The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

ANNUAL REPORT

FOR THE YEAR ENDED 31 DECEMBER 2021

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Annual Report
for the year ended 31 December 2021

Contents

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis

The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch (the "Bank") is registered in the Republic of Mauritius as a foreign company and holds a banking licence issued by the Bank of Mauritius ("BoM"). The Bank's registered office is HSBC Centre, 18 CyberCity, Ebène, Mauritius. The Bank is primarily involved in corporate, treasury and retail banking.

The Management is pleased to present the Annual Report of the Bank for the year ended 31 December 2021.

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

Management has authorised the issue of this annual report on 30 March 2022.

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

Management discussion and analysis (continued)

Financial Review (continued)

The outbreak of Covid-19 and its global spread since the beginning of 2020 has created short and medium term challenges to society and businesses in Mauritius. The domestic economy continues to face headwinds due to Covid-19 and overall economic activity remains curtailed with the manufacturing and tourism sectors most impacted. Despite government support measures implemented such as interest rate cuts, facilities for individuals and businesses, moratorium on capital and interest, and fiscal measures, indebted indicators show heightened vulnerability in the household and corporate sectors. The Bank continues to proactively manage liquidity, capital, credit impairments, costs and non-financial risks to ensure that it remains financially and operationally resilient.

The macro-economic environment remains important to the delivery of our financial objectives. Mauritius Gross Domestic Product (GDP) has rebounded significantly during 2021 as activity began to increase following the Covid-19 vaccination roll-out programs implemented. Whilst uncertainty persists in relation to Covid-19, Government and Central Bank policies are in a state of transition as they gradually begin to move away from measures implemented in 2020 to support economies, business and consumers impacted directly by the onset of the Covid-19 pandemic.

The Bank reported strong results with Profit after tax for the year ended 31 December 2021 growing by 164% to reach MUR280.7m. The Bank's performance is sustained by lower net impairment of financial assets compared to 2020.

The Bank remains liquid, well capitalised and is well positioned for the year ahead.

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives

Objectives for 2021	Performance for 2021	Objectives for 2022
1. Return on tangible equity ("ROTE")		
Deliver ROTE in line with the Annual operating plan.	A positive ROTE of 11.4% was generated.	Deliver a positive ROTE.
2. Revenue growth		
Meet revenue target in line with the Annual operating Plan.	Revenue has decreased by 2.7% in 2021.	Maintain revenue at or above 2021 levels.
3. Expense growth		
To ensure that Jaws is within the Target set in the Annual operating Plan.	The cost efficiency ratio of the Bank was 97.3% and a negative Jaws of 8.4%.	Achieve a positive cost efficiency ratio (total expenses/total operating income).
4. Portfolio quality		
To maintain asset quality and minimise impairment charges through sound underwriting policies and robust portfolio monitoring processes.	Release in impairment charges of MUR322.8m in 2021.	To maintain asset quality and minimise impairment charges through sound underwriting policies and robust portfolio monitoring processes.
5. Capital and Liquidity risk		
• To maintain capital above the Bank of Mauritius ("BoM") minimum regulatory requirement of 13.5%.	• Total capital adequacy ratio was 25.4% and the Tier 1 ratio was 23.3% under Basel III against minimum requirements of 12.9% and 8% respectively.	To maintain capital above the Bank of Mauritius ("BoM") minimum regulatory requirement of 13.5%.
• To meet Bank of Mauritius' liquidity risk management guideline.	• Liquidity Coverage Ratio ("LCR") stood at 518% which is above the regulatory limit of 100%.	As per 2021 objective.
6. Return on average assets		
Achieve a return of assets in line with the Annual operating Plan.	A return on average assets of 1.1% was achieved for 2021.	Deliver a positive return on average assets.

Management discussion and analysis (continued)

Financial Review (continued)

Performance against objectives (continued)

- During the financial year 2021, the Bank recorded a profit before tax of MUR350.1m (2020: MUR(501.0)m). The profit is mainly attributable to release in impairment allowances recorded against a major local corporate customer.

- A Return on Tangible Equity of 11.4% (2020: (18.3)%) was achieved.

- Net interest income, which accounts for 48.1% (2020: 55.2%) of total operating income, decreased by MUR87.8m to MUR486.6m, driven by lower loans and advances to customers which fell by 24.6% and a decrease in interest rates.

- Net trading income, which mainly consists of foreign exchange income, increased by 46.70% to MUR216.2m (2020: MUR147.4m) due to the appreciation of USD against MUR.

- Other operating income decreased to MUR182.1m (2020: MUR186.2m) mainly on account of a reduction in intercompany management fees received during the year.

- Net Impairment release on financial assets of MUR322.8m compared to an impairment charge of MUR609.5m for the prior year, following impairment losses recorded against a major local corporate

- Operating expenses, which consist mainly of staff costs and administrative expenses, increased by 5.7% to MUR985.4m (2020 – MUR931.9m), due to an increase in personnel expenses and intercompany charges.

- Cash and cash equivalents increased by 3.1% to MUR6.6bn (2020: MUR6.4bn) predominantly due to an increase in balances with banks abroad to MUR2.8bn (2020: MUR1.9bn).

- Loans and advances to banks increased to MUR0.4bn (2020: MUR 0.3bn).

- Loans and advances to customers decreased by 24.6% to MUR10.8bn (2020: MUR14.3bn) due to matured loans to some major corporate customers.

- Investment securities at FVOCI increased by 27.5% to MUR10.6bn (2020: MUR8.3bn). The increase is due to commercial surplus in local currency being invested in local treasury bills/notes.

- Deposits from banks increased to MUR1.2bn (2020: MUR0.7bn).

- Deposit from customers increased by 13.3% to MUR25.8bn (2020: MUR22.8bn) mainly due to an increase in corporate customer deposits.

- As at 31 December 2021, the capital adequacy ratio was at 25.4% (2020: 19.2%), above the minimum regulatory requirement of 12.9%.

Management discussion and analysis (continued)

Financial Review (continued)

Review by lines of business

The HSBC Group divides its activities into four segments: Wealth and Personal Banking ("WPB"); Commercial Banking ("CMB"); Global Banking and Markets ("GBM"); and Corporate Centre ("CC"). The business lines are responsible for developing, implementing and managing their business propositions consistently across the HSBC Group.

The Bank is involved in the four segments, namely: WPB, Wholesale Banking ("WSB"), GBM and CC.

Wealth and Personal Banking ("WPB")

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

	2021	2020	2019
	MURm	MURm	MURm
Total operating income	**306.4**	382.7	421.6
Total expenses	**(452.7)**	(435.1)	(398.4)
Net impairment release/(charge) on financial assets	**23.2**	(61.9)	10.2
(Loss)/ profit before tax	**(123.1)**	(114.3)	33.4

WPB recorded a loss before tax of MUR123.1m (2020: MUR(114.3)m) mainly attributed to the increase in operating expenses and a the drop in interest rates.

Wholesale Banking ("WSB")

WSB aims to be the international bank of choice for Global Business Companies and local Corporates in Mauritius. It offers a full range of banking products and solutions. It also provides access to an international network to its customers.

	2021	2020	2019
	MURm	MURm	MURm
Total operating income	**265.7**	320.5	359.7
Total expenses	**(233.9)**	(225.8)	(167.3)
Net impairment release/(charge) on financial assets	**288.2**	(537.4)	(0.5)
Profit/(loss) before tax	**320.0**	(442.7)	191.9

WSB recorded a profit/(loss) before tax of MUR320.0m compared to 2020 (MUR (442.7 m)) mainly due to a release in impairment charges in 2021.

Management discussion and analysis (continued)

Financial Review (continued)

Review by lines of business (continued)

Global Banking and Markets ("GBM")

	2021 MURm	2020 MURm	2019 MURm
Total operating income	**154.2**	126.8	108.2
Total expenses	**(52.3)**	(80.7)	(71.5)
Profit before tax	**101.9**	46.1	36.7

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

Overall GBM's profit before tax increased by 48.7% due to foreign exchange ("FX") revenue generated from large corporates repatriation and import flows.

Corporate Centre ("CC")

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

	2021 MURm	2020 MURm	2019 MURm
Total operating income	**286.3**	210.5	279.3
Total expenses	**(246.4)**	(188.6)	(246.1)
Net impairment release/(charge) on financial assets	**11.4**	(11.9)	-
Profit before tax	**51.3**	10.0	33.2

Corporate centre profits increased to MUR51.3m (2020: MUR10.0m) mainly due to a release in impairment charge during the year.

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Management discussion and analysis (continued)

Financial Review (continued)

Key Ratios

	2021	2020	2019
	%	%	%
Net interest margin	**1.5**	1.8	2.1
Return on average assets	**1.1**	(1.6)	1.0
Cost / Income ratio	**97.3**	89.6	75.6

	2021	2020	2019
	MUR'm	MUR'm	MUR'm
Assets			
Cash and cash equivalents	**6,643.4**	6,443.2	3,997.6
Loan and advances to banks	**378.6**	264.1	332.4
Loan and advances to customers	**10,808.1**	14,333.9	15,865.3
Investment securities at FVOCI	**10,600.5**	8,313.0	7,762.9
Investment securities at amortised cost	**148.2**	-	-
Liabilities			
Deposits from customers	**25,814.9**	22,778.4	19,467.4
Deposits from banks	**1,177.3**	747.8	673.0
Other borrowed funds	**1,083.5**	5,218.6	6,593.7

Net Interest Income analysis

	2021	2020	2019
	MUR'm	MUR'm	MUR'm
Interest income			
Cash and cash equivalents	**6.5**	16.9	46.2
Loans and advances to banks	**0.3**	3.4	5.7
Loans and advances to customers	**376.3**	501.0	698.5
Investment securities	**171.6**	229.8	249.5
Other	**1.4**	0.4	3.5
Total	**556.1**	751.5	1,003.4
Interest expense			
Deposits from customers	**(59.9)**	(105.2)	(215.6)
Deposits from banks	**(1.6)**	(2.2)	(2.4)
Other borrowed funds	**(8.0)**	(67.9)	(160.4)
Other	**-**	(1.7)	(4.4)
Total	**(69.5)**	(177.0)	(382.8)
Net interest income	**486.6**	574.5	620.6

The decrease of 26.0% in interest income for the Bank is mainly the result of lower interest income on loans and advances to customers by MUR124.8m. Interest expense decreased by 60.8% to MUR69.5m mainly on account of lower interest expense on deposits from customers to MUR59.9m (2020: MUR105.2m) and other borrowed funds to MUR8.0m (2020: MUR67.9m).

As a result, net interest income for the Bank decreased by 15.3% compared to the prior year.

Management discussion and analysis (continued)

Financial Review (continued)

Non-interest income

	2021	2020	2019
	MUR'm	MUR'm	MUR'm
Net fee and commission income	**127.7**	132.4	157.6
Net trading income	**216.2**	147.4	123.3
Other operating income	**182.1**	186.2	267.3
Total	**526.0**	466.0	548.2

Non-interest income increased by 5.7% to MUR492.7m (2020: MUR466.0m) mainly on account of higher net trading income.

Net impairment release/(loss) on financial assets

	2021	2020	2019
	MUR'm	MUR'm	MUR'm
Net impairment (loss)/release on financial assets	**322.8**	**(609.5)**	9.7

Net impairment release of MUR322.8m compared to a charge of MUR609.5m in 2020 is on account of a large corporate customer.

Non-interest expense

	2021	2020	2019
	MUR'm	MUR'm	MUR'm
Personnel expenses	**(446.1)**	(402.6)	(417.6)
Operating lease expenses	**(3.6)**	(6.1)	(13.1)
Depreciation	**(43.8)**	(40.7)	(37.9)
Other expenses	**(491.8)**	(482.5)	(414.7)
Total	**(985.3)**	(931.9)	(883.3)

Non-interest expense increased by 5.7% to MUR985.3m (2020: MUR931.9m) mainly due to higher personnel expenses and intercompany charges.

Management discussion and analysis (continued)

Credit exposure and quality

General

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

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

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

- Aggregate credit exposure to any single customer shall not exceed 25 per cent of the Bank's Tier 1 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.

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Management discussion and analysis (continued)

Credit exposure and quality (continued)

Gross customer advances by industry sector

	2021 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	**% of total**	**MUR'000**	**% of total**	**MUR'000**	**% of total**
Agriculture & fishing	**9,463**	**0.1%**	**9,463**	**0.1%**	**-**	**-**
Manufacturing	**2,275,657**	**20.8%**	**2,275,657**	**20.9%**	**-**	**-**
Tourism	**366,740**	**3.3%**	**366,740**	**3.4%**	**-**	**-**
Construction	**28,066**	**0.3%**	**28,066**	**0.3%**	**-**	**-**
Financial and business services	**323,186**	**3.0%**	**323,186**	**3.0%**	**-**	**-**
Traders	**751,701**	**6.9%**	**751,701**	**6.9%**	**-**	**-**
Households	**5,173,474**	**47.3%**	**5,109,389**	**46.9%**	**64,085**	**100%**
Global business license holders	**1,754,026**	**16.0%**	**1,754,026**	**16.1%**	**-**	**-**
Public non-financial corporations	**4,615**	**0.0%**	**4,615**	**0.0%**	**-**	**-**
Others (including infrastructure)	**261,606**	**2.3%**	**261,607**	**2.4%**	**-**	**-**
Total gross customer advances	**10,948,534**	**100.0%**	**10,884,450**	**100.0%**	**64,085**	**100.0%**

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

	2019 Total		Entities Inside Mauritius		Entities Outside Mauritius	
	MUR'000	% of total	MUR'000	% of total	MUR'000	% of total
Agriculture & fishing	432,620	2.7%	432,620	3.6%	-	-
Manufacturing	2,964,980	18.6%	2,856,148	23.6%	108,832	2.9%
Tourism	303,439	1.9%	303,439	2.5%	-	-
Construction	599,173	3.8%	86,684	0.7%	512,489	13.5%
Financial and business services	3,415,739	21.6%	323,864	2.7%	3,091,875	81.3%
Traders	690,466	4.3%	690,466	5.7%	-	-
Households	5,527,615	34.7%	5,442,783	44.9%	84,832	2.3%
Global business license holders	1,319,136	8.3%	1,319,136	10.8%	-	-
Public non-financial corporations	532,327	3.3%	532,327	4.4%	-	-
Others (including infrastructure)	133,595	0.8%	133,595	1.1%	-	-
Total gross customer advances	15,919,090	100.0%	12,121,062	100.0%	3,798,028	100.0%

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Management discussion and analysis (continued)

Credit exposure and quality (continued)

Off-balance sheet foreign exchange trading contracts by industry sector

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

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

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Credit Quality

A breakdown of the loan portfolio for the 2021,2020 and 2019 year ends is provided below:

MURm	Agriculture & fishing	Manufacturing	Tourism	Construction	Financial & business services	Traders	Households	Global business license holders	Public non-financial corporations	Other (including infrastructure)	TOTAL
2021											
Total advances	**9**	**2,276**	**367**	**28**	**323**	**752**	**5,173**	**1,754**	**5**	**262**	**10,949**
Non performing advances	**-**	**-**	**119**	**-**	**-**	**-**	**78**	**-**	**-**	**-**	**197**
As a % of total advances	**-**	**-**	**32.4**	**-**	**-**	**-**	**1.5**	**-**	**-**	**-**	**1.8**
Stage 3 provisions	**-**	**-**	**73**	**-**	**-**	**-**	**20**	**-**	**-**	**-**	**93**
Stage 1 & 2 provisions	**-**	**-**	**-**	**-**	**-**	**-**	**47**	**-**	**-**	**-**	**47**
As a % of Total Advances	**-**	**-**	**-**	**-**	**-**	**-**	**0.9**	**-**	**-**	**-**	**0.4**
Stage 3 as a % of NPA's	**-**	**-**	**61**	**-**	**-**	**-**	**26**	**-**	**-**	**-**	**47**
2020											
Total advances	10	2,415	356	14	3,736	911	5,215	1,345	802	164	14,968
Non performing advances	-	-	131	-	-	-	91	-	789	-	1,011
As a % of total advances	-	-	36.8	-	-	-	1.7	-	98.4	-	6.8
Stage 3 provisions	-	-	49	-	-	-	20	-	482	1	552
Stage 1 & 2 provisions	-	1	-	-	1	-	79	-	-	-	81
As a % of Total Advances	-	0.0	-	-	0.0	-	1.5	-	-	-	0.5
Stage 3 as a % of NPA's	-	-	37.40	-	-	-	21.98	-	61.09	-	54.60
2019											
Total advances	433	2,965	303	599	3,416	690	5,528	1,319	532	134	15,919
Non performing advances	-	-	-	-	-	-	69	-	-	-	69
As a % of total advances	-	-	-	-	-	-	1.3	-	-	-	0.4
Stage 3 provisions	-	-	-	-	-	-	17	-	-	-	17
Stage 1 & 2 provisions	-	1	-	-	1	-	35	-	-	-	37
As a % of Total Advances	-	0.0	-	-	0.0	-	0.6	-	-	-	0.2
Stage 3 as a % of NPA's	-	-	-	-	-	-	24.5	-	-	-	24.6

Management discussion and analysis

Credit Quality (continued)

Restructured Credits

Stage 3 ECLs held on non-performing and restructured loans amounted to MUR93.5m as at 31 December 2021 (2020: MUR552.8m). There were no significant non-performing loans which were restructured during the year.

Credit Impairment

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

	Total	Personal	Mortgages	Corporate
	MUR'000	MUR'000	MUR'000	MUR'000
Opening Balance - 01 January 2021	**552,804**	6,783	13,424	532,597
IFRS 9 - impairment (release)/charge	**(459,265)**	(1,440)	1,552	(459,377)
Closing balance - 31 December 2021	**93,539**	5,343	14,976	73,220

A general banking reserve of MUR91.9m (2020: MUR91.9m) has been set aside as an appropriation of retained earnings to cater for future potential losses in the loan portfolio in line with the provisions laid down in the Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition.*

IFRS 9 Stage 1 & 2 provisions stood at MUR46.9m at 31 December 2021 on loans and advances to customers (2020: MUR81.2m).

Credit-impaired (Stage 3)

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

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

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

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

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

Management discussion and analysis (continued)

Risk management policies and controls

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

Risks	Arising from	Measurement, monitoring and management of risk
Credit risk		
Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract.	▪ Credit risk arises principally through trading, lending and investing activities and in cases where the Bank acts as an intermediary on behalf of customers or other third parties or issues guarantees.	Credit risk is: ▪ measured as the amount which could be lost if a customer or counterparty fails to make repayments; ▪ monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and ▪ managed by dealing with counterparties of good credit standing and when appropriate, obtain collateral.
Liquidity and funding risk		
Liquidity risk is the risk that the Bank does not have sufficient financial resources to meet its obligations as they fall due or that it can only do so at an excessive cost. Funding risk is the risk that funding considered to be sustainable, and therefore used to fund assets, is not sustainable over time.	▪ Liquidity risk arises from mismatches in the timing of cash flows. ▪ Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required.	Liquidity and funding risk is: ▪ measured using a range of metrics including liquidity coverage ratio and net stable funding ratio; ▪ assessed through the internal liquidity adequacy assessment process; and ▪ monitored against the Bank's liquidity and BoM's Liquidity Risk Management framework which is in line with Basel III.
Market risk		
Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the income or the value of the Bank's portfolios.	Exposure to market risk is separated into two portfolios: ▪ Trading portfolios ▪ Non-trading portfolios	Market risk is: ▪ measured in terms of value at risk ("VaR"), which measures the potential losses on risk positions over a specified time horizon for a given level of confidence, and assessed using stress testing; ▪ monitored using VaR, stress testing and other measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and ▪ managed using risk limits approved by the RMM for the Bank and the various global businesses.

Management discussion and analysis (continued)

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
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.
Currency risk		
Currency risk arises from the change in price of one currency in relation to another.	The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's main operations in foreign currencies are in US Dollar, Pound Sterling and Euro. As the currency in which the Bank presents its financial statements is the Mauritian Rupee, the Bank's financial statements are affected by movements in the exchange rates between these currencies and the Mauritian Rupee. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in profit or loss. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the functional currency of the Bank. However, most of the Bank's transactions are in Mauritian Rupees and for the balance the Bank finances its monetary assets in foreign currencies with borrowings in the same currencies to mitigate its currency risk.	The Bank monitors the foreign exchange position against the foreign exchange limits imposed by the Bank of Mauritius on a daily basis, in line with the Bank of Mauritius *Guideline on Management of Market Risk*. A daily net open foreign exchange position is reported to the Bank of Mauritius where the position of the main currencies are verified against limit set as per the Regulator.

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Operational risk & Resilience 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. Resilience risk is the risk that we are unable to provide critical services to our customers, affiliates and counterparties as a result of sustained and significant operational disruption.	▪ 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. ▪ Resilience Risk provides oversight, advice, guidance and challenge to our businesses and functions to strengthen our ability to prevent, adapt, and learn from resilience-related threats. It is viewed through six risk lenses: strategic change and emerging threats; third-party risk; information and data resilience; payments and processing resilience; systems and cyber resilience; and protective security risk. ▪ Mauritius has established a new Target Operating Model for coverage of both operational risk and resilience risk as a combined sub-function within Global Risk, namely Operational and Resilience Risk (ORR). § ORR will establish, embed and manage the framework for Operational Risk Management within the Risk Management structure, ensuring robust challenge and actionable guidance across all Non-Financial Risk (NFR) risks.
Regulatory compliance risk		
Regulatory compliance risk is the risk that the Bank fails to observe the letter and spirit of all relevant laws, codes, rules, regulations and standards of good market practice, and incur fines and penalties and suffer damage to its business as a consequence.	▪ Regulatory compliance risk is part of operational risk, and arises from the risks associated with the Bank breaching its duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory requirements.	Regulatory compliance risk is: ▪ measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of our regulatory compliance teams; ▪ monitored against the first line of defense risk and control assessments, the results of the monitoring and control assurance activities of the second line of defence functions, and the results of internal and ▪ managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required.

