-	(12,611)
Of which Lease liabilities		(9)	(18)	(84)	(606)	-	(717)
		(1,968,839)	(26,006)	(7,572)	(847,825)	-	(2,850,242)
<i>Derivative liabilities</i>							
Trading:	17						
Outflow		(105,021)	(2,364)	-	-	-	(107,385)
Inflow		104,640	2,366	-	-	-	107,006
		(381)	2	-	-	-	(379)
Loan commitments		(7,410)	(231,771)	(271,538)	-	-	(510,719)
<i>Non-derivative assets</i>							
Cash and cash equivalents	16	982,107	185,000	-	-	-	1,167,107
Loans and advances to banks	18	54,969	65,531	69,080	15,027	-	204,607
Loans and advances to customers	19	136,467	127,998	176,334	776,889	134,281	1,351,969
Investment securities	20	104,175	99,907	249,026	-	-	453,108
Other assets	23	4,427	794	13,437	3,096	524	22,278
		1,282,145	479,230	507,877	795,012	134,805	3,199,069
<i>Derivative assets</i>							
Trading:	17						
Outflow		(16,058)	(2,365)	-	-	-	(18,423)
Inflow		16,100	2,364	-	-	-	18,464
		42	(1)	-	-	-	41
Net liquidity gap		(694,443)	221,454	228,767	(52,813)	134,805	(162,230)

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

	Note	Less than 1 month USD'000	1-3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	TOTAL USD'000
2018							
<i>Non-derivative liabilities</i>							
Deposits from customers	24	(2,190,779)	(8,435)	(43,082)	-	-	(2,242,296)
Other borrowed funds	25	(7,659)	(4,421)	(13,458)	(864,204)	-	(889,742)
Other liabilities	26	(18,095)	-	-	-	-	(18,095)
		(2,216,533)	(12,856)	(56,540)	(864,204)	-	(3,150,133)
<i>Derivative liabilities</i>							
Trading:	17						
Outflow		(31,637)	(28,112)	-	-	-	(59,749)
Inflow		30,959	27,590	-	-	-	58,549
		(678)	(522)	-	-	-	(1,200)
Loan commitments		(52,724)	(77,096)	(104,500)	-	-	(234,320)
<i>Non-derivative assets</i>							
Cash and cash equivalents	16	751,298	9,000	-	-	-	760,298
Loans and advances to banks	18	14,390	213,878	178,605	-	-	406,873
Loans and advances to customers	19	55,218	344,090	316,738	1,045,004	-	1,761,050
Investment securities	20	249,680	198,854	4,587	-	-	453,121
Other assets	23	814	3,500	33,174	5,755	-	43,243
		1,071,400	769,322	533,104	1,050,759	-	3,424,585
<i>Derivative assets</i>							
Trading:	17						
Outflow		(60,667)	(27,587)	(14,508)	-	-	(102,762)
Inflow		60,852	28,119	15,013	-	-	103,984
		185	532	505	-	-	1,222
Net liquidity gap		(1,198,350)	679,380	372,569	186,555	-	40,154

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

	Note	Less than 1 month USD'000	1-3 months USD'000	3 months to 1 year USD'000	1-5 years USD'000	More than 5 years USD'000	TOTAL USD'000
2017							
<i>Non-derivative liabilities</i>							
Deposits from customers	24	(2,982,837)	(106,311)	(32,606)	-	-	(3,121,754)
Other borrowed funds	25	(573)	(2,416)	(11,599)	(790,852)	-	(805,440)
Other liabilities	26	(12,028)	-	-	-	-	(12,028)
		(2,995,438)	(108,727)	(44,205)	(790,852)	-	(3,939,222)
<i>Derivative liabilities</i>							
Trading:	17						
Outflow		(30,411)	(11,855)	(11,288)	-	-	(53,554)
Inflow		30,327	11,788	10,763	-	-	52,878
		(84)	(67)	(525)	-	-	(676)
Loan commitments		(59,907)	(35,316)	(72,214)	-	-	(167,437)
<i>Non-derivative assets</i>							
Cash and cash equivalents	16	1,585,210	50,000	-	-	-	1,635,210
Loans and advances to banks	18	174,366	170,685	186,780	-	-	531,831
Loans and advances to customers	19	175,606	219,094	378,609	885,493	91,781	1,750,583
Investment securities	20	-	-	298,499	-	-	298,499
Other assets	23	21,700	1,095	1,892	4,424	459	29,570
		1,956,882	440,874	865,780	889,917	92,240	4,245,693
<i>Derivative assets</i>							
Trading:	17						
Outflow		(125)	(11,781)	(1,690)	-	-	(13,596)
Inflow		125	11,855	1,703	-	-	13,683
		-	74	13	-	-	87
Net liquidity gap		(1,098,547)	296,838	748,849	99,065	92,240	138,445

The previous tables show the undiscounted cash flows on the Bank's financial liabilities and 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, demand deposits from customers are expected to maintain a stable or increasing balance; and 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.