Risk management policies and controls (continued)

Risks	Arising from	Measurement, monitoring and management of risk
Financial crime risk		
Financial crime risk is the risk that the Bank knowingly or unknowingly help parties to commit or to further potentially illegal activity through the HSBC Group.	▪ 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 pension plans is insufficient to cover existing pension liabilities resulting in an increase in obligation to support the plans.	▪ Pension risk arises from investments delivering an inadequate return, adverse changes in interest rates or inflation, or members living longer than expected. Pension risk includes operational risks listed previously.	Pension risk is: ▪ measured in terms of the schemes' ability to generate sufficient funds to meet the cost of their accrued benefits; and ▪ managed through the appropriate pension risk governance structure.
Sustainability risk		
Sustainability risk is the risk that financial services provided to customers by the Bank indirectly result in unacceptable impacts on people or on the environment.	▪ Sustainability risk arises from the provision of financial services to companies or projects which indirectly result in unacceptable impacts on people or on the environment.	Sustainability risk is: ▪ measured assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high risk transactions; and ▪ monitored by the RMM.

Management discussion and analysis (continued)

Concentration of risk policies

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

The six most significant individual concentration cases in respect of one customer or group as at 31 December 2021 were as follows:

Customer Group	Total MUR'm	% of Total Corporate exposure*	% of CET1 Capital (Under Basel III)
Customer Group 1	**538**	**11.1**	**23.5**
Customer Group 2	**500**	**10.3**	**21.8**
Customer Group 3	**440**	**9.1**	**19.2**
Customer Group 4	**401**	**8.3**	**17.5**
Single Customer 1	**350**	**7.2**	**15.3**
Single Customer 2	**350**	**7.2**	**15.3**

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

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

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

As at 31 December 2021, the top 6 customer groups exposures accounted for 53.2% (2020 – 84.8%) of total large credit exposure extended to corporates.

As at 31 December 2021, the Bank is in compliance with the Bank of Mauritius *Guideline of Credit Concentration Risk.*

Related party transactions policies and practices

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

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

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

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

Category 1

This includes credit exposures to:

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

Category 2

This includes credit exposures to:

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

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

(c) a credit exposure to parastatal bodies and to an entity in which the Government has more than 50 per cent shareholding;

(d) inter-bank transactions as part of treasury operations;

(e) credit exposures representing less than 2 per cent of the Bank's Tier 1 capital; and

(f) category 3 type of related party exposures.

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

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

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

Related Party	Exposure MUR'm
1. The Hongkong and Shanghai Banking Corporation Limited	9,963.2
2. HSBC Bank Plc Group Treasury, London	2,120.9
3. HSBC Bank (Mauritius) Limited	2,635.3
4. The Hongkong and Shanghai Banking Corporation Limited - Singapore Branch	2,177.7
5. HSBC Bank (China) Company Limited	1,576.2
6. HSBC France	456.3

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 2021.

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III Disclosures

Scope of application

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

Capital Structure

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

The Capital Base under Basel III stood as follows:

MUR'000

	2021	2020	2019
	Basel III	Basel III	Basel III
Tier 1 Capital			
CET1 Capital			
Assigned capital	**794,150**	794,150	400,000
Other disclosed reserves	**378,640**	306,835	306,835
Retained earnings*	**1,172,631**	707,398	1,347,030
CET1 before regulatory adjustments	**2,345,421**	1,808,383	2,053,865
Deferred tax	**(56,239)**	(105,548)	(46,823)
Total regulatory adjustments to CET1	**(56,239)**	(105,548)	(46,823)
Tier 1 Capital (T1)	**2,289,182**	1,702,835	2,007,042
Tier 2 Capital			
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	**99,599**	93,822	91,845
Provisions	**103,045**	102,273	126,469
Tier 2 Capital (T2)	**202,644**	196,095	218,314
Total Capital (T1 + T2)	**2,491,826**	1,898,930	2,225,356

** including audited profits for the year*

Management discussion and analysis (continued)

Basel III disclosures (continued)

Capital Adequacy

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

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

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

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

With on balance sheet total risk weighted assets ("RWA") of MUR7.7bn (2020: MUR9.9bn), details of which are given in the Credit Risk Exposures section on page 27, minimum capital requirements for credit risk for portfolios subject to the Standardised Approach as at 31 December 2021 was MUR1.0bn (2020: MUR1.3bn). Risk weighted assets of MUR512.2m (2020: MUR522.7m) for market and non-market related off balance sheet exposures and MUR22.9m (2020: MUR26.7m) for market risk foreign currency exposure, generated further capital requirement of MUR68.9m (2020: MUR70.7m).

Risk weighted assets for Operational Risk in accordance with the Basic Indicator Approach calculated based on the average gross income per annum for the last three years, amounted to MUR2.0bn (2020: MUR1.7bn), generated a capital charge for operational risk of MUR153.2m (2020: MUR169.7m).

Total risk weighted asset capital requirement therefore stood at MUR1.3bn (2020: MUR1.3bn) as compared to the Bank's capital base of MUR2.5bn (2020: MUR1.9bn).

The regulatory limits applicable to the Bank were as follows:

	2021	2020	2019
	%	%	%
CET 1 capital adequacy ratio*			
Regulatory Limit - Minimum CET 1 CAR	**23.3**	17.2	16.8
	6.5	*6.5*	*6.5*
Tier 1 capital adequacy ratio			
Regulatory Limit - Minimum Tier 1 CAR	**23.3**	17.2	16.8
	8.0	*8.0*	*8.0*
Total capital adequacy ratio*			
Regulatory Limit - Minimum Total CAR	**25.4**	19.2	18.6
* *including audited profits for the year*	***12.9***	*12.9*	*12.6*

Management discussion and analysis (continued)

Basel III disclosures (continued)

The Credit Risk Policy Framework

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

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

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

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

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

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

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

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures

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

Total Segment A gross credit risk exposures as at 31 December 2021 stood as follows:

Fund based:

Items	**31-Dec-21**
	MUR'000
Claims on cash items	**248,582**
Claims on sovereigns	**6,276,789**
Claims on central banks	**8,658,300**
Claims on banks	**460,906**
Claims on domestic PSEs ("Public sector entities")	**17,956**
Claims on corporates	**4,037,899**
Claims included in regulatory retail portfolio	**703,453**
Claims Secured by residential property	**4,259,595**
Claims Secured by commercial real estate	**5,539**
Past due claims	**114,015**
Claims on other assets	**555,571**
Total	**25,338,605**

Non fund based:

Items	
	31-Dec-21
	MUR'000
Direct credit substitute	**309,940**
Transaction-related contingent items	**807,464**
Trade related contingencies	**232,492**
Commitments that can be unconditionally cancellable at any time by the Bank without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness	**5,650,947**
Foreign exchange contracts	**106,667**
Total	**7,107,510**

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

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

Fund based:

Items	
	31-Dec-21
	MUR'000
Sovereign	**6,276,789**
Financial institutions	**9,119,206**
Corporates	**4,061,394**
Individuals	**5,077,064**
Others	**804,153**
Total	**25,338,606**

Non fund based:

Items	
	31-Dec-21
	MUR'000
Financial institutions	**372,204**
Corporates	**5,773,728**
Individuals	**961,578**
Total	**7,107,510**

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures (continued)

The residual maturity breakdown of the portfolio was as follows:

<u>Fund based</u>

Items		Amount MUR000's						
(No Months)	Total	0-3m	3-6m	6-12m	12-24m	24-36m	36-60m	> 60m
Claims on sovereigns	6,276,789	941,086	794,904	2,528,647	616,173	1,370,251	25,728	-
Claims on central banks	8,658,299	5,434,397	1,005,884	907,445	803,418	304,291	202,864	-
Claims on banks	460,906	295,434	-	165,472	-	-	-	-
Claims on domestic PSEs	17,956	-	-	17,606	-	350	-	-
Claims on corporates	4,037,899	928,418	153,913	1,763,836	378,878	400,269	136,753	275,832
Claims included in regulatory retail portfolio	703,453	7,201	2,931	254,855	47,855	94,333	276,315	19,963
Claims secured by residential mortgage	4,259,595	316	707	7,420	23,955	33,249	160,811	4,033,137
Claims secured by commercial real estate	5,539	-	-	-	429	-	5,110	-
TOTAL	24,420,436	7,606,852	1,958,339	5,645,281	1,870,708	2,202,743	807,581	4,328,932

<u>Non fund based:</u>

Items		Amount in MUR'000s						
(No Months)	Total	0-3 m	3-6 m	6-12 m	12-24 m	24-36 m	36-60 m	> 60 m
Direct credit substitute	309,940	102,826	39,246	126,780	6,199	240	34469	180
Transaction-related contingent items	807,464	60,624	32,678	474,224	94,123	110,185	6896	28,734
Trade related contingencies	232,492	232,492	-	-	-	-	-	-
Commitments that can be unconditionally cancellable at any time by the Bank without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness	5,650,947	3,373,573	1,709,248	432,508	401	2,828	159	132,230
Foreign exchange contracts	106,667	57,910	48,757	-	-	-	-	-
TOTAL	7,107,510	3,827,425	1,829,929	1,033,512	100,723	113,253	41,524	161,144

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

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures (continued)

Credit Risk: Standardised Approach

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

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

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

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

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures (continued)

Credit Risk: Standardised Approach (continued)

Segment A exposures after credit risk mitigation ("CRM") subject to the Standardised approach as at 31 December 2021 were as follows:

Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Risk Weight	RWA
	MUR'000	**MUR'000**	**%**	**MUR'000**
Cash in hand	218,269	218,269	0	-
	30,313	30,313	20	6,063
Claims on Sovereigns	6,276,789	6,276,789	0	-
Claims on Central Banks	8,658,300	8,658,300	0	-
Claims on Banks	460,906	460,906	20	92,181
Claims on Domestic PSE	17,956	60,863	0	-
Claims on Corporate	4,037,899	3,994,922	100	3,994,922
Claims included in Regulatory Retail Portfolio	703,453	693,818	75	520,363
Claims Secured by Residential Property	3,061,085	3,060,293	35	1,071,103
	179,311	179,311	75	134,483
	1,714	1,714	100	1,714
	1,017,485	1,017,485	125	1,271,857
Claims secured by commercial real estate	5,539	5,110	100	5,110
Past due claims	47,965	42,235	50	21,117
	53,326	53,326	100	53,326
	11,520	11,520	125	14,400
	1,202	1,202	150	1,804
Other assets	555,571	544,949	100	544,949
Total	**25,338,603**	**25,311,325**		**7,733,392**

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Credit Risk Exposures (continued)

Non - Fund Based:

Items	Exposures Before CRM	Exposures After CRM	Credit Conversion Factor	Credit Equivalent Amount	RWA
	MUR’000	MUR’000	%	MUR’000	MUR’000
Direct Credit Substitute	309,940	283,022	100	283,022	151,541
Transaction-related Contingent Items	807,464	773,195	50	386,597	273,012
Trade Related Contingencies	232,492	230,892		86,682	85,585
Commitments that can be unconditionally cancellable at any time by the Bank without prior notice, or that effectively provide for	5,650,947	5,650,947	-	-	-
Total	7,000,843	6,938,056		756,301	510,138

Non - Fund Based:

Items	Notional principal amount	Credit conversion factor	Potential future exposure	Current exposure	Credit equivalent amount	RWA
	MUR’000	%	MUR’000	MUR’000	MUR’000	MUR’000
Foreign Exchange Contract	106,667	1	1,067	973	2,039	2,039

Credit Risk Mitigation:

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

Common acceptable forms of security are:

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

Market Risk

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

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

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

The foreign exchange risk position as at 31 December 2021 stood at MUR22.9m (2020: MUR26.7m), giving a capital requirement of MUR3.8m (2020: MUR3.4m).

Operational Risk

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

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

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Operational Risk (continued)

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

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

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

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

The Bank's capital requirement for operational risk as at 31 December 2021, based on total Segment A operating income, stood as follows:

		Financial Year Ended 2021 MUR'000	Financial Year Ended 2020 MUR'000	Financial Year Ended 2019 MUR'000
	Annual Gross Income	**970,409**	986,922	1,139,043
-1	Number of Years with positive income	**3**		
-2	Average Gross Income over the last 3 years	**1,032,125**		
-3	Capital charge for Operational Risk	**154,819**		

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Management discussion and analysis (continued)

Basel III disclosures (continued)

Interest rate risk in the trading book

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

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

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

PVBP is used by the Bank's treasury trading system to monitor interest rate risk. The outstanding position as at 31 December 2021 in the trading book by time buckets is disclosed in note 35 of these financial statements.

Bonnie Yi Jing Qiu
Chief Executive Officer

Rajiv Gopaul
Head of Finance

Date : 30 March 2022

Statement on corporate governance practices

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

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

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

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

During the year under review, the Management of The Hongkong and Shanghai Banking Corporation Limited, Mauritius Branch (the "Bank") assessed the requirements and provisions as specified in the Code, and took the necessary steps to ensure adherence thereto.

Throughout the year ended 31 December 2021, to the best of the Management's knowledge, where the Bank has not applied certain principles set out in the Code, the reasons for non-application are listed out in the relevant sections of the report.

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

Group Values, Charter and Code of Conduct

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

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

Statement on corporate governance practices (continued)

Group Values, Charter and Code of Conduct (continued)

The Bank's values are:

We value difference

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

We succeed together

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

We take responsibility

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

We get it done

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

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

Statement on corporate governance practices (continued)

Group Values, Charter and Code of Conduct (continued)

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

The Bank ensures effective management in line with the above values and its Code of Conduct (Code of Ethics). 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.

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

1. Governance Structure

1.1 Shareholding Structure

As at 31 December 2021, the Bank's assigned capital was MUR 794,150,000, solely held by The Hongkong and Shanghai Banking Corporation Limited.

1.2 Responsibilities of the Board of the Bank

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

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

Statement on corporate governance practices (continued)

1. Governance Structure (continued)

1.2 Responsibilities of the Board of the Bank (continued)

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

1.3 Responsibilities of the Management of the Bank

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

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

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

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

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

2. The Structure of the Management and its Committees

2.1 Executive Committee

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

Statement on corporate governance practices (continued)

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

2.1 Executive Committee (continued)

Frequency	Monthly	
Composition	Bonnie Y Qiu	Country Chief Executive Officer (Chairperson)
	Dean Lam	Head of Commercial Banking
	Jennifer Hau [1]	Chief Operating Officer
	Sarina Saul-Hassam[2]	Chief Operating Officer
	Percy Talati[3]	Acting Chief Operating Officer
	Rajiv Gopaul	Chief Financial Officer
	Nitin Ramlugon	Head of Wealth and Personal Banking
	Rim Abohegab	Head of Human Resources
	Vassan Caleemootoo	Head of Markets and Securities Services
	Annick Meerun	Communications Manager
	Laura Steer[4]	Chief Risk Officer
	Ashish Gowreesunker	Chief Compliance Officer
	Ashiti Prosand	Head of Legal and Company Secretary
	Binsha Raderam[5]	Business Planning and Execution Manager – CEO Office
Purpose	The Executive Committee, which holds its meetings not less than 10 times each year, has the responsibility for business development initiatives, human resources and internal management structure, IT and operational issues, approval of major capital expenditure projects, social matters such as education and environmental protection, monitoring of annual budget and any other relevant issues. 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.	

[1] Retired as from 28 February 2021
[2] Effective from 01 May 2021
[3] Acting Chief Operating Officer from 12 January 2021 to 30 April 2021
[4] Resigned on 13 February 2022
[5] Effective from 01 June 2021

In addition the following committees are in operation:

Statement on corporate governance practices (continued)

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

2.2 Asset and Liability Committee

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

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

Frequency	Monthly	
Composition	Rajiv Gopaul	Chief Financial Officer (Chairperson)
	Bonnie Y Qiu	Country Chief Executive Officer
	Dean Lam	Head of Commercial Banking
	Laura Steer[1]	Chief Risk Officer
	Vassan Caleemootoo	Head of Markets and Securities Services
	Shoba Thancanamootoo	Head of Market Treasury
	Prabal Chakrabortty	Country Head of Global Liquidity and Cash Management
	Daniel Barr	Country Head of Global Trade and Receivables Finance
	Nitin Ramlugon	Head of Wealth and Personal Banking
	Lisiane Singaravelloo	Head of Assets and Liabilities Capital Management (ALCM) and Business Finance
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.	

[1]*Resigned on 13 February 2022*

Statement on corporate governance practices (continued)

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

2.3 Risk Management Meeting (RMM)

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

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

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

Frequency	Monthly	
Composition	Laura Steer [4]	Chief Risk Officer (CRO) (Chair)
	Dean Lam	Head of Commercial Banking
	Bonnie Y Qiu	Country Chief Executive Officer (CEO)
	Rajiv Gopaul	Chief Financial Officer (CFO)
	Jennifer Hau [1]	Chief Operating Officer (COO)
	Percy Talati [2]	Acting Chief Operating Officer (COO)
	Sarina Saul-Hassam [3]	Chief Operating Officer (COO)
	Ashiti Prosand	General Counsel and Company Secretary
	Vassan Caleemootoo	Head of Markets & Securities Services
	Nitin Ramlugon	Head of Wealth & Personal Banking
	Ashish Gowreensunker	Chief Compliance Officer (CCO)
	Rim Abohegab	Head of Human Resources
	Annick Meerun [5]	Head of Communications
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' strategic objectives, including the management of all financial crime risks. This may include: Strategy • Ensuring that risk considerations are incorporated within the strategic planning and budgeting processes; • Receiving regular reports on the status of material Change/Transformation projects including the delivery, risk, key exposures, and risk mitigation plans in conjunction with the opinions from the Second Line, Risk, Internal Audit or external stakeholders as necessary; • Ensuring the integration of risk management into the Group's strategic objectives for all component parts of the overall strategy, for example the technology strategy, required to deliver the overall strategy	

[1] Retired as from 28 February 2021
[2] Acting Chief Operating Officer from 12 January 2021 to 30 April 2021
[3] Chief Operating Officer as from 21 April 2021
[4] Retired on 13 February 2022
[5] No longer a member of RMM as from 01 March 2021

Statement on corporate governance practices (continued)

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

2.3 Risk Management Meeting (continued)

Main Responsibilities	Business Performance and Priorities (i) Reviewing key enterprise-wide risk management policies and framework addendums, including but not limited to the Bank Risk Appetite Framework, Risk Appetite Statements and Stress Testing Framework and changes thereto, prior to onward submission for HBAP approval where appropriate (ii) Reviewing the Bank's risk profile, and Risk Appetite Profile, and be informed of material changes to the Top and Emerging Risk Profile and Risk Map. (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) Considering relevant reports and updates pertaining to the key risks and issues in the three Lines of Defence ("3LOD"), commissioning further review where required. (v) Reviewing processes governing new product approval, post-implementation reviews and ongoing monitoring of the current portfolios (vi) Receiving and reviewing reports and updates on the Bank's internal assessments and/or regulatory submissions, including but not limited to Recovery and Resolution, Stress Testing, the Internal Capital Adequacy Assessment Process ('ICAAP'), Internal Liquidity Adequacy Assessment Process ('ILAAP') and related management actions as required. (vii) Reviewing the effectiveness of internal controls required to manage risk, including processes for managing Regulatory Compliance Risk arising from Volcker Rules in relation to the activity of the Bank. (viii) Reviewing processes for managing Conduct Risk and cascade a supportive culture in relation to risk management and controls and to ensure that the Bank's risk management practices support its conduct outcomes. (ix) Receiving and reviewing reports on key legal risks and developments. (x) Reviewing, discussing and addressing material financial and non-financial risks, including financial crime risks and issues, relating to money laundering, tax evasion, sanctions, bribery and corruption, and fraud. (xi) 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. (xii) reviewing and providing on-going recommendation of updates to the Bank's Business Continuity Plan ("BCP"), to ensure that any material changes in the Bank's business, strategy, nature or scale of its activities or the regulatory or operational environment are considered and the BCP updated if required; and

Statement on corporate governance practices (continued)

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

2.3 Risk Management Meeting (continued)

Main Responsibilities	Business Performance and Priorities (continued) (xiii) reviewing, discussing and addressing regulatory risks and issues, policy changes and resultant impact. Promote, monitor and assess the regulatory risk culture. (xiv) Promoting and cascading of a supportive culture in relation to risk management and controls and ensuring the risk management practices support the Bank's conduct outcome.

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

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

2.4 Corporate Governance Committee

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

2.5 Remuneration Committee

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

2.6 Committee Attendance

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

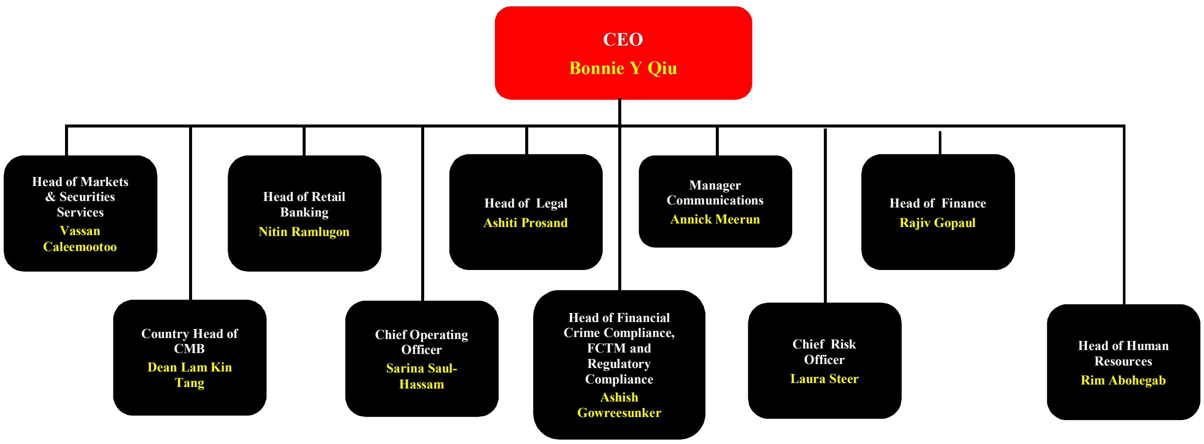
Statement on corporate governance practices (continued)

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

2.6 Senior Management's Profile (continued)

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

As at 31 December 2021, the organisation chart of the Bank is as follows:



Bonnie Y Qiu - Chief Executive Officer (Resident)

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

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

Rajiv Gopaul – Head of Finance (Resident)

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

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

Statement on corporate governance practices (continued)

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

<u>2.6 Senior Management's Profile (continued)</u>

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

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

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

Laura Steer – Chief Risk Officer (Resident) - resigned on 13 February 2022

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

Nitin Ramlugon – Head of Retail Banking and Wealth Management (Resident)

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

Rim Abohegab –Head of Human Resources (Non resident)

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

Ashiti Prosand – Head of Legal (Resident)

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

Statement on corporate governance practices (continued)

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

2.6 Senior Management's Profile (continued)

Jennifer Hau – Chief Operating Officer (Resident) - resigned on 28 February 2021

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.

Sarina Saul-Hassam – Chief Operating Officer (Resident) - appointed on 21 April 2021

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

Vassan Calleemootoo –Head of Global Markets (Resident)

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

Annick Meerun – Communications Manager (Resident)

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

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

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

Statement on corporate governance practices (continued)

3. Senior Management Appointments Procedures

3.1 Appointment of senior management roles

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

3.2 Succession Planning

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

3.3 Induction & Orientation for senior management

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

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

3.4 Continuous Training & Development

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

As employees of the Bank, senior managers attended mandatory trainings as well as specific that are critical in their roles. In addition to the mandatory training that all HSBC staffs including senior managers undergo, training on AML/ CFT matters was carried out by the Chief Compliance Officer and a training on Climate Risk / Change by the Chief Risk Officer in September and November 2021 respectively.

Statement on corporate governance practices (continued)

4. Management Duties, Remuneration and performance

4.1 Position statement and Statement of accountabilities

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

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

Statement on corporate governance practices (continued)

4. Management Duties, Remuneration and performance (continued)

4.2 Statement of Remuneration Policy

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

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

During the financial year 2021, Senior Management received emoluments, which includes salaries and other benefits as disclosed in note 34 on Related party transactions.

4.3 Conflict of Interest

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

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

4.4 Information Governance

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

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

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

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

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls

5.1 Risk Management

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

A comprehensive Enterprise-wide Risk Management Framework is applied throughout the Bank and across all risk types. It is underpinned by the Bank's risk culture and reinforced by the Group Values, Charter and Code of Conduct.

The framework fosters continuous monitoring of the risk environment, and an integrated evaluation of risks and their interactions. It also ensures a consistent approach to monitoring, managing and mitigating the risks the Bank accepts and incurs in its activities.

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

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

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

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.2 Risk Governance

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

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

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

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

5.3 Risk Roles and Responsibilities

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

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

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

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

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

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.3 Risk Roles and Responsibilities (continued)

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

- Risk Appetite: defined as the articulation of the level and types of risks that the Bank is willing to take in order to achieve its strategic objectives. The Risk Appetite assists senior management to make informed decisions on how to optimally allocate capital, funding and liquidity to finance strategic growth within acceptable risk levels, as well as supporting the monitoring of risk exposure.

- Risk Map: The Risk Map provides a point-in-time view of the Bank's risk profile across both financial and non-financial risk in line with the Bank's risk taxonomy and identified Thematic issues. It assesses the potential for these risks to have a material impact on the Bank's financial results, reputation and sustainability of its business. 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 and thematic analysis of risks which are often large scale events or external circumstances, difficult to predict and are often beyond the Bank ability to directly control. The Bank uses the report to assess the internal and external risk environment and provide a view of the issues that could threaten the execution of the Bank's strategy or operations.

  A 'top risk' is defined as a thematic issue which may arise across any number of risk map categories and which has the potential to have a material impact on the financial results, reputation or long-term business model of the Bank and may form and crystallise within a one-year time horizon.

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

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.3 Risk Roles and Responsibilities (continued)

As at 31 December 2021, the following risks were identified by the Bank as top and emerging risks;

- 'Non-Financial Risk' – the Bank continues to focus on continuous training such as upskilling of local Risk Stewards and proactive engagement with Regional Risk Steward. CRO remains accountable for Non-Financial Risk but recruitment is currently underway for additional resource, which will provide the Bank with dedicated operational risk oversight and resilience risk stewardship.

- Third Party Risk – 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 and it continues to improve.

- The Bank also continues to monitor the uncertain macro-economic environment, particularly in light of the ongoing pressures seen as a result of the ongoing Covid-19 pandemic.

- 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.

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

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.4 Internal Controls

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

- Policies and Procedures: The Bank's policies and procedures document its risk management requirements; they are reviewed at least annually for continued relevance and appropriateness to help ensure compliance with all relevant regulatory requirements and general good governance.

- Control Activities: applicable for all risk categories, control activities are the actions established through policies and procedures which ensure the Bank's risks are managed effectively and consistently across the Bank. Control activities are preventive, detective or limiting in nature, and can be manual or automated.

- The enterprise-wide risk management tools, such as the Risk Appetite, Risk Map, Top and Emerging Risks Report and Stress Testing, are used to assess, monitor and report on the effectiveness of the control activities, the residual risks and escalate where the risk appetite has, or is likely to be, breached. It is through these tools and the risk governance structure in place that the Management derives assurance that the internal control systems are effective and that any identified risks or deficiencies have monitoring and mitigating action plans in place.

- Systems and Infrastructure: systems or processes which support the identification, capture and exchange of information in a form and time-frame which enables employees to carry out their responsibilities.

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

Statement on corporate governance practices (continued)

5. Risk Governance and Internal Controls (continued)

5.5 Whistleblowing and HSBC Confidential

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

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

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

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

6. Reporting with integrity

6.1 Statement of management's responsibility

The Management is responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 2021, and the statement of profit or loss and other comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, and the notes to and forming part of the financial statements, which include a summary of significant accounting policies and other explanatory notes, in accordance with International Financial Reporting Standards and in compliance with the requirements of the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and regulations and guidelines of the Bank of Mauritius.

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

6.2 Performance and Outlook

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

6.3 Website

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

Statement on corporate governance practices (continued)

6.4 Related Party transactions

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

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

6.5 Health & safety

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

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

7. Audit

7.1 Internal audit

The Global Internal Audit function ("GBL INA"), provides independent and objective assurance as to whether the design and operational effectiveness of the Banks's framework of risk management, control and governance processes, as designed and represented by management, is adequate. The Group Head of Internal Audit reports to the Chairman of the Group Audit Committee and frequent meetings are held between them during the year. Executive management is responsible for ensuring that issues raised by the Global Internal Audit function are addressed within an appropriate and agreed timetable.

The Bank does not have a locally based internal audit function and in line with the HSBC group policy, falls under the purview of the Asia Pacific ("ASP") Internal Audit team of GBL INA. The Group's internal audit approach is risk based and the audit coverage is driven by the annual risk assessment results and regulatory expectations identified for the Bank. The internal audit function has direct access to the Audit Committee of the Bank and Management of the Bank and has no restrictions to access the employees or Management of the Bank. For the year under review, the Internal Audit had an opportunity to discuss matters directly with the Management of the Bank and the Chairman of the Audit Committee of the Bank. The 2021 Internal Audit plan was presented to the Audit Committee of the Bank and locally presented in the RMM of the Bank. Regular updates are provided on a monthly basis in the RMM.

Statement on corporate governance practices (continued)

7. Audit (continued)

7.2 External auditors

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

For 2021, PwC presented to management their annual audit plan, which was tabled at the Executive Committee and circulated to the senior management of the Bank.

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

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Audit fees for statutory audit	**4,584**	4,458	4,272
Fees for other services (Note a)	**100**	-	168
	4,684	4,458	4,440

Note a: Management has a policy on non-audit services which are provided by our External Auditors. Non-audit services were under continuous review throughout 2021 to determine whether they were permitted by reference to their nature, assessing potential threats and safeguards to auditor independence as well as the overall ratio of audit to non-audit fees. The principal area of non-audit fees performed by PwC relates to tax compliance and advisory work.

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders

8.1 Information for Key Stakeholders

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

Customers

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

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

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

Employees

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

Diversity and inclusion

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

Employee development

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

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.1 Information for Key Stakeholders (continued)

Giving employees a voice

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

Regulators and industry bodies

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

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

8.2 Reporting to the Bank

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

8.3 Employee share plans

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

8.4 All-employee share option plans

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

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

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.5 Discretionary awards

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

8.6 Profit remittance policy

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

8.7 Third Party Management Agreement

No third party management agreement presently exists.

8.8 Corporate Social Responsibility and Donations

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

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

Regarding the Bank's community role, disadvantaged children, fighting school failure and alleviating poverty have been major focus areas in 2021, especially in the context of the Covid-19 pandemic. The Bank continued its partnership with various organisations that support vulnerable children, youths and women. The Bank is also helping youths in higher education acquire the skills that are key to succeed in an increasingly uncertain world. In addition to sustaining communities, the Bank is deeply involved in environmental sustainability, supporting programmes to save the unique biodiversity of Mauritius.

Statement on corporate governance practices (continued)

8. Relationship with shareholders and key stakeholders (continued)

8.8 Corporate Social Responsibility and Donations (continued)

The Bank donated MUR3.2m (2020: MUR5.6m) to charities in Mauritius, which was paid in full during the year. There were no statutory charitable giving payments, contrary to 2020 (2020: MUR2.2m).

There were no political donations during the year.

The Bank is fully committed to helping the communities in which it operates to develop. Donations are designed to be long-term community investments, focusing on the Group's CS Pillars of Future Skills, Climate Solutions and Sustainable Finance, as well as on local priorities of alleviating poverty and school failure. A number of flagship multiyear partnerships have been set up so as to establish model demonstration projects that can inspire the authorities and other companies all over the country. The Bank's commitment to sustainability will continue throughout 2022 and beyond as it supports organisations in their endeavours to make Mauritius a better place. Mauritius remains important to the Bank and it is dedicated to creating a sustainable and enabling business environment for the best interest of all its stakeholders.

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

Date: 30 March 2022

Statement of compliance

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

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

Reporting Period: 31 December 2021

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

Bonnie Yi Jing Qiu
Chief Executive Officer

Rajiv Gopaul
Head of Finance

Date : 30 March 2022

Statement of management's responsibility for financial reporting

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

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

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

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

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

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

Bonnie Yi Jing Qiu
Chief Executive Officer

Rajiv Gopaul
Head of Finance

Date : 30 March 2022

Independent Auditor's Report

To the Directors of
The Hongkong and Shanghai Banking Corporation Limited

Report on the Audit of the Financial Statements

Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch (the "Bank") as at 31 December 2021, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards and in compliance with the Mauritian Companies Act 2001.

What we have audited

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

- the statement of financial position as at 31 December 2021;
- 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 to the financial statements, which include significant accounting policies and other explanatory information.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Bank in accordance with the International Code of Ethics for Professional Accountants (including International Independence Standards) issued by the International Ethics Standards Board for Accountants (the "IESBA Code"). We have fulfilled our other ethical responsibilities in accordance with the IESBA Code.

pwc

Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters

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

Key audit matter	How our audit addressed the key audit matter
Credit impairment provisions under IFRS 9 The determination of expected credit losses ('ECL') requires the use of complex credit risk methodologies based on the Bank's historic experience of the correlations between defaults and losses, borrower creditworthiness and economic conditions, which can result in limitations in their reliability to appropriately estimate ECL. Significant judgement and subjectivity are involved in determining whether these methodologies and their application in models remain appropriate. Significant management judgement also 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; • Likelihood of economic scenarios; and • Making post model adjustments, especially with respect to the current COVID-19 environment.	Given the complexity of the model used for the ECL computation, specialist teams with experience in modelling assisted us. We tested controls in place over the methodologies, their application, significant assumptions and data used in determining the ECL provision. These included controls over the approval of credit facilities, subsequent monitoring, determination of customer credit ratings and system reconciliations performed. We performed substantive audit procedures over the compliance of ECL methodologies with the requirements of IFRS 9. We assessed the appropriateness of methodologies used during the year, giving specific consideration to the impact of the Covid-19 pandemic and whether management judgmental adjustments were needed. Where management judgemental adjustments were made, we assessed ECL determined and the analysis supporting them. We selected a sample of Stage 1 and Stage 2 exposures and assessed whether the stage classification of these exposures was appropriate in terms of the Bank's criteria for SICR at the end of the reporting period. This procedure included the inspection of credit ratings at the end of the reporting period, relative to origination date.

Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Key Audit Matters (Continued)

Key audit matter (Continued)	How our audit addressed the key audit matter (Continued)
	We reviewed the minutes of the Impairment Governance Forum to assess management's challenge and discussions surrounding models, ECL output and the approval of any model adjustments. We further performed the following to assess the significant assumptions, data and disclosures: • We challenged the Bank's basis for determining significant assumptions and, where relevant, their interrelationships; • We involved our economic experts in assessing the reasonableness of the severity and likelihood of the economic scenarios used; • We performed substantive audit procedures over critical data used in the determination of ECL to ensure these are relevant and reliable; • For stage 3 exposures, we considered the impairment indicators, uncertainties and assumptions applied by management in their assessment of the recoverability of the exposure. We independently recalculated the ECL based on our assessment of the expected cash flows on a sample basis; and • We assessed the adequacy of the disclosures in relation to ECL made in the annual report.

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Other Information

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

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

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

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

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

Corporate Governance Report

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

Responsibilities of Management for the Financial Statements

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

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

Management is responsible for overseeing the financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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Independent Auditor's Report

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

Report on the Audit of the Financial Statements (Continued)

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

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

Report on Other Legal and Regulatory Requirements

Mauritian Companies Act 2001

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

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

Independent Auditor's Report

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

Report on Other Legal and Regulatory Requirements (Continued)

Mauritian Banking Act 2004

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers

30 March 2022

Michael Ho Wan Kau, licensed by FRC

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of profit or loss and other comprehensive income

for the year ended 31 December 2021

	Notes	**2021**	2020	2019
		MUR'000	MUR'000	MUR'000
Interest income		**556,093**	751,462	1,003,368
Interest expense		**(69,458)**	(176,983)	(382,848)
Net interest income	8	**486,635**	574,479	620,520
Fee and commission income		**162,043**	173,618	198,662
Fee and commission expense		**(34,327)**	(41,250)	(41,015)
Net fee and commission income	9	**127,716**	132,368	157,647
Net trading income	10	**216,207**	147,410	123,299
		830,558	854,257	901,466
Other operating income	11	**182,075**	186,174	267,329
Total operating income		**1,012,633**	1,040,431	1,168,795
Net impairment release/(charge) on financial assets	12	**322,830**	(609,456)	9,682
Personnel expenses	13	**(446,117)**	(402,643)	(417,571)
Operating lease expenses	14	**(3,626)**	(6,106)	(13,124)
Depreciation	22	**(43,788)**	(40,729)	(37,915)
Other expenses	15	**(491,833)**	(482,463)	(414,724)
Total expenses		**(985,364)**	(931,941)	(883,334)
Profit/(loss) before income tax		**350,099**	(500,966)	295,143
Income tax (expense)/credit	16	**(69,417)**	63,111	(112,110)
Profit/(loss) for the year		**280,682**	(437,855)	183,033
Other comprehensive income				
Items that will not be reclassified to profit or loss				
Remeasurements of retirement obligations	29	**207,168**	(297,975)	(99,205)
Deferred tax impact on remeasurements of retirement obligations	23	**(26,591)**	19,006	7,806
Gain on revaluation of land and buildings	22	**15,268**	6,580	-
Deferred tax impact on gain on revaluation of land and buildings	23	**(461)**	(308)	-
Net change in fair value of financial assets at fair value through other comprehensive income	21	**-**	(8,185)	(1,079)
		195,384	(280,882)	(92,478)
Items that may be reclassified to profit or loss				
Net change in fair value of financial assets at fair value through other comprehensive income	21	**(100,307)**	119,164	75,150
Deferred tax impact on change in fair value of financial assets at fair value through other comprehensive income		**(4,607)**	-	-
		(104,914)	119,164	75,150
Total other comprehensive income for the year		**90,470**	(161,718)	(17,328)
Total comprehensive income for the year		**371,152**	(599,573)	165,705

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of financial position
at 31 December 2021

	Notes	2021 MUR'000	2020 MUR'000	2019 MUR'000
ASSETS				
Cash and cash equivalents	17	**6,643,354**	6,443,248	3,997,601
Trading assets	18	**11,992**	6,062	1,975
Loans and advances to banks	19	**378,631**	264,052	332,422
Loans and advances to customers	20	**10,808,135**	14,333,854	15,865,325
Investment securities - fair value through other comprehensive income	21	**10,600,515**	8,313,010	7,762,913
Investment securities - Amortised cost	21	**148,173**	-	-
Other assets	24	**3,163,913**	2,439,861	1,944,645
Intangible assets		**3,392**	-	-
Property, plant and equipment	22	**345,243**	415,100	430,683
Deferred tax assets	23	**56,239**	105,548	46,823
Current tax assets	16	**-**	1,137	-
Total assets		**32,159,587**	32,321,872	30,382,387

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of financial position (continued)
at 31 December 2021

	Notes	2021 MUR'000	2020 MUR'000	2019 MUR'000
LIABILITIES				
Deposits from banks	25	**1,177,285**	747,792	672,989
Deposits from customers	26	**25,814,918**	22,778,413	19,467,367
Trading liabilities	18	**1,089**	3,220	3,770
Other borrowed funds	27	**1,083,503**	5,218,552	6,593,650
Current tax liabilities	16	**52,002**	-	76,090
Other liabilities	28	**1,372,155**	1,287,923	1,069,815
Total liabilities		**29,500,952**	30,035,900	27,883,681
Shareholder's funds				
Assigned capital	30	**794,150**	794,150	400,000
Retained earnings	30	**1,172,632**	707,398	1,347,030
Other reserves	30	**691,853**	784,424	751,676
Total shareholder's funds		**2,658,635**	2,285,972	2,498,706
Total liabilities and shareholder's funds		**32,159,587**	32,321,872	30,382,387

Approved on and authorised for issue on 30 March 2022

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Bonnie Yi Jing Qiu
Chief Executive Officer

Rajiv Gopaul
Head of Finance

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of changes in equity
for the year ended 31 December 2021