HSBC Bank (Mauritius) Limited

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

34. 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 held by the Global Markets 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 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. HSBC 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

The principal tool 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 period of time (holding period) 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 period. 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 period assumes that it is possible to hedge or dispose of positions within that period. 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 period.
- 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.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(d) Market risks (continued)

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

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 HSBC Group ALCO. VaR limits are allocated to trading portfolios.

The Bank 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.

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 at year end is as follows:

USD'000	31 December	Average	Maximum	Minimum
2019				
Foreign currency risk	238	255	2,102	74
Interest rate risk (PVBP)	0.443	0.572	1.119	0.101
2018				
Foreign currency risk	150	241	912	12
Interest rate risk (PVBP)	0.955	1.658	3.135	0.259
2017				
Foreign currency risk	493	1,287	9,947	174
Interest rate risk (PVBP)	0.716	1.040	2.170	0.100

(iii) Exposure to interest rate 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 re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Global Markets in its day-to-day monitoring activities.

A summary of the Bank’s interest rate gap position on non-trading portfolios is shown on the following page.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(d) Market risks (continued)

(iii) Exposure to interest rate risks – non trading portfolios (continued)

2019	Note	Carrying amount USD'000	Less than 3 months USD'000	3 - 6 months USD'000	6 - 12 months USD'000	1 - 5 years USD'000	More than 5 years USD'000	Non-interest bearing USD'000
Cash and cash equivalents	16	1,167,107	1,142,228	-	-	-	-	24,879
Loans and advances to banks	18	204,607	120,496	57,368	11,716	15,027	-	-
Loans and advances to customers	19	1,351,969	264,465	50,880	125,453	776,889	134,282	-
Investment securities	20	453,108	204,082	249,026	-	-	-	-
Other assets	23	22,278	-	-	-	-	-	22,278
		3,199,069	1,731,271	357,274	137,169	791,916	134,282	47,157
Deposits from customers	24	(1,952,340)	(1,831,958)	-	(15)	-	-	(120,367)
Other borrowed funds	25	(884,985)	(30,294)	(7,473)	-	(847,220)	-	-
Other liabilities	26	(12,611)	(27)	(28)	(56)	(606)	-	(11,894)
		(2,849,936)	(1,862,279)	(7,501)	(71)	(847,826)	-	(132,261)
Interest sensitivity gap		349,133	(131,008)	349,773	137,098	(55,910)	134,282	(85,104)

USD'000 2018	Note	Carrying amount USD'000	Less than 3 months USD'000	3 - 6 months USD'000	6 - 12 months USD'000	1 - 5 years USD'000	More than 5 years USD'000	Non-interest bearing USD'000
Cash and cash equivalents	16	760,298	739,176	-	-	-	-	21,122
Loans and advances to banks	18	406,873	228,196	151,128	27,549	-	-	-
Loans and advances to customers	19	1,761,050	579,434	116,263	66,351	840,821	158,181	-
Investment securities	20	453,121	448,534	4,587	-	-	-	-
Other assets	23	43,243	-	-	-	-	-	43,243
		3,424,585	1,995,340	271,978	93,900	840,821	158,181	64,365
Deposits from customers	24	(2,240,091)	(2,060,391)	(9,661)	(32,438)	-	-	(137,601)
Other borrowed funds	25	(845,254)	(11,946)	(4,750)	(8,058)	(820,500)	-	-
Other liabilities	26	(18,095)	-	-	-	-	-	(18,095)
		(3,103,440)	(2,072,337)	(14,411)	(40,496)	(820,500)	-	(155,696)
Interest sensitivity gap		321,145	(76,997)	257,567	53,404	20,321	158,181	(91,231)

USD'000 2017	Note	Carrying amount USD'000	Less than 3 months USD'000	3 - 6 months USD'000	6 - 12 months USD'000	1 - 5 years USD'000	More than 5 years USD'000	Non-interest bearing USD'000
Cash and cash equivalents	16	1,635,210	1,626,457	-	-	-	-	8,753
Loans and advances to banks	18	531,831	343,051	177,725	9,055	-	-	-
Loans and advances to customers	19	1,750,583	394,700	257,488	121,121	885,494	91,780	-
Investment securities	20	298,499	-	298,499	-	-	-	-
Other assets	23	29,570	-	-	-	-	-	29,570
		4,245,693	2,366,208	733,712	130,176	885,494	91,780	38,323
Deposits from customers	24	(3,120,937)	(2,984,765)	(32,485)	-	-	-	(103,687)
Other borrowed funds	25	(783,201)	(3,280)	(1,884)	(778,037)	-	-	-
Other liabilities	26	(12,028)	-	-	-	-	-	(12,028)
		(3,916,166)	(2,988,045)	(34,369)	(778,037)	-	-	(115,715)
Interest sensitivity gap		329,527	(621,837)	699,343	(647,861)	885,494	91,780	(77,392)