			Other Reserves					
	Assigned capital	Retained earnings	Reserves for own shares	Revaluation reserve	Statutory reserve	General banking reserve	Fair value reserve	Total shareholder's funds
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Balance at 01 January 2019	300,000	1,511,499	22,100	203,407	279,380	142,299	(20,824)	2,437,861
Total comprehensive income								
Profit for the year	-	183,033	-	-	-	-	-	183,033
Other comprehensive income								
Net change in fair value	-	-	-	-	-	-	74,071	74,071
Realisation of revaluation reserve to retained earnings	-	(694)	-	694	-	-	-	-
Remeasurements of retirement obligations	-	(99,205)	-	-	-	-	-	(99,205)
Tax on other comprehensive income	-	7,806	-	-	-	-	-	7,806
Total other comprehensive income	-	(92,093)	-	694	-	-	74,071	(17,328)
Total comprehensive income	-	90,940	-	694	-	-	74,071	165,705
Transactions with owner of the Bank								
Other movements during the year	100,000	(132,125)	2,810	-	27,455	-	-	(1,860)
Net change in fair value of share-based payment liability	-	(413)	413	-	-	-	-	-
Profit remittance to Head office	-	(103,000)	-	-	-	-	-	(103,000)
Transactions with owner of the Bank	100,000	(235,538)	3,223	-	27,455	-	-	(104,860)
Transfer to general banking reserve	-	(19,871)	-	-	-	19,871	-	-
Balance at 31 December 2019	400,000	1,347,030	25,323	204,101	306,835	162,170	53,247	2,498,706
Total comprehensive income								
Loss for the year	-	(437,855)	-	-	-	-	-	(437,855)
Other comprehensive income								
Net change in fair value	-	-	-	-	-	-	110,979	110,979
Realisation of revaluation reserve to retained earnings	-	1,880	-	(1,880)	-	-	-	-
Remeasurements of retirement obligations	-	(297,975)	-	-	-	-	-	(297,975)
Revaluation of land and buildings	-	-	-	6,580	-	-	-	6,580
Tax on other comprehensive income	-	19,006	-	(308)	-	-	-	18,698
Total other comprehensive income	-	(277,089)	-	4,392	-	-	110,979	(161,718)
Total comprehensive income	-	(714,944)	-	4,392	-	-	110,979	(599,573)
Transactions with owner of the Bank								
Other movements during the year	394,150	4,590	(13,942)	-	-	-	-	384,798
Net change in fair value of share-based payment liability	-	413	1,628	-	-	-	-	2,041
Transactions with owner of the Bank	394,150	5,003	(12,314)	-	-	-	-	386,839
Transfer from general banking reserve	-	70,309	-	-	-	(70,309)	-	-
Balance at 31 December 2020	**794,150**	**707,398**	**13,009**	**208,493**	**306,835**	**91,861**	**164,226**	**2,285,972**
Total comprehensive income								
Profit for the year	-	280,682	-	-	-	-	-	280,682
Other comprehensive income								
Net change in fair value	-	-	-	-	-	-	(100,307)	(100,307)
Realisation of revaluation reserve to retained earnings	-	1,968	-	(1,968)	-	-	-	-
Remeasurements of retirement obligations	-	207,168	-	-	-	-	-	207,168
Revaluation of land and buildings	-	-	-	15,268	-	-	-	15,268
Tax on other comprehensive income	-	(26,591)	-	(461)	-	-	(4,607)	(31,659)
Total other comprehensive income	-	182,545	-	12,839	-	-	(104,914)	90,470
Total comprehensive income	-	463,227	-	12,839	-	-	(104,914)	371,152
Transactions with owner of the Bank								
Other movements during the year	-	72	1,439	-	-	-	-	1,511
Net change in fair value of share-based payment liability	-	1,955	(1,955)	-	-	-	-	-
Transactions with owner of the Bank	-	2,027	(516)	-	-	-	-	1,511
Transfer to general banking reserve	-	(20)	-	-	-	20	-	-
Balance at 31 December 2021	**794,150**	**1,172,632**	**12,493**	**221,332**	**306,835**	**91,881**	**59,312**	**2,658,635**

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

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Statement of cash flows

for the year ended 31 December 2021

	Notes	**2021**	2020	2019
		MUR'000	MUR'000	MUR'000
Cash flows from operating activities				
Profit/(Loss) before income tax		**350,099**	(500,966)	295,143
Adjustments for:				
Depreciation	22	**43,788**	40,729	37,915
(Profit)/loss on disposal of property, plant and equipment	11	**(197)**	1,655	1,847
Profit on modification of lease		**-**	(807)	-
Net impairment (release)/charge on financial assets	12	**(322,830)**	609,456	(9,682)
Net interest income	8	**(486,635)**	(574,479)	(620,520)
Exchange differences in respect of cash and cash equivalents		**(378,778)**	421,812	163,430
		(794,553)	(2,600)	(131,867)
Changes in:				
Other assets	24	**(733,582)**	(485,590)	(40,492)
Other liabilities	28	**368,443**	(41,311)	(404,504)
Trading assets	18	**(5,930)**	(4,087)	(1,405)
Trading liabilities	18	**(2,131)**	(550)	1,640
Loans and advances to customers	20	**3,835,670**	934,081	(867,557)
Loans and advances to banks	19	**(113,824)**	67,560	51,568
Deposits from customers	26	**3,036,505**	3,311,046	611,778
Deposits from banks	25	**429,493**	74,803	94,249
Interest received		**565,655**	741,827	1,003,571
Interest paid		**(74,315)**	(196,667)	(376,467)
Other borrowed funds		**(4,133,804)**	(1,374,725)	1,851,465
		2,377,627	3,023,787	1,791,979
Tax refund/(paid)	16	**1,372**	(54,143)	(78,053)
Net cash from operating activities		**2,378,999**	2,969,644	1,713,926
Cash flows from investing activities				
Acquisition of intangible assets		**(3,392)**	-	-
Acquisition of property, plant and equipment	22	**(9,501)**	(19,423)	(18,991)
Proceeds from disposal of property, plant and equipment		**-**	-	40
Purchase of investment securities		**(7,225,981)**	(6,418,162)	(7,318,771)
Proceed from sale and maturity of investment securities		**4,701,700**	5,968,000	6,201,749
Net cash used in investing activities		**(2,537,174)**	(469,585)	(1,135,973)
Cash flows from financing activities				
Principal element of lease payments		**(19,253)**	(26,376)	(22,237)
Repatriation of profit		**-**	-	(103,000)
Capital injection		**-**	394,150	-
Net cash (used in)/from financing activities		**(19,253)**	367,774	(125,237)
Net change in cash and cash equivalents		**(177,428)**	2,867,833	452,716
Cash and cash equivalents at 01 January		**6,442,004**	3,995,983	3,706,698
Exchange differences in respect of cash and cash equivalents		**378,778**	(421,812)	(163,430)
Cash and cash equivalents at 31 December	33	**6,643,354**	6,442,004	3,995,984

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

1 Reporting entity

The Hongkong and Shanghai Banking Corporation Limited – Mauritius Branch (the 'Bank') is registered in the Republic of Mauritius as a foreign company and holds a banking licence issued by the Bank of Mauritius. The Bank is registered in Mauritius as a branch of The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong. The Bank's registered office is HSBC Centre, 18 CyberCity, Ebène, Mauritius. The Bank primarily is involved in corporate, treasury and retail banking.

2 Basis of preparation

(a) Compliance with International Financial Reporting Standards

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

(b) New and amended standards effective during the year ended 31 December 2021

There are no standards, interpretations or amendments to accounting standards that are effective for annual period beginning on 01 January 2021 and that had a material impact on the Bank's financial statements.

(c) New standards and interpretations not yet adopted

Certain new accounting standards, amendments to accounting standards and interpretations have been published that are not mandatory for 31 December 2021 reporting periods and have not been early adopted by the Bank. These standards, amendments or interpretations are not expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

2 Basis of preparation (continued)

(d) Basis of measurement

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

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

(e) Critical accounting estimates and judgments

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

(f) Going concern

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

(g) Rounding of amounts

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

2 Basis of preparation (continued)

(h) Segmental reporting

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

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

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

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

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

3. Summary of significant accounting policies

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

(a) Foreign currencies

(i) Functional and presentation currency

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

(ii) Transactions and balances

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

3. Summary of significant accounting policies (continued)

(a) Foreign currencies (continued)

(ii) Transactions and balances (continued)

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

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

(b) Interest

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(c) Fees and commission

Fees and commission income are earned from a diverse range of services provided by the Bank to its customers. The bank acts as principal in the majority of contracts with customers, with the exception of broking services. For most brokerage trades, the Bank acts as agent in the transaction and recognises broking income net of fees payable to other parties in the arrangement.

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

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

(d) Net trading income

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

(e) Lease payments

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(e) Lease payments (continued)

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

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

Extension and termination option

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

(f) Income tax

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

(i) Current tax

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

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

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

The Bank is also liable to pay a special levy on its leviable income (Net interest income and other income before deduction of expenses) derived during the year. Special levy is calculated at the rate of 4.5% on leviable income when leviable income is greater than MUR1.2bn, otherwise it is charged at 5.5%, subject always to a maximum cap at 1.5 times the amount paid in respect of the year ended 31 December 2017. The special levy is included in income tax expense and current liability in the financial statements.

3. Summary of significant accounting policies (continued)

(f) Income tax (continued)

(i) Current tax (continued)

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

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

(ii) Deferred tax

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

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

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

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

(g) Financial assets and liabilities

(i) Measurement methods

Amortised cost and effective interest rate

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

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(i) Measurement methods (continued)

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

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

(ii) Initial recognition and measurement

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

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

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

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(ii) Initial recognition and measurement (continued)

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

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

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

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

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

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

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

(iii) Classification and subsequent measurement of financial assets

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

- FVPL;
- FVOCI; or
- Amortised cost.

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

Debt instruments

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

Classification and subsequent measurement of debt instruments depend on:

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

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

Amortised cost

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

Fair value through other comprehensive income ("FVOCI")

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

Fair value through profit or loss ("FVPL")

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

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

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

Business model

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

SPPI

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

(iv) Classification and subsequent measurement of financial liabilities

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

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

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent

- Financial guarantee contracts and loan commitments (see note 3(u)).

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

3. Summary of significant accounting policies (continued)

(g) Financial assets and liabilities (continued)

(v) Offsetting

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

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

(vi) Derecognition

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

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

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

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

(h) Impairment

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

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

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

3. Summary of significant accounting policies (continued)

(h) Impairment (continued)

Statutory and other regulatory requirements

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(i) Write-off of loans and advances

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

(j) Reversals of impairment

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

(k) Renegotiated loans and advances

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

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

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.

3. Summary of significant accounting policies (continued)

(k) Renegotiated loans and advances (continued)

Other than originated credit-impaired loans, all other modified loans could be transferred out of stage 3 if they no longer exhibit any evidence of being credit-impaired and, in the case of renegotiated loans, there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, over the minimum observation period of one year, and there are no other indicators of impairment. These loans could be transferred to stage 1 or 2 by comparing the risk of a default occurring at the reporting date (based on the modified contractual terms) and the risk of a default occurring at initial recognition (based on the original, unmodified contractual terms). Any amount written off as a result of the modification of contractual terms would not be reversed. As at 31 December 2021, the Bank had renegotiated loans in its portfolio as disclosed in Note 35 (b)(iii)(J).

(l) Cash and cash equivalents

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

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

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

(m) Trading assets and liabilities

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

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

- 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.

3. Summary of significant accounting policies (continued)

(n) Intangible assets

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

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

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

(o) Property, plant and equipment

(i) Recognition and measurement

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

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

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

(ii) Subsequent costs

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

(iii) Depreciation

Depreciation is calculated to write off the costs of items of property, plant and equipment less their estimated

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

Buildings	- 50 years
Furniture and equipment	- 5 years to 10 years
Computer equipment	- 3 years to 5 years
Motor vehicles	- 5 years

3. Summary of significant accounting policies (continued)

(o) Property, plant and equipment (continued)

(iii) Depreciation (continued)

Items below MUR10,000 have immediate depreciation and items less than MUR5,000 are not capitalised.

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

(iv) Revaluation of freehold land and buildings

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(p) Impairment of non-financial assets

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

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

(q) Deposits and other borrowed funds

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

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

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

(r) Provisions

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

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

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

3. Summary of significant accounting policies (continued)

(s) Employee benefits

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

(i) Defined contribution plans

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

(ii) Defined benefit plans

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

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

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

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

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

3. Summary of significant accounting policies (continued)

(s) Employee benefits (continued)

(ii) Defined benefit plans (continued)

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

(iii) State pension plan

Contributions to the Contribution Sociale Généralisée ("CSG") are recognised in profit or loss in the period in which they fall due.

(iv) Share based payment

The Bank grants restricted shares of HSBC Holdings plc to certain employees under various vesting. Upon vesting, the HSBC Holdings plc delivers the shares to the employees. The Bank's liability against HSBC Holdings plc under such arrangements is measured at fair value at the end of each reporting period. The changes in fair value are recognised in "Other reserves" in each period. For restricted shares, the fair value is determined by using HSBC Holdings plc shares closing price as at year end.

For share options granted to employees of the Bank directly by HSBC Holdings plc, the compensation expense to be spread over the vesting period is determined by reference to the fair value of the options on grant date, and the impact of any nonmarket vesting conditions such as option lapses. The expense is recognised over the vesting period. The corresponding amount is credited to 'Reserve for own shares' in equity.

(v) Short-term employee benefits

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. A liability is recognised for the amount expected to be paid under short-term cash bonus or profit sharing plans if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

(t) Assigned capital

Assigned capital represents the capital contribution made by the Head Office to the Bank. Incremental external costs directly attributable to raising additional capital are shown in equity as a deduction, net of tax, from the proceeds.

3. Summary of significant accounting policies (continued)

(u) Contingent liabilities, contractual commitments and guarantees

(i) Contingent liabilities

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

(ii) Financial guarantee contracts

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

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

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

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

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

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

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

3. Summary of significant accounting policies (continued)

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

(iii) Acceptances and letters of credit

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

(v) Comparatives

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

4. Use of judgements and estimates

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

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

(i) Judgements

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

(ii) Assumption and estimation uncertainties

Measurement of the expected credit loss allowance

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

4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

Measurement of the expected credit loss allowance (continued)

A number of significant judgements are also required in applying the accounting requirements for measuring ECL. Despite a general recovery in economic conditions during 2021, the level of estimation uncertainty and judgement has remained high during 2021 as a result of the ongoing economic effects of the Covid-19 pandemic and other sources of economic instability, including significant judgements relating to:

- Determining criteria for significant increase in credit risk;
- Choosing appropriate models and assumptions for the measurement of ECL;
- Establishing the number and relative weightings of forward-looking scenarios for each type of product/market and the associated ECL; and
- Establishing groups of similar financial assets for the purposes of measuring ECL;

The Probability of Default ("PD"), Loss Given Default ("LGD") and the Exposure at Default ("EAD") models which support these determinations are reviewed regularly in light of differences between loss estimates and actual loss experience. The impact of economic scenarios on PD is modelled at a portfolio level. Historical relationships between observed default rates and macroeconomic variables are integrated into IFRS 9 ECL estimates by using economic response models. The impact of these scenarios on PD is modelled over a period equal to the remaining maturity of underlying asset or assets. The impact on LGD is modelled for mortgage portfolios by forecasting future loan-to-value ('LTV') profiles for the remaining maturity of the asset by using forecasts and applying the corresponding LGD expectation.

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

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

Sensitivity analysis of ECL estimates

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

Average of 5 year forecast period 1Q2022 - 4Q2026	%
GDP growth rate	**5.0**
Inflation	**1.5**

4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

Measurement of the expected credit loss allowance (continued)

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

	Upside (2022-2026)	Downside (2022-2026)
GDP growth rate (%)	6.2	4.0
Inflation (%)	1.8	1.2

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

	Severe Downside (2022-2026)
GDP growth rate (%)	2.6
Inflation (%)	1.9

Retirement Benefit Obligations

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

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

The sensitivity analysis for the key assumptions are disclosed in Note 29.

Fair Value of Financial Instruments

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

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

5 Fair value of financial instruments

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

(i) Valuation of financial instruments

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

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

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

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

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

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

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

5 Fair value of financial instruments (continued)

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

The table below analyses financial instruments measured at fair value at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised:

There has been no transfer between the fair value hierarchy level during the year.

		Quoted market price	Using observable inputs	With significant unobservable inputs	
		Level 1	Level 2	Level 3	Total
At 31 December 2021	Note	MUR'000	MUR'000	MUR'000	MUR'000
Trading assets	18	**-**	**455**	**11,537**	**11,992**
Investment securities - fair value through other comprehensive income	21	**-**	**10,600,515**	**-**	**10,600,515**
Trading liabilities	18	**-**	**352**	**737**	**1,089**
At 31 December 2020					
Trading assets	18	-	3,162	2,900	6,062
Investment securities	21	-	8,313,010	-	8,313,010
Trading liabilities	18	-	3,141	79	3,220
At 31 December 2019					
Trading assets	18	-	1,057	918	1,975
Investment securities	21	-	7,754,728	8,185	7,762,913
Trading liabilities	18	-	1,777	1,993	3,770

IFRS 13 reconciliation for Level 3

	Assets		Liabilities
	Investment securities	Trading assets	Trading liabilities
	MUR'000	MUR'000	MUR'000
At 01 January 2019	9,264	111	1,542
Transfers in	-	10,881	18,861
Settlements	-	(10,154)	(19,189)
Fair value (loss)/gain	(1,079)	80	779
At 31 December 2019	8,185	918	1,993
Transfers in	-	9,014	6,734
Settlements	-	(7,080)	(8,761)
Fair value (loss)/gain	(8,185)	48	113
At 31 December 2020	-	2,900	79
Transfers in	**-**	**23,301**	**8,257**
Settlements	**-**	**(14,620)**	**(7,520)**
Fair value loss	**-**	**(45)**	**(79)**
At 31 December 2021	**-**	**11,536**	**737**

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

5 Fair value of financial instruments (continued)

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

The following table summarises the quantitative information about the significant unobservable inputs used in

Description	Fair value at 31-Dec-21 MUR '000	31-Dec-20 MUR '000	31-Dec-19 MUR '000	Unobservable Input	Range of Inputs 2021	2020	2019	Relationship of unobservable inputs to fair value
Foreign exchange derivative assets	11,537	2,900	918	Forward Points	39.25 – 43.92	36.27 – 40.57	34.00 – 36.63	Sensitivity of the foreign exchange assets and liabilities are monitored on a net basis. A change of 1 basis point in interest rate would change fair value by +/- MUR 553.
Foreign exchange derivative liabilities	737	79	1,993	Forward Points	39.25 – 43.92	36.27 – 40.57	34.00 – 36.63	
FVOCI investments	-	-	8,185	Net Asset Value per share (NAV)	-	MUR7.48	MUR7.83	

The discounted cash flow method has been used to fair value the foreign exchange derivative assets and liabilities, whether the forward rates have been used as the discount factor.

For the FVOCI investments, the investment fair value is nil as at the reporting date.

5 Fair value of financial instruments (continued)

(iii) Financial instruments not measured at fair value

The table below sets out fair values of financial instruments not measured at fair value and analyses them by the level in the fair value hierarchy into which each fair value measurement is categorised.

		Fair values			
		Valuation techniques			
	Carrying amount	Quoted market price	Using observable inputs	With significant unobservable inputs	Total
		Level 1	Level 2	Level 3	
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Assets and Liabilities at 31 Dec 2021					
Assets					
Loan and advances to banks	**378,631**	**-**	**378,631**	**-**	**378,631**
Loan and advances to customers	**10,808,135**	**-**	**10,876,672**	**-**	**10,876,672**
Investment securities at amortised cost	**148,173**	**-**	**149,113**	**-**	**149,113**
Liabilities					
Deposits from banks	**1,177,285**	**-**	**1,177,285**	**-**	**1,177,285**
Deposits from customers	**25,814,918**	**-**	**25,814,918**	**-**	**25,814,918**
Other borrowed funds	**1,083,503**	**-**	**1,083,559**	**-**	**1,083,559**
Assets and Liabilities at 31 Dec 2020					
Assets					
Loan and advances to banks	264,052	-	264,052	-	264,052
Loan and advances to customers	14,333,854	-	14,196,909	-	14,196,909
Liabilities					
Deposits from banks	747,792	-	747,792	-	747,792
Deposits from customers	22,778,413	-	22,778,413	-	22,778,413
Other borrowed funds	5,218,552	-	5,228,204	-	5,228,204
Assets and Liabilities at 31 Dec 2019					
Assets					
Loan and advances to banks	332,422	-	332,422	-	332,422
Loan and advances to customers	15,865,325	-	16,084,821	-	16,084,821
Liabilities					
Deposits from banks	672,989	-	672,989	-	672,989
Deposits from customers	19,467,367	-	19,467,367	-	19,467,367
Other borrowed funds	6,593,650	-	6,620,142	-	6,620,142

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

Assets	Liabilities
Cash and cash equivalents	Other liabilities including:
Other Assets including:	▪ Acceptance and endorsements
▪ Mandatory balances with central bank	▪ Short-term payables
▪ Balances due in the clearing	
▪ Short-term receivables	
▪ Investment securities at amortised cost	

5 Fair value of financial instruments (continued)

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

Bases of valuation

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

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

Loans and advances to banks and customers

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

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

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

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

Deposits from banks and customer accounts

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

6 Classification of Financial assets and Financial liabilities

See accounting policies in Note 3 (g)(ii). The table below provides reconciliation between line items in the statement of financial position and categories of financial instruments. There has been no reclassification between the categories of financial instruments during the year.

	IFRS 9 Measurement Category	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Assets				
Cash and cash equivalents	Amortised cost	**6,643,354**	6,443,248	3,997,601
Trading assets	FVPL	**11,992**	6,062	1975
Loans and advances to banks	Amortised cost	**378,631**	264,052	332,422
Loans and advances to customers	Amortised cost	**10,808,135**	14,333,854	15,865,325
Investment securities	FVOCI	**10,600,515**	8,313,010	7,762,913
Investment securities	Amortised cost	**148,173**	-	-
Other assets	Amortised cost	**3,159,423**	2,433,581	1,936,307
		31,750,223	31,793,807	29,896,543
Liabilities				
Deposits from banks	Amortised cost	**1,177,285**	747,792	672,989
Deposits from customers	Amortised cost	**25,814,918**	22,778,413	19,467,367
Trading liabilities	FVPL	**1,089**	3,220	3,770
Other borrowed funds	Amortised cost	**1,083,503**	5,218,552	6,593,650
Other liabilities	Amortised cost	**1,371,898**	1,046,443	635,428
		29,448,693	29,794,420	27,373,204

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

7 Segmental reporting

The information on pages 103 to 107 is provided for in accordance with the Bank of Mauritius *Guideline on Segmental Reporting.*

The financial statements incorporate both segments with a functional currency of Mauritian Rupees (MUR).

A. Statement of financial position

		Segment A			Segment B			Bank		
		2021	2020	2019	**2021**	2020	2019	**2021**	2020	2019
ASSETS	Note	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000
Cash and cash equivalents	17	**2,633,162**	3,371,429	1,762,404	**4,010,192**	3,071,819	2,235,197	**6,643,354**	6,443,248	3,997,601
Trading assets	18	**11,019**	6,054	1,288	**973**	8	687	**11,992**	6,062	1,975
Loans and advances to banks	19	**267,482**	167,142	248,848	**111,149**	96,910	83,574	**378,631**	264,052	332,422
Loans and advances to customers	20	**8,990,024**	9,496,618	10,748,161	**1,818,111**	4,837,236	5,117,164	**10,808,135**	14,333,854	15,865,325
Investment securities - fair value through other comprehensive income	21	**10,600,515**	8,313,010	7,762,913	**-**	-	-	**10,600,515**	8,313,010	7,762,913
Investment securities - Amortised cost	21	**148,173**	-	-	**-**	-	-	**148,173**	-	-
Intangible assets		**3,392**	-	-	**-**	-	-	**3,392**	-	-
Property, plant and equipment	22	**345,243**	415,100	430,683	**-**	-	-	**345,243**	415,100	430,683
Deferred tax assets	23	**56,239**	105,548	46,823	**-**	-	-	**56,239**	105,548	46,823
Other assets	24	**2,144,613**	1,752,005	1,810,279	**1,019,300**	687,856	134,366	**3,163,913**	2,439,861	1,944,645
Current tax assets	16	**-**	4,719	-	**-**	(3,582)	-	**-**	1,137	-
Total assets		**25,199,862**	23,631,625	22,811,399	**6,959,725**	8,690,247	7,570,988	**32,159,587**	32,321,872	30,382,387
LIABILITIES										
Deposit from banks	25	**58,594**	32,115	47,646	**1,118,691**	715,677	625,343	**1,177,285**	747,792	672,989
Deposit from customers	26	**22,181,763**	20,529,449	18,227,151	**3,633,155**	2,248,964	1,240,216	**25,814,918**	22,778,413	19,467,367
Trading liabilities	18	**-**	-	1,974	**1,089**	3,220	1,796	**1,089**	3,220	3,770
Other borrowed funds	27	**1,083,503**	1,970,749	1,800,500	**-**	3,247,803	4,793,150	**1,083,503**	5,218,552	6,593,650
Current tax liabilities	16	**52,002**	-	71,032	**-**	-	5,058	**52,002**	-	76,090
Other liabilities	28	**352,761**	605,501	948,156	**1,019,394**	682,422	121,659	**1,372,155**	1,287,923	1,069,815
Total liabilities		**23,728,623**	23,137,814	21,096,459	**5,772,329**	6,898,086	6,787,222	**29,500,952**	30,035,900	27,883,681
Shareholder's funds										
Assigned capital	30	**794,150**	794,150	400,000	**-**	-	-	**794,150**	794,150	400,000
Retained earnings	30	**1,172,632**	707,398	1,347,030	**-**	-	-	**1,172,632**	707,398	1,347,030
Other reserves	30	**691,853**	784,424	751,676	**-**	-	-	**691,853**	784,424	751,676
Total shareholder's funds		**2,658,635**	2,285,972	2,498,706	**-**	-	-	**2,658,635**	2,285,972	2,498,706
Total liabilities and shareholder's funds		**26,387,258**	25,423,786	23,595,165	**5,772,329**	6,898,086	6,787,222	**32,159,587**	32,321,872	30,382,387

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

7 Segmental reporting (continued)

B. Statement of profit or loss and other comprehensive income

		Segment A			Segment B			Bank		
		2021	2020	2019	**2021**	2020	2019	**2021**	2020	2019
	Notes	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000
Interest income		**542,554**	678,579	872,333	**13,539**	72,883	131,035	**556,093**	751,462	1,003,368
Interest expense		**(62,853)**	(126,887)	(239,411)	**(6,605)**	(50,096)	(143,437)	**(69,458)**	(176,983)	(382,848)
Net interest income	8	**479,701**	551,692	632,922	**6,934**	22,787	(12,402)	**486,635**	574,479	620,520
Fee and commission income		**126,749**	140,838	154,513	**35,294**	32,780	44,149	**162,043**	173,618	198,662
Fee and commission expense		**(34,323)**	(39,192)	(39,020)	**(4)**	(2,058)	(1,995)	**(34,327)**	(41,250)	(41,015)
Net fee and commission income	9	**92,426**	101,646	115,493	**35,290**	30,722	42,154	**127,716**	132,368	157,647
Net trading income	10	**216,207**	147,410	123,299	**-**	-	-	**216,207**	147,410	123,299
		788,334	800,748	871,714	**42,224**	53,509	29,752	**830,558**	854,257	901,466
Other operating income	11	**182,075**	186,174	267,329	**-**	-	-	**182,075**	186,174	267,329
Total operating income		**970,409**	986,922	1,139,043	**42,224**	53,509	29,752	**1,012,633**	1,040,431	1,168,795
Net impairment release/(charge) on financial assets	12	**322,830**	(609,456)	9,682	**-**	-	-	**322,830**	(609,456)	9,682
Personnel expenses	13	**(420,632)**	(390,564)	(406,134)	**(25,485)**	(12,079)	(11,437)	**(446,117)**	(402,643)	(417,571)
Operating lease expenses	14	**(3,626)**	(6,106)	(13,124)	**-**	-	-	**(3,626)**	(6,106)	(13,124)
Depreciation	22	**(43,788)**	(40,729)	(37,915)	**-**	-	-	**(43,788)**	(40,729)	(37,915)
Other expenses	15	**(474,157)**	(478,666)	(411,061)	**(17,676)**	(3,797)	(3,663)	**(491,833)**	(482,463)	(414,724)
Total expenses		**(942,203)**	(916,065)	(868,234)	**(43,161)**	(15,876)	(15,100)	**(985,364)**	(931,941)	(883,334)
Profit/(loss) before income tax		**351,036**	(538,599)	280,491	**(937)**	37,633	14,652	**350,099**	(500,966)	295,143
Income tax (expense)/ credit	16	**(69,417)**	64,993	(111,669)	**-**	(1,882)	(441)	**(69,417)**	63,111	(112,110)
Profit/(loss) for the year		**281,619**	(473,606)	168,822	**(937)**	35,751	14,211	**280,682**	(437,855)	183,033

7 Segmental reporting (continued)

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

	Segment A			Segment B			Bank		
	2021	2020	2019	**2021**	2020	2019	**2021**	2020	2019
	MUR'000	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000
Other comprehensive income, net of tax									
Items that will not be reclassified to profit or loss									
Remeasurements of retirement obligations	**207,168**	(297,975)	(99,205)	**-**	-	-	**207,168**	(297,975)	(99,205)
Related tax on remeasurements of retirement obligations	**(26,591)**	19,006	7,806	**-**	-	-	**(26,591)**	19,006	7,806
Gain on revaluation of land and buildings	**15,268**	6,580	-	**-**	-	-	**15,268**	6,580	-
Related tax on gain on revaluation of land and buildings	**(461)**	(308)	-	**-**	-	-	**(461)**	(308)	-
Net change in fair value of financial assets at fair value through other comprehensive income	**-**	(8,185)	(1,079)	**-**	-	-	**-**	(8,185)	(1,079)
	195,384	(280,882)	(92,478)	**-**	-	-	**195,384**	(280,882)	(92,478)
Items that may be reclassified to profit or loss									
Net change in fair value of financial assets at fair value through other comprehensive income	**(100,307)**	119,164	75,150	**-**	-	-	**(100,307)**	119,164	75,150
Deferred tax impact on change in fair value of financial assets at fair value through other comprehensive income	**(4,607)**	-	-	**-**	-	-	**(4,607)**	-	-
	(104,914)	119,164	75,150	**-**	-	-	**(104,914)**	119,164	75,150
Other comprehensive income for the year	**90,470**	(161,718)	(17,328)	**-**	-	-	**90,470**	(161,718)	(17,328)
Total comprehensive income for the year	**372,089**	(635,324)	151,494	**(937)**	35,751	14,211	**371,152**	(599,573)	165,705

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

7 Segmental reporting (continued)

Business segments

The Bank comprises the following main business segments:

▪ *Wealth and Personal Banking*	*Includes loans, deposits and other transactions and balances with retail customers.*
▪ *Wholesale Banking*	*Includes loans, deposits and other transactions and balances with corporate customers.*
▪ *Global Banking and Markets*	*Global Banking 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.*

2021		**Wealth and Personal Banking**	**Wholesale Banking**	**Global Banking and Markets**	**Corporate Centre**	**Consolidated**
		MUR'000	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
External revenue:	*Notes*					
Net interest income	8	**243,319**	**161,999**	**3,201**	**78,116**	**486,635**
Net fee and commission income	9	**41,878**	**62,232**	**26,200**	**(2,594)**	**127,716**
Net trading income	10	**16,437**	**41,420**	**124,806**	**33,544**	**216,207**
Revenue		**301,634**	**265,651**	**154,207**	**109,066**	**830,558**
Other operating income	11	**4,787**	**44**	**-**	**177,244**	**182,075**
Total segment operating income		**306,421**	**265,695**	**154,207**	**286,310**	**1,012,633**
Segment result		**(123,126)**	**319,976**	**101,898**	**51,351**	**350,099**
Income tax expense	16					**(69,417)**
Profit for the year						**280,682**
Segment assets		**17,633,719**	**6,898,426**	**14,527**	**7,612,915**	**32,159,587**
Segment liabilities		**17,267,387**	**5,321,945**	**(37,822)**	**6,949,442**	**29,500,952**

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

7 Segmental reporting (continued)

Business segments (continued)

2020		Wealth and Personal Banking	Wholesale Banking	Global Banking and Markets	Corporate Centre	Consolidated
		MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
External revenue:	*Notes*					
Net interest income	8	310,155	214,797	4,377	45,150	574,479
Net fee and commission income	9	49,391	58,249	26,369	(1,641)	132,368
Net trading income	10	17,802	31,464	95,984	2,160	147,410
Revenue		377,348	304,510	126,730	45,669	854,257
Other operating income	11	5,339	16,014	39	164,782	186,174
Total segment operating income		382,687	320,524	126,769	210,451	1,040,431
Segment result		(114,296)	(442,749)	46,118	9,961	(500,966)
Income tax expense	16					63,111
Loss for the year						(437,855)
Segment assets		15,974,840	9,970,009	8,591	6,368,432	32,321,872
Segment liabilities		15,653,910	8,451,825	(19,701)	5,949,866	30,035,900

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

8. Net interest income

Bank (Total)	2021 MUR'000	2020 MUR'000	2019 MUR'000
Interest income			
Recognised on financial assets measured at amortised cost			
Cash and cash equivalents	**6,514**	16,852	46,165
Investment securities	**398**	-	-
Loans and advances to banks	**292**	3,411	5,657
Loans and advances to customers	**376,262**	501,045	698,533
Other	**1,392**	357	3,481
Recognised on financial assets measured at FVOCI			
Investment securities	**171,235**	229,797	249,532
Total interest income	**556,093**	751,462	1,003,368
Interest expense			
Recognised on financial liabilities measured at amortised cost			
Deposits from banks	**1,573**	2,200	2,397
Deposits from customers	**59,894**	105,215	215,632
Other borrowed funds	**7,991**	67,900	160,384
Other			
Other (including interest expense under IFRS 16)	**-**	1,668	4,435
Total interest expense	**69,458**	176,983	382,848
Net interest income	**486,635**	574,479	620,520
Segment A			
Interest income			
Recognised on financial assets measured at amortised cost			
Cash and cash equivalents	**2,508**	7,561	16,470
Investment securities	**398**	-	-
Loans and advances to banks	**292**	3,261	5,249
Loans and advances to customers	**366,761**	437,605	597,653
Other	**1,360**	355	3,429
Recognised on financial assets measured at FVOCI			
Investment securities	**171,235**	229,797	249,532
Total interest income	**542,554**	678,579	872,333
Interest expense			
Recognised on financial liabilities measured at amortised cost			
Deposits from banks	**1,546**	2,176	2,372
Deposits from customers	**57,162**	100,118	204,469
Other borrowed funds	**4,145**	22,925	28,135
Other			
Other (including interest expense under IFRS 16)	**-**	1,668	4,435
Total interest expense	**62,853**	126,887	239,411
Net interest income	**479,701**	551,692	632,922
Segment B			
Interest income			
Recognised on financial assets measured at amortised cost			
Cash and cash equivalents	**4,006**	9,291	29,695
Loans and advances to banks	**-**	150	408
Loans and advances to customers	**9,502**	63,440	100,880
Other	**31**	2	52
Total interest income	**13,539**	72,883	131,035
Interest expense			
Recognised on financial liabilities measured at amortised cost			
Deposits from banks	**26**	24	25
Deposits from customers	**2,732**	5,097	11,163
Other borrowed funds	**3,847**	44,975	132,249
Total interest expense	**6,605**	50,096	143,437
Net interest income	**6,934**	22,787	(12,402)

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

9 Net fee and commission income

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Fee and commission income			
Retail banking customer fees	**72,960**	87,829	87,073
Corporate banking related fees	**46,107**	54,534	76,562
Financial guarantee contracts	**11,566**	4,444	3,764
Global custody	**17,358**	18,810	24,009
Other	**14,052**	8,001	7,254
Total fee and commission income	**162,043**	173,618	198,662
Fee and commission expense			
Retail banking customer fees	**31,084**	38,829	37,883
Corporate banking related fees	**701**	338	1,093
Other	**2,542**	2,083	2,039
Total fee and commission expense	**34,327**	41,250	41,015
Net fee and commission income	**127,716**	132,368	157,647
Segment A			
Fee and commission income			
Retail banking customer fees	**72,115**	86,983	86,142
Corporate banking related fees	**22,208**	46,366	63,066
Financial guarantee contracts	**11,485**	4,298	3,665
Global custody	**13,936**	85	122
Other	**7,005**	3,106	1,518
Total fee and commission income	**126,749**	140,838	154,513
Fee and commission expense			
Retail banking customer fees	**31,080**	38,815	37,864
Corporate banking related fees	**701**	325	1,093
Other	**2,542**	52	63
Total fee and commission expense	**34,323**	39,192	39,020
Net fee and commission income	**92,426**	101,646	115,493
Segment B			
Fee and commission income			
Retail banking customer fees	**845**	846	931
Corporate banking related fees	**23,899**	8,168	13,496
Financial guarantee contracts	**81**	146	99
Global custody	**3,422**	18,725	23,887
Other	**7,047**	4,895	5,736
Total fee and commission income	**35,294**	32,780	44,149
Fee and commission expense			
Retail banking customer fees	**4**	14	19
Corporate banking related fees	**-**	13	-
Other	**-**	2,031	1,976
Total fee and commission expense	**4**	2,058	1,995
Net fee and commission income	**35,290**	30,722	42,154

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

10 Net trading income

Bank (Total) and Segment A	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Foreign exchange	**216,150**	146,795	122,166
Net revaluation gain on financial instruments	**57**	615	1,133
	216,207	147,410	123,299

11 Other operating income

Bank (Total) and Segment A	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Intercompany recharges	**176,677**	190,668	234,775
Rental income	**4,810**	5,100	4,774
Gain/(loss) on disposal of property plant and equipment	**197**	(1,655)	(1,847)
Loss on remeasurements of ROU	**-**	(10,608)	-
Gain on disposal of investment securities	**-**	331	24,038
Other	**391**	2,338	5,589
	182,075	186,174	267,329

Intercompany recharges relate to regionally allocated cost and IT costs.

12 Net impairment release/(charge) on financial assets

Bank (Total) and Segment A	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Release/(charge) for impairment losses for the year:			
Loans and advances to customers	**309,951**	(596,944)	10,783
Investment securities	**11,705**	(11,043)	(239)
Loans and advances to banks	**757**	(765)	(3)
Loan commitments and financial guarantees	**386**	(675)	(868)
Other assets	**31**	(29)	9
	322,830	(609,456)	9,682

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

13 Personnel expenses

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Wages and salaries	**336,898**	310,264	320,730
Compulsory social security obligations	**17,413**	10,958	9,003
Defined contribution plan costs (Note 29)	**5,253**	4,834	16,720
Equity-settled share based payments	**1,922**	2,060	1,308
Defined benefit plan costs (Note 29)	**27,894**	26,357	38,315
Other personnel expenses	**56,737**	48,170	31,495
	446,117	402,643	417,571
Segment A			
Wages and salaries	**317,652**	300,666	311,321
Compulsory social security obligations	**16,418**	10,607	8,700
Contributions to defined contributions plans	**4,953**	4,778	16,619
Equity-settled share based payments	**1,812**	2,059	1,308
Increase in liability for defined benefit plans	**26,301**	24,738	37,138
Other personnel expenses	**53,496**	47,716	31,048
	420,632	390,564	406,134
Segment B			
Wages and salaries	**19,246**	9,598	9,409
Compulsory social security obligations	**995**	351	303
Contributions to defined contributions plans	**300**	56	101
Equity-settled share based payments	**110**	1	
Increase in liability for defined benefit plans	**1,594**	1,619	1,177
Other personnel expenses	**3,240**	454	447
	25,485	12,079	11,437

14 Operating lease expenses

Non-cancellable operating lease rentals are payable as follows:

	2021	2020	2019
Bank (Total) and Segment A	**MUR'000**	MUR'000	MUR'000
Minimum rental recognised in profit or loss	**3,626**	6,106	13,124
Operating lease commitments			
Future minimum rentals to be paid:			
- Less than one year	**3,626**	6,106	7,479
- Between one and five years	**-**	-	8,442
Total minimum rentals payable	**3,626**	6,106	15,921

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

14 Operating lease expenses (continued)

The leasing arrangements that the Bank have are mainly on a number of premises and office equipment. The premises are used for residence of expatriate staff, office, branches and ATMs. There is no motor vehicle under lease. The arrangements are under operating leases for a fixed term with an option to renew. The rental may increase yearly, at an agreed interval or at renewal based on the local price index but does not exceed 10% per annum.

15 Other expenses

The other expenses are mainly head office charges.

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Information and technology costs	**17,977**	19,786	16,924
Maintenance of premises costs	**19,019**	18,699	24,138
Other administrative expenses	**120,781**	131,581	124,825
Intercompany recharges	**176,225**	190,668	234,775
Other expenses	**157,831**	121,729	14,062
	491,833	482,463	414,724
Segment A			
Information and technology costs	**16,950**	19,397	16,662
Maintenance of premises costs	**17,932**	18,695	24,124
Other administrative expenses	**113,881**	130,185	123,121
Intercompany recharges	**176,225**	190,668	234,775
Other expenses	**149,169**	119,721	12,379
	474,157	478,666	411,061
Segment B			
Information and technology costs	**1,027**	389	262
Maintenance of premises costs	**1,087**	4	14
Other administrative expenses	**6,900**	1,396	1,704
Other expenses	**8,662**	2,008	1,683
	17,676	3,797	3,663

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

16 Income tax

Bank (Total)	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Current tax expense/(credit)			
Current year:			
Income tax	**51,767**	(23,084)	105,959
Deferred tax	**17,650**	(40,027)	6,151
Total tax expense/(credit) per statement of profit or loss and other comprehensive income	**69,417**	(63,111)	112,110
Reconciliation of effective tax rate			
Profit/(loss) before income tax per statement of profit or loss and other comprehensive income	**350,099**	(500,966)	295,143
Income tax at 7%/5%/(17%/3%)	**17,505**	(35,820)	48,123
Special levy on banks	**53,322**	-	64,793
Effect of non-deductible expenses	**174**	(152)	553
Overprovision of income tax in prior year	**(1,555)**	(30,174)	(8,465)
(Over)/(under) provision of deferred tax	**(29)**	-	2,674
CSR	**-**	4,478	-
Difference in rates	**-**	-	(754)
(Over)/under provision of tax in current year	**-**	(1,443)	5,186
	69,417	(63,111)	112,110
Current Tax Liabilities/(Assets)			
As 01 January	**(1,137)**	76,090	48,184
Charge for the year	**51,767**	(23,084)	105,959
Refund/(payment)	**1,372**	(54,143)	(78,053)
At 31 December	**52,002**	(1,137)	76,090
Segment A			
Current tax expense			
Current year:			
Income tax	**51,767**	(24,966)	105,518
Deferred tax	**17,650**	(40,027)	6,151
	69,417	(64,993)	111,669
Reconciliation of effective tax rate			
Profit/(loss) before income tax per statement of profit or loss and other comprehensive income	**351,036**	(538,600)	280,491
Income tax at 7%/5%/17%/3%	**17,552**	(37,702)	47,683
Special levy on banks	**53,322**	-	64,793
Effect of non-deductible expenses	**164**	(152)	552
Overprovision of income tax in prior year	**(1,555)**	(30,174)	(8,465)
(Over)/(under) provision of deferred tax	**(66)**	-	2,674
CSR	**-**	4,478	-
Difference in rates	**-**	-	(754)
(Over)/under provision of tax in current year	**-**	(1,443)	5,186
	69,417	(64,993)	111,669
Current Tax Liabilities/(Assets)			
As 01 January	**(4,719)**	71,032	41,938
Charge for the year	**51,767**	(24,966)	105,518
Refund/(payment)	**5,692**	(50,785)	(76,424)
At 31 December	**52,740**	(4,719)	71,032

16 Income tax (continued)

Segment B	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Current tax expense			
Current year:			
Income tax	**-**	1,882	441
	-	1,882	441
Reconciliation of effective tax rate			
(Loss)/profit before income tax per statement of profit or loss and other comprehensive income	**(937)**	37,634	14,652
Income tax at 5%/ 3%/17%	**(47)**	1,882	440
Effect of non-deductible expenses	**10**	-	1
Under provision of tax in current year	**37**	-	-
	-	1,882	441
Current Tax Liabilities			
As 01 January	**3,582**	5,058	6,246
Charge for the year	**-**	1,882	441
Payment	**(4,320)**	(3,358)	(1,629)
At 31 December	**(738)**	3,582	5,058

17 Cash and cash equivalents

Bank (Total)	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Cash in hand	**218,269**	322,208	264,035
Foreign currency notes and coins	**19,824**	10,778	12,487
Unrestricted balances with central bank	**2,319,893**	2,634,004	1,096,502
Money market placements	**1,268,452**	1,597,667	784,104
Balances with banks abroad	**2,816,916**	1,878,591	1,840,473
	6,643,354	6,443,248	3,997,601

Unrestricted balances with Central Bank include non-interest bearing balances over and above the minimum cash reserve requirement (CRR). Money market placements under cash and cash equivalents are fixed/floating interest bearing investments with original maturities of three months or less from the acquisition date. Cash and cash equivalents are measured at amortised cost, less impairment.