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(d) Market risks (continued)

(iv) Exposure to currency risks

The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's main operations are in US Dollar, Pound Sterling, Euro, Japanese Yen and Indian Rupee. As the currency in which the Bank presents its financial statements is the US Dollar, the Bank's financial statements are affected by movements in the exchange rates between these currencies and the US Dollar. The net open foreign exchange position were as follows:

	2019 USD'm	2018 USD'm	2017 USD'm
Pound Sterling	(0.04)	0.00	0.00
Euro	0.01	0.00	0.03
Japanese yen	0.03	0.01	0.00
Indian rupee	0.11	0.35	0.19
Other foreign currencies	0.06	(0.02)	0.27
	0.17	0.34	0.49

(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 above named 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 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 reserve.
- Regulatory adjustment applicable to CET1 capital which is only the deduction of deferred tax asset.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

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

USD'000	Reference	2019	2018	2017
CET 1 capital				
Paid Up Capital	A	72,957	72,957	72,957
Statutory Reserve	B	72,957	72,957	72,957
Retained Earnings	C	175,444	148,907	156,818
CET 1 capital before regulatory adjustments		321,358	294,821	302,732
Regulatory adjustment: Deferred tax	D	(131)	(151)	(67)
CET 1 capital		321,227	294,670	302,665
Tier 2 Capital				
Provisions	E	13,915	15,673	14,367
Other adjustment to Tier 2 capital		-	(665)	-
Tier 2 Capital		13,915	15,008	14,367
Total Capital Base		335,142	309,678	317,032
Total on-balance sheet risk-weighted credit exposures		1,090,501	1,237,796	1,142,763
Total non-market-related off-balance sheet risk-weighted credit exposures		19,641	14,880	6,212
Total market-related off-balance sheet risk-weighted credit exposures		279	1,161	361
Risk weighted assets for operational risk		97,521	91,860	84,671
Aggregate net open foreign exchange position		233	410	506
Total risk weighted assets		1,208,175	1,346,107	1,234,513
Risk asset ratio		27.7%	23.0%	25.7%

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 following table:

USD'000	Statement of financial position as in published financial statements	Capital Base under Basel III	Reference
Assets			
Cash and cash equivalents	1,167,107		
Trading assets	37		
Loans and advances to banks	204,607		
Loans and advances to customers	1,351,969		
Investment securities	453,108		
Property, plant and equipment	760		
Deferred tax assets	131	131	D
Other assets	22,590		
Total assets	3,200,309		
Liabilities			
Deposits from customers	1,952,340		
Trading liabilities	234		
Other borrowed funds	884,985		
Current tax liabilities	396		
Other liabilities	25,431		
Total liabilities	2,863,386		
Shareholders' Equity			
Share capital and share premium	72,957		
of which amount eligible for CET1	72,957	72,957	A
Retained earnings	175,444	175,444	C
Other reserves	88,522		
of which Statutory reserve	72,957	72,957	B
of which General Banking Reserve	15,379	13,915	E
Total equity and liabilities	3,200,309		

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

The amount of general banking reserves that qualify for inclusion within Tier 2 capital is subject to a maximum of 1.25% of credit risk weighted assets calculated under the standardised approach.

As of 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) 11.875% 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 period.

The below table sets out the phase-in arrangements of capital requirements for banks operating in Mauritius.

	2014	2015	2016	2017	2018	2019	2020
	01 July	(All dates are as of 01 January)					
Minimum CET 1 CAR	5.50%	6.00%	6.50%	6.50%	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 01 July 2014						

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 shareholder's 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.

HSBC Bank (Mauritius) Limited

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

34. Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

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

	2019	2018	2017
	%	%	%
CET 1 capital adequacy ratio	26.5	21.9	24.5
Regulatory Limit – Minimum CET 1 CAR	6.5	6.5	6.5
Tier 1 capital adequacy ratio	26.5	21.9	24.5
Regulatory Limit – Minimum Tier 1 CAR	8.0	8.0	8.0
Total capital adequacy ratio	27.7	23.0	25.7
Regulatory Limit – Minimum Total CAR	11.875	11.25	10.63

The Bank is a wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited and has an issued stated capital of USD 72,956,783 as at 31 December 2019. The main features of the stated capital are 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 Risk 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 the Board of Directors.

HSBC Bank (Mauritius) Limited

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

35. Subsequent event

The directors are not aware of any matter or circumstance arising since the end of the financial year to the date of this report which could significantly affect the financial position of the Bank at 31 December 2019.

36. Parent and ultimate parent company

The Bank is a wholly owned subsidiary 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 parent and controlling party.