Segment A	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Cash in hand	**218,269**	322,208	264,035
Unrestricted balances with central bank	**2,319,893**	2,634,004	1,096,502
Money market placements	**192,514**	415,217	401,867
	2,730,676	3,371,429	1,762,404
Segment B			
Foreign currency notes and coins	**19,824**	10,778	12,487
Money market placements	**1,075,938**	1,182,450	382,237
Balances with banks abroad	**2,816,916**	1,878,591	1,840,473
	3,912,678	3,071,819	2,235,197

18 Trading assets and liabilities

(a) Trading assets

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Derivative assets			
- Currency spot	**-**	8	28
- Currency forwards	**11,992**	6,054	1,947
	11,992	6,062	1,975
Segment A			
Derivative assets			
- Currency forwards	**11,019**	6,054	1,288
	11,019	6,054	1,288
Segment B			
Derivative assets			
- Currency spot	**-**	8	28
- Currency forwards	**973**	-	659
	973	8	687

(b) Trading liabilities

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Derivative liabilities			
- Currency spot	**352**	13	9
- Currency forwards	**737**	3,207	3,761
	1,089	3,220	3,770
Segment A			
Derivative liabilities			
- Currency spot	-	-	-
- Currency forwards	-	-	1,974
	-	-	1,974
Segment B			
Derivative liabilities			
- Currency spot	**352**	13	9
- Currency forwards	**737**	3,207	1,787
	1,089	3,220	1,796

All trading assets and trading liabilities are current in nature.
The nominal amount of the foreign exchange contracts are as follows

	2021 MUR'000	2020 MUR'000	2019 MUR'000
Currencies			
USD	**1,349,007**	187,695	1,131,862
EUR	**65,091**	172,364	84,495
GBP	**191,244**	-	-
HKD	**-**	4,047	18,318
CNH	**-**	-	71,779
ZAR	**-**	-	1,811
	1,605,342	364,106	1,308,265

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

19 Loans and advances to banks

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Loans and advances to banks			
In Mauritius (Segment A)	**111,149**	167,917	248,858
Abroad (Segment B)	**267,500**	96,910	83,574
	378,649	264,827	332,432
Less Stage 1 and 2 impairment	**(18)**	(775)	(10)
	378,631	264,052	332,422
Remaining term to maturity			
Up to 3 months	**102,495**	2,908	169,995
Over 3 months and up to 6 months	**-**	-	53,488
Over 6 months and up to 12 months	**276,136**	261,144	94,356
Over 1 year and up to 5 years	**-**	-	14,583
	378,631	264,052	332,422
Current	**378,631**	264,052	317,839
Non-Current	**-**	-	14,583
	378,631	264,052	332,422

20 Loans and advances to customers

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Total			
Retail customers:			
Credit cards	**233,088**	261,528	304,677
Mortgages	**4,110,493**	4,193,277	4,390,214
Other retail loans	**765,807**	755,282	834,576
Corporate customers	**5,757,112**	5,463,041	6,059,268
Governments	**17,949**	802,146	532,327
Entities outside Mauritius	**64,086**	3,492,554	3,798,028
	10,948,535	14,967,828	15,919,090
Less Stage 3 impairment	**(93,539)**	(552,804)	(16,872)
Less Stage 1 and 2 impairment	**(46,861)**	(81,170)	(36,893)
	10,808,135	14,333,854	15,865,325

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Segment A			
Retail customers:			
Credit cards	**233,088**	261,528	304,677
Mortgages	**4,110,493**	4,193,277	4,390,214
Other retail loans	**765,807**	755,282	834,576
Corporate customers	**4,003,086**	4,118,359	4,740,132
Governments	**17,950**	802,146	532,327
	9,130,424	10,130,592	10,801,926
Less Stage 3 impairment	**(93,539)**	(552,804)	(16,872)
Less Stage 1 and 2 impairment	**(46,861)**	(81,170)	(36,893)
	8,990,024	9,496,618	10,748,161

20 Loans and advances to customers (continued)

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Segment B			
Entities outside Mauritius	**64,085**	3,492,554	3,798,028
Global business license holders	**1,754,026**	1,344,682	1,319,136
	1,818,111	4,837,236	5,117,164

(a) Remaining term to maturity of loans and advances

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Within 3 months	**4,340,305**	7,681,875	5,849,573
Over 3 to 6 months	**2,923**	754,950	631,339
Over 6 to 12 months	**274,009**	59,971	131,480
Over 1 to 5 years	**1,827,168**	2,007,670	4,812,645
Over 5 years	**4,504,130**	4,463,362	4,494,053
	10,948,535	14,967,828	15,919,090
Current	**4,617,237**	8,496,796	6,612,392
Non-Current	**6,331,298**	6,471,032	9,306,698
	10,948,535	14,967,828	15,919,090

	2021	2020	2019
Segment A	**MUR'000**	MUR'000	MUR'000
Within 3 months	**2,751,179**	3,484,919	4,709,098
Over 3 to 6 months	**2,819**	398,521	98,707
Over 6 to 12 months	**273,968**	45,253	71,755
Over 1 to 5 years	**1,654,782**	1,802,991	1,503,793
Over 5 years	**4,447,676**	4,398,908	4,418,573
	9,130,424	10,130,592	10,801,926
Segment B			
Within 3 months	**1,589,126**	4,196,956	1,140,475
Over 3 to 6 months	**104**	356,429	532,632
Over 6 to 12 months	**41**	14,718	59725
Over 1 to 5 years	**172,386**	204,679	3,308,852
Over 5 years	**56,454**	64,454	75,480
	1,818,111	4,837,236	5,117,164

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

20 Loans and advances to customers (continued)

(b) Credit concentration of risk by industry sectors

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

Bank (Total)	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Agriculture and fishing	**9,463**	9,273	432,620
Manufacturing	**2,275,657**	2,414,969	2,964,980
of which EPZ	***791,493***	*851,848*	*1,198,725*
Tourism	**366,740**	355,661	303,439
Construction	**32,681**	13,791	599,173
Financial and business services	**323,186**	3,736,033	3,415,739
Traders	**751,701**	911,012	690,466
Households	**5,173,474**	5,215,287	5,527,615
of which credit card	***233,088***	*261,528*	*304,677*
Global business license holders	**1,754,026**	1,344,682	1,319,136
Public non-financial corporations	**4,615**	802,146	532,327
Other(including infrastructure)	**256,992**	164,974	133,595
	10,948,535	14,967,828	15,919,090

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

Segment A	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Agriculture and fishing	**9,463**	9,273	432,620
Manufacturing	**2,275,657**	2,342,450	2,856,148
of which EPZ	***791,493***	*851,848*	*1,198,725*
Tourism	**366,740**	355,661	303,439
Construction	**32,681**	13,791	86,684
Financial and business services	**323,186**	385,758	323,864
Traders	**751,701**	911,012	690,466
Households	**5,109,389**	5,145,527	5,442,783
of which credit card	***233,088***	*261,528*	*304,677*
Public non-financial corporations	**4,615**	802,146	532,327
Other(including infrastructure)	**256,992**	164,974	133,595
	9,130,424	10,130,592	10,801,926

Segment B	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Manufacturing	**-**	72,519	108832
Construction	**-**	-	512489
Financial and business services	**-**	3,350,275	3,091,875
Households	**64,085**	69,760	84,832
Global business licence holders	**1,754,026**	1,344,682	1,319,136
	1,818,111	4,837,236	5,117,164

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

20 Loans and advances to customers (continued)

(c) Allowance for impairment losses

	Stage 3	Stage 1&2	Total
	MUR'000	MUR'000	MUR'000
Balance at 01 January 2019	27,103	41,328	68,431
Provision for credit impairment for the year	(10,231)	(4,435)	(14,666)
Balance at 31 December 2019	16,872	36,893	53,765
Release for credit impairment for the year	535,932	44,277	580,209
Balance at 31 December 2020	552,804	81,170	633,974
Provision for credit impairment for the year	(459,265)	(34,309)	(493,574)
Balance at 31 December 2021	**93,539**	**46,861**	**140,400**

Allowance for impairment losses pertain to Segment A activities only.

(d) Provision for impairment losses by industry sectors

2021	Gross amount of loans	Non-performing loans	Stage 3	Stage 1& 2	Total credit loss allowance
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Agriculture and fishing	**9,463**	-	-	-	-
Manufacturing	**2,275,657**	-	-	9	9
of which EPZ	***791,493***	-	-	-	-
Tourism	**366,740**	**119,458**	**73,220**	**16**	**73,236**
Construction	**32,681**	-	-	-	-
Financial and business services	**323,186**	-	-	**30**	**30**
Traders	**751,701**	-	-	**4**	**4**
Households	**5,173,474**	**77,639**	**20,317**	**46,804**	**67,121**
of which credit card	***233,088***	***1,146***	***683***	***6,017***	**6,700**
Global business licence holders	**1,754,026**	-	-	-	-
Public non-financial corporations	**4,615**	-	-	-	-
Other	**256,992**	-	-	-	-
	10,948,535	**197,097**	**93,537**	**46,863**	**140,400**

20 Loans and advances to customers (continued)

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

2020	Gross amount of loans	Non-performing loans	Stage 3	Stage 1&2	Total credit loss allowance
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Agriculture and fishing	9,273	-	-	-	-
Manufacturing	2,414,969	-	-	1458	1458
of which EPZ	*851,848*	-	-	-	-
Tourism	355,661	131096	49474	178	49652
Construction	13,791	-	-	18	18
Financial and business services	3,736,033	-	-	722	722
Traders	911,012	-	-	29	29
Households	5,215,287	88,148	20,207	78,649	98,856
of which credit card	*261,528*	*2,089*	*676*	*5,611*	*6,287*
Global business licence holders	1,344,682	-	-	-	-
Public non-financial corporations	802,146	788,300	483,123	-	483,123
Other	164,974	-	-	116	116
	14,967,828	1,007,544	552,804	81,170	633,974

2019	Gross amount of loans	Non-performing loans	Stage 3	Stage 1&2	Total credit loss allowance
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Agriculture and fishing	432,620	-	-	1	1
Manufacturing	2,964,980	-	-	491	491
of which EPZ	*1,198,725*	-	-	*199*	*199*
Tourism	303,439	-	-	136	136
Construction	599,173	-	-	7	7
Financial and business services	3,415,739	-	-	812	812
Traders	690,466	-	-	76	76
Households	5,527,615	68,947	16,872	35,138	52,010
of which credit card	*304,677*	*1,985*	*1,054*	*6,791*	*7,845*
Global business licence holders	1,319,136	-	-	-	-
Public non-financial corporation	532,327	-	-	-	-
Other(including infrastructure)	133,595	-	-	232	232
	15,919,090	68,947	16,872	36,893	53,765

Provision for impairment losses pertain to Segment A activities only.

Notes to and forming part of the financial statements
for the year ended 31 December 2021(continued)

21 Investment securities

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Bank (Total) and Segment A			
Investment securities carried at FVOCI	**10,600,515**	8,313,010	7,762,913
Investment securities carried at amortised cost	**148,173**	-	-
Treasury Bills/Notes	**10,600,515**	8,313,010	7,754,728
Equity shares	**-**	-	8,185
Corporate bonds	**148,173**	-	-
	10,748,688	8,313,010	7,762,913
Current	**7,351,194**	2,973,597	5,209,045
Non-Current	**3,397,494**	5,339,413	2,553,868
	10,748,688	8,313,010	7,762,913

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

	FVOCI	Investment Securities at amortised cost	FVOCI	Investment Securities at amortised cost	FVOCI	Investment Securities at amortised cost
Treasury Bills/Notes	**2021**		2020		2019	
	MUR'000	**MUR'000**	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January	**8,324,946**	-	7,755,621	-	6,563,449	-
Additions during the year	**7,109,700**	**148,184**	6,266,900	-	7,326,700	-
Disposed during the year	**-**	-	(524,500)	-	(1,425,000)	-
Matured during the period	**(4,701,700)**	-	(5,443,500)	-	(4,776,749)	-
Amortised discount/premium	**(31,903)**	-	151,261	-	(7,929)	-
Fair value (loss)/gain	**(100,528)**	-	119,164	-	75,150	-
Gross carrying amount	**10,600,515**	**148,184**	8,324,946	-	7,755,621	-
Less impairment	**-**	**(10)**	(11,936)	-	(893)	-
At 31 December	**10,600,515**	**148,174**	8,313,010	-	7,754,728	-
Equity shares	**2021**		2020		2019	
	MUR'000	**MUR'000**	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January	**-**	**-**	8,185	-	9,264	-
Fair value loss through other comprehensive income	**-**	**-**	(8,185)	-	(1,079)	-
At 31 December	**-**	**-**	-	-	8,185	-

Investments securities comprise Government of Mauritius treasury bills and treasury notes that are held for regulatory purposes. Investment securities at amortised cost comprise of corporate bonds.

22 Property, plant and equipment

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Owned property, plant and equipment	**323,273**	319,468	312,920
Right-of-use assets	**21,970**	95,632	117,763
At 31 December	**345,243**	415,100	430,683

22 Property, plant and equipment (continued)

Bank (Total) and Segment A	**Right-of-use assets**	**Land and buildings**	**Computer and other equipment**	**Other fixed assets**	**Total**
	MUR'000	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
Cost					
Balance at 01 January 2019	-	233,500	97,594	211,490	542,584
Acquisitions	-	-	-	18,991	18,991
Impact on transition of IFRS 16	134,931	-	-	-	134,931
Disposals	-	-	(50,108)	(58,655)	(108,763)
New leases	2,499	-	-	-	2,499
Balance at 31 December 2019	137,430	233,500	47,486	171,826	590,242
Acquisitions	-	-	2,978	16,445	19,423
Disposals	-	-	(2,264)	(18,480)	(20,744)
Revaluation adjustment	-	4,700	-	-	4,700
Modification of lease	(20,521)	-	-	-	(20,521)
Balance at 31 December 2020	**116,909**	**238,200**	**48,200**	**169,791**	**573,100**
Acquisitions	**714**	**-**	**6,896**	**2,605**	**10,215**
Disposals	**-**	**-**	**(1,941)**	**(15,486)**	**(17,427)**
Revaluation adjustment	**-**	**13,300**	**-**	**-**	**13,300**
Modification of lease	**(56,943)**	**-**	**-**	**-**	**(56,943)**
Transfers	**-**	**-**	**17,552**	**(17,552)**	**-**
Balance at 31 December 2021	**60,680**	**251,500**	**70,707**	**139,358**	**522,245**
Accumulated depreciation					
Balance at 01 January 2019	-	-	92,869	137,383	230,252
Depreciation for the year	19,667	1,769	3,535	12,944	37,915
Disposals/write off	-	-	(50,043)	(56,796)	(106,839)
Revaluation adjustment	-	(1,769)	-	-	(1,769)
Balance at 31 December 2019	19,667	-	46,361	93,531	159,559
Depreciation for the year	22,938	1,880	2,189	13,722	40,729
Disposals/write off	-	-	(1,755)	(17,325)	(19,080)
Revaluation adjustment	-	(1,880)	-	-	(1,880)
Modification of lease	(21,328)	-	-	-	(21,328)
Balance at 31 December 2020	**21,277**	**-**	**46,795**	**89,928**	**158,000**
Depreciation for the year	**23,110**	**1,968**	**3,575**	**15,135**	**43,788**
Disposals/write off	**-**	**-**	**(437)**	**(16,704)**	**(17,141)**
Revaluation adjustment	**-**	**(1,968)**	**-**	**-**	**(1,968)**
Modification of lease	**(5,677)**	**-**	**-**	**-**	**(5,677)**
Transfers	**-**	**-**	**10,218**	**(10,218)**	**-**
Balance at 31 December 2021	**38,710**	**-**	**60,151**	**78,141**	**177,002**
Net Book Value					
As at 31 December 2021	**21,970**	**251,500**	**10,556**	**61,217**	**345,243**
As at 31 December 2020	95,632	238,200	1,405	79,863	415,100
As at 31 December 2019	117,763	233,500	1,125	78,295	430,683

The last valuation was carried out on 31 December 2021 by an experienced, qualified independent valuer, Mr. Geoff Kruger who has relevant professional experience in the localities and categories of the properties held.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

22 Property, plant and equipment (continued)

The valuation of land and buildings has been determined using market comparables. To provide an indication about the reliability of the inputs used in determining fair value, the Bank has classified its land and buildings into the three levels prescribed under the accounting standards. An explanation of each level is provided in note 5.

MUR'000	At 31 December 2021		At 31 December 2020		At 31 December 2019	
	Land	**Buildings**	Land	Buildings	Land	Buildings
Level 2	**146,514**	**-**	139,700	-	139,500	-
Level 3	**-**	**104,986**	-	98,500	-	94,000

<u>*IFRS 13 reconciliation for Level 3*</u>

Bank (Total)	**2021**	2020	2019
	MUR'000	MUR'000	MUR'000
At 01 January	**238,200**	233,500	233,500
Revaluation	**13,300**	4,700	-
At 31 December	**251,500**	238,200	233,500

Valuation inputs and relationships to fair value

Valuation model	**Sales comparison Approach and Depreciated Replacement cost**
Unobservable inputs	Rate per square metre

Sensitivity

A 5% increase/decrease in the rate per square metre will lead to a decrease/increase in the value of land and buildings by +/- MUR12,577,285, with all other variables held constant.

There was no transfer in fair value hierarchy during the year.

All properties, plant and equipment pertains to Segment A only. The Bank did not have any assets held under finance lease as at 31 December 2021, 2020 and 2019.

The cost of land is MUR 651,000 as at 31 December 2021 and is not depreciated (2020: MUR 651,000 and 2019: MUR 651,000).

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

Bank (Total)	**2021**	2020	2019
	MUR'000	MUR'000	MUR'000
Cost	**27,500**	27,500	27,500
Accumulated depreciation	**(25,032)**	(24,855)	(24,680)
Net book value	**2,468**	2,645	2,820

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

23 Deferred tax assets

	Retirement benefit obligation	Revaluation of non-investment property	Impairment allowances	Accelerated capital allowances	Lease	Fair valuation	Tax losses	Total
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January 2019	45,283	(4,146)	4,868	(837)	-	-	-	45,168
Credited to profit or loss	(4,960)	-	(949)	(141)	(101)	-	-	(6,151)
Charged to other comprehensive income	7,806	-	-	-	-	-	-	7,806
At 31 December 2019	48,129	(4,146)	3,919	(978)	(101)	-	-	46,823
Charged/ (Credited) to other comprehensive income	576	-	40,459	(1,114)	106	-	-	40,027
Charged to other comprehensive income	19,006	(308)	-	-	-	-	-	18,698
At 31 December 2020	67,711	(4,454)	44,378	(2,092)	5	-	-	105,548
Credited to profit or loss	**1,131**	**-**	**(34,480)**	**624**	**(45)**	**-**	**15,120**	**(17,650)**
Credited to other comprehensive income	**(26,591)**	**(461)**	**-**	**-**	**-**	**(4,607)**	**-**	**(31,659)**
At 31 December 2021	**42,251**	**(4,915)**	**9,898**	**(1,468)**	**(40)**	**(4,607)**	**15,120**	**56,239**

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

24 Other assets

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Mandatory balances with central bank*	**1,958,117**	1,567,270	1,490,384
Items in course of collection from other banks	**30,313**	7,305	91,225
Accrued interest receivable	**85,066**	94,628	90,962
Other	**1,090,418**	770,691	272,079
of which Acceptance & Endorsement	***1,039,973***	*731,378*	*201,674*
	3,163,914	2,439,894	1,944,650
Less Stage 1and 2 impairment	**(1)**	(33)	(5)
	3,163,913	2,439,861	1,944,645
Segment A			
Mandatory balances with central bank*	**1,958,117**	1,567,270	1,490,384
Items in course of collection from other banks	**30,313**	7,305	91,225
Accrued interest receivable	**85,066**	87,713	69,223
Other	**71,118**	89,750	159,452
	2,144,614	1,752,038	1,810,284
Less Stage 1 and 2 impairment	**(1)**	(33)	(5)
	2,144,613	1,752,005	1,810,279
Segment B			
Accrued interest receivable	**-**	6,915	21,739
Other	**1,019,300**	680,941	112,627
	1,019,300	687,856	134,366

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

All other assets are current in nature.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

25 Deposits from banks

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Other deposits from banks	**1,177,285**	747,792	672,989
Segment A			
Other deposits from banks	**58,594**	32,115	47,646
Segment B			
Other deposits from banks	**1,118,691**	715,677	625,343

All deposits from banks are current.

26 Deposits from customers

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Retail customers			
Current accounts	**531,434**	479,535	449,961
Savings accounts	**13,980,779**	12,646,533	10,687,295
Time deposits with remaining term to maturity			
Up to 3 months	**382,151**	499,302	528,603
Over 3 months and up to 6 months	**451,969**	362,041	381,952
Over 6 months and up to 12 months	**784,930**	613,922	644,994
Over 1 year and up to 5 years	**1,020,540**	950,811	731,882
Corporate customers			
Current accounts	**7,954,101**	4,714,963	3,903,047
Savings accounts	**138,116**	127,523	142,593
Time deposits with remaining term to maturity			
Up to 3 months	**50,244**	1,903,842	1,466,222
Over 3 months and up to 6 months	**22,939**	29,805	89,362
Over 6 months and up to 12 months	**435,302**	418,626	379,654
Over 1 year and up to 5 years	**41,390**	15,146	53,052
Government			
Current accounts	**21,023**	6,412	6,446
Time deposits with remaining term to maturity			
Up to 3 months	**-**	9,952	2,304
	25,814,918	22,778,413	19,467,367
Current	**24,752,987**	21,812,456	18,682,433
Non-Current	**1,061,931**	965,957	784,934
	25,814,918	22,778,413	19,467,367

26 Deposits from customers (continued)

Current accounts are mostly non-interest bearing, whereas for Savings account a managed rate is applicable. Interest rate on time deposits will be fixed in nature.

	2021	2020	2019
Segment A	**MUR'000**	MUR'000	MUR'000
Retail customers			
Current accounts	**513,329**	456,938	428,120
Savings accounts	**13,055,184**	11,728,325	10,027,531
Time deposits with remaining term to maturity			
Up to 3 months	**355,950**	465,823	477,201
Over 3 months and up to 6 months	**426,575**	333,046	347,442
Over 6 months and up to 12 months	**768,946**	579,622	628,900
Over 1 year and up to 5 years	**975,964**	913,676	677,939
Corporate customers			
Current accounts	**5,630,333**	4,026,171	3,729,786
Savings accounts	**138,116**	127,523	142,593
Time deposits with remaining term to maturity			
Up to 3 months	**45,729**	1,666,034	1,440,703
Over 3 months and up to 6 months	**20,089**	26,238	89,362
Over 6 months and up to 12 months	**189,135**	174,888	175,772
Over 1 year and up to 5 years	**41,390**	14,801	53,052
Government			
Current accounts	**21,023**	6,412	6,446
Time deposits with remaining term to maturity			
Up to 3 months	**-**	9,952	2,304
	22,181,763	20,529,449	18,227,151
Segment B			
Retail customers			
Current accounts	**18,105**	22,597	21,841
Savings accounts	**925,596**	918,208	659,764
Time deposits with remaining te			
Up to 3 months	**26,201**	33,479	51,402
Over 3 months and up to 6 months	**25,394**	28,995	34,510
Over 6 months and up to 12 months	**15,984**	34,300	16,094
Over 1 year and up to 5 years	**44,576**	37,135	53,943
Corporate customers			
Current accounts	**2,323,768**	688,792	173,261
Time deposits with remaining term to maturity			
Up to 3 months	**4,515**	237,808	25,519
Over 3 months and up to 6 months	**2,849**	3,567	-
Over 6 months and up to 12 months	**246,167**	243,738	203,882
Over 1 year and up to 5 years	**-**	345	-
	3,633,155	2,248,964	1,240,216

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

27 Other borrowed funds

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Borrowings from banks			
In Mauritius (Segment A)	**1,083,503**	1,970,749	1,800,500
Abroad (Segment B)	**-**	3,247,803	4,793,150
	1,083,503	5,218,552	6,593,650
Current	**1,075,938**	5,218,552	3,620,868
Non-Current	**7,565**	-	2,972,782

Other borrowed funds are interest bearing and unsecured in nature. The Bank has a facility line of USD225m with HSBC Hong Kong which enables it to drawdown as and when needed to meet liquidity and funding requirements. The facility has no drawn amount as at 31 December 2021 (2020: USD81m). There have been no defaults during the year.

28 Other liabilities

	Note	2021	2020	2019
Bank (Total)		**MUR'000**	MUR'000	MUR'000
Accrued interest payable		**39,077**	43,934	63,620
Accrued expenses		**76,392**	61,101	70,662
Retirement benefits (funded)	29	**(2,402)**	185,495	388,339
Other retirement obligation (unfunded)	29	**34,829**	37,904	10866
Lease liabilities (note a)		**21,412**	97,198	115193
Other		**1,202,847**	862,291	421,135
of which: Acceptance and Endorsement		***1,039,972***	*731,378*	*201,674*
Intercompany recharge costs		***24,497***	*29,419*	*37,339*
Provision for off-balance sheet exposure		***1,068***	*1,983*	*1,308*
		1,372,155	1,287,923	1,069,815
Current		**1,339,728**	1,064,524	681,476
Non-Current		**32,427**	223,399	388,339
		1,372,155	1,287,923	1,069,815
Segment A				
Accrued interest payable		**38,983**	42,240	56,651
Accrued expenses		**76,392**	61,101	70,662
Retirement benefits		**(2,402)**	185,495	388,339
Other retirement obligation (unfunded)		**34,828**	37,904	10866
Lease liabilities		**21,412**	97,198	115193
Other		**183,548**	181,563	306,445
		352,761	605,501	948,156
Segment B				
Accrued interest payable		**94**	1,694	6,969
Other		**1,019,300**	680,728	114,690
		1,019,394	682,422	121,659

Note a - Lease liabilities represent the present value of lease payments over the leases contract period inclusive of the extension option. The lease payments amounts to MUR192.6m. Please refer to note 35(d)(iii) for the maturity analysis.

29 Retirement benefits

(a) Defined benefits plan

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

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

The assets of the funded plan are held and administered by HSBC Superannuation Fund for Resident Officers ("ROCS") and HSBC Superannuation Fund for Staff Officers, Clerical and Subordinate Staff ("SOCS") respectively. The latter is expected to produce a smooth progression of return from one year to the next. As the fund is expected to produce a smooth return, a fairly reasonable indication of future returns can be obtained by looking at historical ones. Therefore, the long term expected return on asset assumption has been based on historical performance of the fund. In terms of the individual expected returns, the expected return on equities has been based on an equity risk premium above a risk free rate. The risk free rate has been measured in accordance to the yields on government bonds at the measurement date. The fixed interest portfolio includes government bonds, loan stocks and mortgages. The expected return for this asset class has been based on yields of government bonds at the measurement date. The actual return on plan assets was MUR17.5m (2020 – MUR13.6m).

The defined benefit plans expose the Bank to actuarial risks, such as longevity risk, investment risk, interest risk and salary risk.

Longevity risk
The plan liability is calculated by reference to the best estimate for the mortality of plan participants both during and after their employment. An increase in life expectancy of the plan participants will increase the plan liability.

Investment risk
The plan liability is calculated using a discount rate determined by reference to government bond yields; if the return on plan assets is below this rate, it will create a plan deficit and if it is higher, it will create a plan surplus.

Interest risk
A decrease in the bond interest rate will increase the plan liability; however, this may be partially offset by an increase in the return on the plan's debt investments and a decrease in inflationary pressures on salary and pension increases.

Salary risk
The plan liability is calculated by reference to the future projected salaries of plan participants. As such, an increase in the salary of the plan participants above the assumed rate will increase the plan liability whereas an increase below the assumed rate will decrease the liability.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

29 Retirement benefits (continued)

(a) Defined benefits plan (continued)

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

The principal actuarial assumptions are:

	2021	2020	2019
Discount rate			
ROCS Funded	**4.70%**	2.80%	5.10%
SOCS Funded	**4.60%**	2.70%	5.10%
ROCS Unfunded	**3.10%**	2.00%	4.20%
SOCS Unfunded	**3.50%**	2.20%	4.40%
Future long-term salary increase	**4.00%/ 4.70%**	3.00%/ 4.00%	3.00%/ 4.00%
Future expected pension increase	**3.75%/ 4.03%**	2.49%	4.00%

The retirement benefit liabilities as at 31 December 2021 are based on the report submitted by Swan Life Ltd.

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Equities	**358,150**	141,840	116,434
Fixed interest	**577,707**	521,717	385,177
Cash	**191,170**	479,688	160,474
Total market value of assets	**1,127,027**	1,143,245	662,085
Present value of plan liabilities	**(1,124,625)**	(1,328,740)	(1,050,424)
Net asset/(liability) for retirement obligation recognised in statement of financial position	**2,402**	(185,495)	(388,339)

Expected contribution next year

The Bank is not expected to contribute to the pension scheme for the year ended 31 December 2021 (2020: MUR111.3m) .

Maturity profile of the Defined Benefits Obligation

As at 31 December 2021, the average remaining working life of the employees for ROCS funded and SOCS funded is 12 years and 11 years respectively.

29 Retirement benefits (continued)

(a) Defined benefits plan (continued)

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Pension expense components for the year			
Current service cost	**22,541**	19,325	19,196
Interest cost	**35,799**	52,569	56,251
Interest income	**(30,446)**	(45,537)	(37,132)
Net interest cost	**5,353**	7,032	19,119
Total amount recognised in profit or loss	**27,894**	26,357	38,315
Movement in liability recognised in statement of financial position			
At start of the year	**(185,495)**	(388,339)	(368,917)
Total amount recognised in profit or loss	**(27,894)**	(26,357)	(38,315)
Actuarial losses	**198,840**	(272,391)	(89,287)
Employer's contributions	**16,951**	501,592	108,180
At end of the year	**2,402**	(185,495)	(388,339)
Change in defined benefit obligation			
Present value of defined benefit obligation			
At start of the year	**(1,328,740)**	(1,050,424)	(928,835)
Current service cost	**(22,541)**	(19,325)	(19,196)
Interest cost	**(35,799)**	(52,569)	(56,251)
Remeasurements	**204,290**	(240,533)	(72,789)
Benefits paid	**58,165**	34,111	26,647
Present value of defined benefit obligation at end of the year	**(1,124,625)**	(1,328,740)	(1,050,424)

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Change in plan assets			
Fair value of plan assets at start of the year	**1,143,245**	662,085	559,918
Interest income	**30,446**	45,537	37,132
Employer's contributions	**16,951**	501,590	108,180
Return on plan assets, excluding amounts included in interest income	**(5,450)**	(31,856)	(16,498)
Benefits paid	**(58,165)**	(34,111)	(26,647)
Fair value of plan assets at end of the year	**1,127,027**	1,143,245	662,085

29 Retirement benefits (continued)

(a) Defined benefits plan (continued)

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Analysis of amount recognised in statement of changes in equity			
Losses on pension scheme assets	**(12,994)**	(31,856)	(16,498)
Remeasurements - Experience gains/(losses) on the liabilities	**55,880**	19,022	(17,411)
Remeasurements - Changes in financial assumptions on the liabilities	**155,954**	(259,555)	(55,378)
Actuarial gain/(loss) recognised in other comprehensive income	**198,840**	(272,389)	(89,287)
Net liability relating to the funded plans			
Present value of funded obligations	**(1,124,625)**	(1,328,740)	(1,050,424)
Fair value of plan assets	**1,127,027**	1,143,245	662,085
Surplus/(Deficit) of funded plans	**2,402**	(185,495)	(388,339)

Sensitivity analysis

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Decrease in Defined Benefit Obligation due to 1% increase in discount rate	**151,409**	209,134	151,581
Increase in Defined Benefit Obligation due to 1% decrease in discount rate	**191,401**	271,380	193,344
Increase in Defined Benefit Obligation due to 1% increase in future long-term salary assumption	**35,949**	63,249	47,181
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term salary assumption	**32,901**	57,761	44,918
Increase in Defined Benefit Obligation due to 1% increase in future long-term pension assumption	**147,796**	198,161	144,437
Decrease in Defined Benefit Obligation due to 1% decrease in future long-term pension assumption	**122,847**	163,324	120,382

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

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

The retirement benefits liabilities at 31 December 2021 are based on the report prepared by Swan Life Limited in December 2021.

(b) Defined contribution plan

The Bank is not expected to contribute to its post-employment defined contribution plans for the year ending 31 December 2021.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

29 Retirement benefits (continued)

(b) Defined contribution plan (continued)

The principal actuarial assumptions are:

	2021	2020	2019
Discount rate	**5.40%**	3.10%	5.40%
Future long-term salary increase	**4.35%**	3.40%	3.40%

Maturity profile of the Defined Contribution Obligation

The average remaining working life of the employees at 31 December 2021 are as follows is 21 years.

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Pension expense components for the year			
Current service cost	**4,078**	867	424
Net interest cost	**1,175**	587	524
Total amount recognised in profit or loss	**5,253**	1,454	948
Movement in liability recognised in statement of financial position			
At start of the year	**(37,904)**	(10,866)	-
Total amount recognised in profit or loss	**(5,253)**	(1,454)	(948)
Actuarial losses	**8,328**	(25,584)	(9,918)
At end of the year	**(34,829)**	(37,904)	(10,866)
Change in defined contribution obligation			
Present value of defined contribution obligation At start of the year	**(37,904)**	(10,866)	-
Current service cost	**(4,078)**	(867)	(424)
Interest cost	**(1,175)**	(587)	(524)
Remeasurements	**8,328**	(25,584)	(9,918)
Present value of defined benefit obligation at end of the year	**(34,829)**	(37,904)	(10,866)
Analysis of amount recognised in statement of changes in equity			
Remeasurements - Experience losses on the liabilities	**(5,138)**	(4,092)	(17,873)
Remeasurements - Changes in financial assumptions on the liabilities	**13,466**	(21,492)	7,955
Actuarial gains/(losses) recognised in other comprehensive income	**8,328**	(25,584)	(9,918)
Cumulative actuarial (losses)/gains recognised			
Cumulative actuarial losses at start of year	**(35,502)**	(9,918)	-
Actuarial losses recognised this year	**8,328**	(25,584)	(9,918)
Cumulative actuarial losses at end of year	**(27,174)**	(35,502)	(9,918)

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

29 Retirement benefits (continued)

(b) Defined contribution plan (continued)

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Net liability relating to the unfunded plans			
Unfunded defined contribution obligation	**(34,829)**	(37,904)	(10,866)
Actuarial losses on plan liabilities	**8,328**	(25,584)	(9,918)

Sensitivity analysis

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Increase in defined benefit obligation due to 1% decrease in discount rate	**10,788**	12,245	6,349
Decrease in defined benefit obligation due to 1% increase in discount rate	**10,444**	10,593	5,001
Increase in defined benefit obligation due to 1% increase in future long-term salary assumption	**10,794**	12,067	6,417
Decrease in defined benefit obligation due to 1% decrease in future long-term pension assumption	**10,612**	10,654	5,127

The sensitivity analysis above has been carried out by recalculating the present value of obligation at end of period after increasing the discount rate/salary increase rate while leaving all other assumptions unchanged. The results are particularly sensitive to a change in discount rate/salary increase rate due to the nature of the liabilities being the difference between the pure retirement gratuities under the Workers Rights Act 2019 and the deductions allowable, being five times the annual pension provided and half the lump sum received by the member at retirement from the pension fund with reference to the Bank's share of contributions.

The retirement benefits liabilities at 31 December 2021 are based on the report prepared by Swan Life Limited in December 2021.

30 Capital and reserves

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Other Reserves			
Reserves for own shares	**12,493**	13,009	25,323
Revaluation reserve	**221,332**	208,493	204,101
Statutory reserve	**306,835**	306,835	306,835
General banking reserve	**91,881**	91,861	162,170
Fair value reserve	**59,312**	164,226	53,247
	691,853	784,424	751,676
Retained Earnings	**1,172,632**	707,398	1,347,030
	1,864,485	1,491,822	2,098,706

a) Assigned capital

The Bank's assigned capital is at MUR794.2m (2020: MUR794.2m) which is above the minimum capital requirement of MUR400m as per Section 20 of the Mauritian Banking Act 2004.

b) Revaluation reserve

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

c) Statutory reserve

The Bank's statutory reserve was at MUR307m in accordance with Section 21 of the Mauritian Banking Act 2004 which requires the Bank to transfer 15% of its annual profits to a statutory reserve until this reserve equals its stated capital.

d) General banking reserve

This represents amounts set aside by the Bank, as appropriation of earnings, for unforeseeable risks and future losses.

Additional provision for certain specific sectors are made in accordance with the Bank of Mauritius macro-prudential measures. The Bank also makes additional provision on its impaired book over and above the Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition* .

e) Fair value reserve

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

f) Retained earnings

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

30 Capital and reserves (continued)

g) Reserves for own shares

This represents reserves for restricted share plan and share options granted to employees.

(i) Restricted Share Plan

Share awards are restricted shares that are awarded to some employees only, on a discretionary basis to help reward an individual's contribution to the Bank and in recognition of their future potential. In addition, the awards are designed to help retain and motivate key individuals by sharing with them the long-term growth and success of the Bank as a whole. The shares are granted over a period of 3 years with staggered vesting conditions of 33% each year and are equity settled.

	MUR'000
At 1 January 2019	22,100
Charge to profit or loss	1,308
Fair value movement on shares held	413
Other movement	1,502
At 31 December 2019	25,323
Charge to profit or loss	2,060
Fair value movement on shares held	1,628
Other movement	(16,002)
At 31 December 2020	13,009
Charge to profit or loss	1,922
Fair value movement on shares held	(1,955)
Other movement	(483)
At 31 December 2021	**12,493**

(ii) Share Save

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

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

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

31 Contingent liabilities

The Bank provides financial guarantees and letters of credit to guarantee the performance of customers to third parties. These agreements have fixed limits and are generally extended over the year of the facility. These commitments and contingent liabilities have off-balance sheet credit risk. Only origination fees and accruals for probable losses are recognised in the statement of financial position until the commitments are fulfilled or expired. The possibility of any outflow in settlement is remote.

The contractual amounts of commitments and contingent liabilities are set out below.

	2021	2020	2019
Bank (Total)	**MUR'000**	MUR'000	MUR'000
Guarantees on account of customers	**3,290,926**	3,043,051	2,023,620
Letters of credit and other obligations	**392,997**	591,590	1,580,895
	3,683,923	3,634,641	3,604,515
Segment A			
Guarantees on account of customers	**1,137,650**	1,206,347	1,038,630
Letters of credit and other obligations	**212,246**	270,220	113,647
	1,349,896	1,476,567	1,152,277
Segment B			
Guarantees on account of customers	**2,153,276**	1,836,704	984,990
Letters of credit and other obligations	**180,751**	321,370	1,467,248
	2,334,027	2,158,074	2,452,238

32 Commitments

Bank (Total)	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Undrawn credit facilities	**7,968,663**	8,574,018	10,456,997
Segment A			
Undrawn credit facilities	**5,650,947**	6,029,326	6,672,850
Segment B			
Undrawn credit facilities	**2,317,716**	2,544,692	3,784,147

33 Analysis of cash and cash equivalents

Bank (Total)	**2021 MUR'000**	2020 MUR'000	2019 MUR'000
Cash and cash equivalents (Note 17)	**6,643,354**	6,443,248	3,997,601
Other borrowed funds	**-**	(1,244)	(1,617)
	6,643,354	6,442,004	3,995,984

34 Related party transactions

Key management personnel

The total remuneration and transactions entered by the members of senior management with the bank as listed in the statement of corporate governance practices is disclosed below:

	2021 MUR'000	2020 MUR'000	2019 MUR'000
Loans	**38,341**	32,407	26,897
Interest income	**469**	547	672
Deposits	**40,681**	54,335	31,526
Interest expense	**20**	42	178
Key management compensation			
Short-term employee benefits	**90,908**	81,482	68,307
Share based payments	**1,940**	-	3,004
Other long-term benefits	**10,250**	14,364	14,934
Key management exposure (MUR'000)	**41,332**	38,162	42,778
% of Tier 1 capital	**1.8**	2.3	2.1

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

34 Related party transactions (continued)

Group Companies

The Bank is a branch of The Hongkong and Shanghai Banking Corporation Limited ("HSBC Hongkong") and has a related party relationship with it. The Bank has also a related party relationship with other group companies under HSBC Holdings plc, the ultimate holding company. The Bank has bank accounts (nostro) with the above related parties and the latter also hold bank accounts (vostro) with the Bank. Interests, fees and commissions were paid and/or received in relation to these bank accounts. During the year, the Bank also paid group support costs to its Head Office, HSBC Bank Middle East and HSBC India. The following table summarises the transactions during the year and the balances at year-end with related parties.

MUR'000	**31-Dec-21**					
	HSBC Ltd*	HSBC Bank (Mauritius) Ltd	HSBC Bank Plc*	HSBC Bank USA	Other related parties	Total
Statement of financial position:						
Assets						
Intercompany bank accounts	109,078	891	1,357,823	849,148	526,256	2,843,196
Balances and placements with banks	1,187,087	460,014	109	-	460	1,647,670
Liabilities						
Intercompany deposits	-	1,075,938	-	-	-	1,075,938
Intercompany bank accounts	62,658	58,595	359,637	42	2,054	482,986
Other liabilities	16,959	39	-	-	7,499	24,497
Statement of comprehensive income:						
Other interest receivable	3,754	2,719	-	-	41	6,514
Other interest payable	3,853	2,008	2,131	-	-	7,992
Fee and commission receivable	2,070	-	-	308	-	2,378
Fee and commission payable	161	5	579	1,065	734	2,544
Other income	-	176,225	-	-	453	176,678
Other expenses	229,119	14,459	305	-	83,971	327,854

** HSBC Ltd and HSBC Bank Plc includes their international branches.*

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

MUR'000	31-Dec-20 HSBC Ltd*	HSBC Bank (Mauritius) Ltd	HSBC Bank Plc*	HSBC Bank USA	Other related parties	Total
Statement of financial position:						
Assets						
Intercompany bank accounts	67,809	159	550,701	724,616	520,650	1,863,935
Balances and placements with banks	1,279,360	583,134	61	-	367	1,862,922
Liabilities						
Intercompany deposits	3,246,558	1,970,750	-	-	-	5,217,308
Intercompany bank accounts	7,107	32,115	138,930	1,281	434	179,867
Other liabilities	29,673	1,411	-	-	1,439	32,523
Statement of comprehensive income:						
Other interest receivable	8,702	7,933	172	-	44	16,851
Other interest payable	43,213	22,925	1,762	-	-	67,900
Fee and commission receivable	1,814	-	-	226	-	2,040
Fee and commission payable	113	11	214	947	507	1,792
Other income	-	190,668	-	42	314	191,024
Other expenses	243,694	13,970	148	-	54,584	312,396

** HSBC Ltd and HSBC Bank Plc includes their international branches.*

MUR'000	31-Dec-19 HSBC Ltd*	HSBC Bank (Mauritius) Ltd	HSBC Bank Plc*	HSBC Bank USA	Other related parties	Total
Statement of financial position:						
Assets						
Intercompany bank accounts	46,856	3,803	218,937	1,471,366	83,483	1,824,445
Balances and placements with banks	465,811	586,450	9	-	1,852	1,054,122
Liabilities						
Other borrowed funds	4,791,533	1,600,500	-	-	-	6,392,033
Intercompany bank accounts	40,743	47,646	55,386	265	2,206	146,246
Other liabilities	39,135	1,478	-	-	5,166	45,779
Statement of comprehensive income:						
Other interest receivable	27,164	17,514	1,342	-	145	46,165
Other interest payable	131,215	28,135	1,034	-	-	160,384
Fee and commission receivable	9,910	-	-	462	-	10,372
Fee and commission payable	105	1	92	788	530	1,516
Other income		234,775			3,583	238,358
Other expenses	186,080	10,850			51,907	248,837
Repatriation of profits	103,000	-	-	-	-	103,000

** HSBC Ltd and HSBC Bank Plc includes their international branches.*

None of the facilities granted to Group companies were non-performing.

35 Financial Risk Management

(a) Introduction and overview

The Bank has exposure to the following risks from financial instruments:

- credit risk
- liquidity risk
- market risks (including interest rate and foreign currency risks)

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital. The measurement of ECL under IFRS 9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed separately in note 35(b)(iii).

Risk management framework

The Board of Directors of the Head Office has overall responsibility for the establishment and oversight of the Bank's risk management framework.

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

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

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

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

35 Financial Risk Management (continued)

(a) Introduction and overview (continued)

Risk management framework (continued)

(b) Credit risk

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

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

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

(i) Management of credit risk

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

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

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

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

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(i) Management of credit risk (continued)

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

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

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

The Bank assesses the credit quality of all financial instruments that are subject to credit risk. The credit quality of financial instruments is a point in time assessment of the probability of default of financial instruments, whereas IFRS 9 stages 1 and 2 are determined based on relative deterioration of credit quality since initial recognition. Accordingly, for non-credit impaired financial instruments, there is no direct relationship between the credit quality assessment and IFRS 9 stages 1 and 2, though typically the lower credit quality bands exhibit a higher proportion in stage 2. The five credit quality classifications defined below, each encompass a range of granular internal credit rating grades assigned to wholesale and retail lending businesses and the external ratings attributed by external agencies to debt securities, as shown in the table below. As at 31 December 2021, the Bank has not classified any of its financial assets as having low credit risk. The credit quality classifications for wholesale lending are unchanged and are based on internal credit risk ratings.

	Debt securities and other bills	Wholesale lending		Retail lending	
	External credit rating	Internal credit rating	12-month Basel Probability of default %	Internal credit rating	12-month Probability-weighted PD %
Credit quality classification					
Strong	A- and above	CRR1 to CRR2	0.000–0.169	Band 1 and 2	0.000–0.500
Good	BBB+ to BBB-	CRR3	0.170–0.740	Band 3	0.501–1.500
Satisfactory	BB+ to B and unrated	CRR4 to CRR5	0.741–4.914	Band 4 and 5	1.501–20.000
Sub-standard	B- to C	CRR6 to CRR8	4.915–99.999	Band 6	20.001–99.99
Credit-impaired	Default	CRR9 to CRR10	100	Band 7	100

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

<u>2021</u>	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
Loans and advances to customers at amortised cost	5,194,026	1,972,253	2,417,414	1,043,186	321,656	10,948,535	(140,400)	10,808,135
– Personal	4,944,739	1,407	25,526	-	207,117	5,178,789	(67,146)	5,111,643
– corporate and commercial	249,287	1,970,836	2,246,888	955,362	114,539	5,536,912	(73,250)	5,463,662
– non-bank financial institutions	-	10	145,000	87,824	-	232,834	(4)	232,830
Loans and advances to banks at amortised cost	378,649	-	-	-	-	378,649	(18)	378,631
Other financial assets measured at amortised cost	8,698,936	785,209	200,724	25,498	2,499	9,712,866	(11)	9,712,855
– cash and cash equivalents*	6,405,261	-	-	-	-	6,405,261	-	6,405,261
– investment securities	148,183					148,183	(10)	148,173
– acceptance and endorsement	70,753	769,885	181,942	17,393	-	1,039,973	(1)	1,039,972
– mandatory balances with central bank	1,958,117	-	-	-	-	1,958,117	-	1,958,117
– accrued income and other assets	116,622	15,324	18,782	8,105	2,499	161,332	-	161,332
Investment securities measured at FVOCI	10,600,736	-	-	-	-	10,600,736	(221)	10,600,515
Trading assets measured at FVPL	11,019	-	255	718	-	11,992	-	11,992
Total gross carrying amount on balance sheet	**24,883,366**	**2,757,462**	**2,618,393**	**1,069,402**	**324,155**	**31,652,778**	**(140,650)**	**31,512,128**
Loan and other credit related commitments	3,467,652	1,956,071	986,408	1,558,477	55	7,968,663	(122)	7,968,541
Financial guarantee and similar contracts	2,111,697	833,235	566,770	172,015	207	3,683,924	(946)	3,682,978
Total nominal amount off–balance sheet	**5,579,349**	**2,789,306**	**1,553,178**	**1,730,492**	**262**	**11,652,587**	**(1,068)**	**11,651,519**
At 31 December 2021	**30,462,715**	**5,546,768**	**4,171,571**	**2,799,894**	**324,417**	**43,305,365**	**(141,718)**	**43,163,647**

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

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

2020

	Gross carrying/nominal amount							
	Strong	Good	Satisfactory	Sub-standard	Credit impaired	Total	Allowance for ECL	Net
	MUR’000	MUR’000	MUR’000	MUR’000	MUR’000	MUR’000	MUR’000	MUR’000
Loans and advances to customers at amortised cost	13,752,367	2,522	37,185	168,210	1,007,544	14,967,828	(633,974)	14,333,854
– Personal	4,893,988	2,508	37,185	168,210	88,148	5,190,039	(98,856)	5,091,183
– corporate and commercial	4,895,642	14	-	-	919,396	5,815,052	(534,642)	5,280,410
– non-bank financial institutions	3,962,737	-	-	-	-	3,962,737	(476)	3,962,261
Loans and advances to banks at amortised cost	264,827	-	-	-	-	264,827	(775)	264,052
Other financial assets measured at amortised cost	8,429,896	32,486	235	68,413	5,541	8,536,571	(33)	8,536,538
– cash and cash equivalents*	6,110,262	-	-	-	-	6,110,262	-	6,110,262
– acceptance and endorsement	631,558	32,470	-	67,350	-	731,378	(33)	731,345
– mandatory balances with central bank	1,567,270	-	-	-	-	1,567,270	-	1,567,270
– accrued income and other assets	120,806	16	235	1,063	5,541	127,661	-	127,661
Investment securities measured at FVOCI	8,324,946	-	-	-	-	8,324,946	(11,936)	8,313,010
Trading assets measured at FVPL	8	6,054	-		-	6,062	-	6,062
Total gross carrying amount on balance sheet	30,772,044	41,062	37,420	236,623	1,013,085	32,100,234	(646,718)	31,453,516
Loan and other credit related commitments	3,601,934	2,958,829	1,106,958	901,668	4,629	8,574,018	(709)	8,573,309
Financial guarantee and similar contracts	2,377,276	584,865	376,716	264,129	31,655	3,634,641	(1,274)	3,633,367
Total nominal amount off–balance sheet	5,979,210	3,543,694	1,483,674	1,165,797	36,284	12,208,659	(1,983)	12,206,676
At 31 December 2020	36,751,254	3,584,756	1,521,094	1,402,420	1,049,369	44,308,893	(648,701)	43,660,192

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments

2019

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

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Total loans and advances at amortised cost by portfolio stage distribution

2021	Gross carrying amount				Allowance for ECL			
	Stage 1	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
	MUR'000	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
By portfolio								
Personal lending	**4,945,194**	**149,850**	**83,745**	**5,178,789**	**(24,715)**	**(22,254)**	**(20,177)**	**(67,146)**
Residential mortgages	3,970,821	121,571	76,322	4,168,714	(8,672)	(14,595)	(14,834)	(38,101)
Other personal lending	974,373	28,279	7,423	1,010,075	(16,043)	(7,659)	(5,343)	(29,045)
- other	743,838	26,872	6,277	776,987	(11,519)	(6,139)	(4,660)	(22,318)
- credit cards	230,535	1,407	1,146	233,088	(4,524)	(1,520)	(683)	(6,727)
Wholesale	**3,792,564**	**2,241,293**	**114,538**	**6,148,395**	**(26)**	**(26)**	**(73,220)**	**(73,272)**
Corporate and commercial	3,268,905	2,153,469	114,538	5,536,912	(8)	(22)	(73,220)	(73,250)
Non-bank financial institutions	145,010	87,824	-	232,834	-	(4)	-	(4)
Bank	378,649	-	-	378,649	(18)	-	-	(18)
				-				
At 31 December 2021	**8,737,758**	**2,391,143**	**198,283**	**11,327,184**	**(24,741)**	**(22,280)**	**(93,397)**	**(140,418)**

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Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Total loans and advances at amortised cost by portfolio stage distribution

2020	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
By portfolio								
Personal lending	4,893,987	207,904	88,148	5,190,039	(52,751)	(25,898)	(20,207)	(98,856)
Residential mortgages	3,957,234	160,934	75,109	4,193,277	(32,919)	(15,768)	(13,424)	(62,111)
Other personal lending	936,753	46,970	13,039	996,762	(19,832)	(10,130)	(6,783)	(36,745)
- other	679,823	44,462	10,950	735,235	(15,976)	(8,375)	(6,107)	(30,458)
- credit cards	256,930	2,508	2,089	261,527	(3,856)	(1,755)	(676)	(6,287)
Wholesale	7,735,559	1,387,661	919,396	10,042,616	(1,667)	(1,629)	(532,597)	(535,893)
Corporate and commercial	3,849,444	1,046,212	919,396	5,815,052	(851)	(1,194)	(532,597)	(534,642)
Non-bank financial institutions	3,621,288	341,449	-	3,962,737	(41)	(435)	-	(476)
Bank	264,827	-	-	264,827	(775)	-	-	(775)
At 31 December 2020	12,629,546	1,595,565	1,007,544	15,232,655	(54,418)	(27,527)	(552,804)	(634,749)

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Total loans and advances at amortised cost by portfolio stage distribution

2019	Gross carrying amount				Allowance for ECL			
	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
By portfolio								
Personal lending	5,300,642	161,052	68,947	5,530,641	(15,328)	(19,832)	(16,872)	(52,032)
Residential mortgages	4,190,510	136,157	55,972	4,382,639	(2,486)	(14,474)	(10,912)	(27,872)
				-				
Other personal lending	1,110,132	24,895	12,975	1,148,002	(12,842)	(5,358)	(5,960)	(24,160)
- other	809,983	22,352	10,990	843,325	(7,922)	(3,487)	(4,906)	(16,315)
- credit cards	300,149	2,543	1,985	304,677	(4,920)	(1,871)	(1,054)	(7,845)
Wholesale	7,838,037	2,882,844	-	10,720,881	(1,349)	(394)	-	(1,743)
Corporate and commercial	4,268,256	2,882,844	-	7,151,100	(670)	(394)	-	(1,064)
Non-bank financial institutions	3,237,349	-	-	3,237,349	(669)	-	-	(669)
Bank	332,432	-	-	332,432	(10)	-	-	(10)
				-				
At 31 December 2019	13,138,679	3,043,896	68,947	16,251,522	(16,677)	(20,226)	(16,872)	(53,775)

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Personal lending - credit risk profile by internal PD band for loans and advances to customers at amortised cost

2021		Gross carrying amount				Allowance for ECL				
	PD range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**ECL coverage**
	%	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**%**
Residential mortgages		**3,970,821**	**121,571**	**76,322**	**4,168,714**	**(8,672)**	**(14,595)**	**(14,834)**	**(38,101)**	**0.91**
Band 1	0.000 to 0.250	60,072	-	-	60,072	-	-	-	-	0.00
Band 2	0.251 to 0.500	3,910,749	-	-	3,910,749	(8,672)	-	-	(8,672)	0.22
Band 3	0.501 to 1.500	-	-	-	-	-	-	-	-	0.00
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	0.00
Band 5	5.001 to 20.000	-	-	-	-	-	-	-	-	0.00
Band 6	20.001 to 99.999	-	121,571	-	121,571	-	(14,595)	-	(14,595)	12.01
Band 7	100	-	-	76,322	76,322	-	-	(14,834)	(14,834)	19.44
Other personal lending		**974,373**	**28,279**	**7,423**	**1,010,075**	**(16,043)**	**(7,659)**	**(5,343)**	**(29,045)**	**2.88**
Band 1	0.000 to 0.250	772,418	-	-	772,418	(15,585)	-	-	(15,585)	2.02
Band 2	0.251 to 0.500	201,955	-	-	201,955	(458)	-	-	(458)	0.23
Band 3	0.501 to 1.500	-	1,407	-	1,407	-	-	-	-	0.00
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	0.00
Band 5	5.001 to 20.000	-	25,714	-	25,714	-	(7,523)	-	(7,523)	29.26
Band 6	20.001 to 99.999	-	1,158	-	1,158	-	(136)	-	(136)	11.74
Band 7	100	-	-	7,423	7,423	-	-	(5,343)	(5,343)	71.98
At 31 December 2021		**4,945,194**	**149,850**	**83,745**	**5,178,789**	**(24,715)**	**(22,254)**	**(20,177)**	**(67,146)**	**1.30**

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Personal lending - credit risk profile by internal PD band for loans and advances to customers at amortised cost

2020		Gross carrying amount				Allowance for ECL				
	PD range	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL coverage
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	%
Residential mortgages		3,957,234	160,934	75,109	4,193,277	(32,919)	(15,768)	(13,424)	(62,111)	1.48
Band 1	0.000 to 0.250	25,678	-	-	25,678	(214)	-	-	(214)	0.83
Band 2	0.251 to 0.500	3,931,556	-	-	3,931,556	(32,705)	-	-	(32,705)	0.83
Band 3	0.501 to 1.500	-	-	-	-	-	-	-	-	-
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	-	-	-	-	-	-	-	-
Band 6	20.001 to 99.999	-	160,934	-	160,934	-	(15,768)	-	(15,768)	9.80
Band 7	100	-	-	75,109	75,109	-	-	(13,424)	(13,424)	17.87
Other personal lending		936,753	46,970	13,039	996,762	(19,832)	(10,130)	(6,783)	(36,745)	3.69
Band 1	0.000 to 0.250	791,076	-	-	791,076	(18,351)	-	-	(18,351)	2.32
Band 2	0.251 to 0.500	145,677	-	-	145,677	(1,481)	-	-	(1,481)	1.02
Band 3	0.501 to 1.500	-	2,509	-	2,509	-	-	-	-	-
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	37,185	-	37,185	-	(9,369)	-	(9,369)	25.20
Band 6	20.001 to 99.999	-	7,276	-	7,276	-	(761)	-	(761)	10.46
Band 7	100	-	-	13,039	13,039	-	-	(6,783)	(6,783)	52.02
At 31 December 2020		4,893,987	207,904	88,148	5,190,039	(52,751)	(25,898)	(20,207)	(98,856)	1.90

The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Personal lending - credit risk profile by internal PD band for loans and advances to customers at amortised cost

2019		Gross carrying amount				Allowance for ECL				
	PD range	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL coverage
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	%
Residential mortgages		4,190,510	136,157	55,972	4,382,639	(2,486)	(14,474)	(10,912)	(27,872)	0.64
Band 1	0.000 to 0.250	39,573	-	-	39,573	-	-	-	-	-
Band 2	0.251 to 0.500	4,150,937	-	-	4,150,937	(2,486)	-	-	(2,486)	0.06
Band 3	0.501 to 1.500	-	-	-	-	-	-	-	-	
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	
Band 5	5.001 to 20.000	-	-	-	-	-	-	-	-	
Band 6	20.001 to 99.999	-	136,157	-	136,157	-	(14,474)	-	(14,474)	10.63
Band 7	100	-	-	55,972	55,972	-	-	(10,912)	(10,912)	19.50
Other personal lending		1,110,131	24,895	12,975	1,148,001	(12,842)	(5,358)	(5,960)	(24,160)	2.10
Band 1	0.000 to 0.250	932,485	-	-	932,485	(12,733)	-	-	(12,733)	1.37
Band 2	0.251 to 0.500	177,646	-	-	177,646	(109)	-	-	(109)	-
Band 3	0.501 to 1.500	-	2,544	-	2,544	-	-	-	-	-
Band 4	1.501 to 5.000	-	-	-	-	-	-	-	-	-
Band 5	5.001 to 20.000	-	18,900	-	18,900	-	(4,983)	-	(4,983)	26.37
Band 6	20.001 to 99.999	-	3,451	-	3,451	-	(375)	-	(375)	10.87
Band 7	100	-	-	12,975	12,975	-	-	(5,960)	(5,960)	45.93
At 31 December 2019		5,300,641	161,052	68,947	5,530,640	(15,328)	(19,832)	(16,872)	(52,032)	0.94

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Wholesale lending - credit risk profile by obligor grade for loans and advances at amortised cost

2021		**Gross carying amount**					**Allowance for ECL**				
	PD range	**Stage 1**	**Stage 2**	**Stage 3**	**Total**		**Stage 1**	**Stage 2**	**Stage 3**	**Total**	**ECL coverage**
	%	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**		**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**	**%**
Corporate and Commercial		**3,268,905**	**2,153,469**	**114,538**	**5,536,912**		**(8)**	**(14)**	**(73,220)**	**(73,242)**	**(0.01)**
CRR1	0.000 to 0.053	-	-	-	-		-	-	-	-	**-**
CRR2	0.054 to 0.169	249,288	-	-	249,288		-	-	-	-	**0.00**
CRR3	0.170 to 0.740	1,949,310	21,526	-	1,970,836		(4)	-	-	(4)	**(0.00)**
CRR4	0.741 to 1.927	166,220	527,696	-	693,916		-	-	-	-	**-**
CRR5	1.928 to 4.914	904,087	648,885	-	1,552,972		(4)	(2)	-	(6)	**(0.00)**
CRR6	4.915 to 8.860	-	591,255	-	591,255		-	(5)	-	(5)	**(0.00)**
CRR7	8.861 to 15.000	-	287,872	-	287,872		-	-	-	-	**-**
CRR8	15.001 to 99.999	-	76,235	-	76,235		-	(7)	-	(7)	**(0.00)**
CRR9/10	100.000	-	-	114,538	114,538		-	-	(73,220)	(73,220)	**(0.64)**
Non bank financial institutions		**145,010**	**87,824**	**-**	**232,834**	**-**	**-**	**(4)**	**-**	**(4)**	**(0.00)**
CRR1	0.000 to 0.053	-	-	-	-		-	-	-	-	**-**
CRR2	0.054 to 0.169	-	-	-	-		-	-	-	-	**-**
CRR3	0.170 to 0.740	10	-	-	10		-	-	-	-	**-**
CRR4	0.741 to 1.927	-	-	-	-		-	-	-	-	**-**
CRR5	1.928 to 4.914	145,000	-	-	145,000		-	-	-	-	**-**
CRR6	4.915 to 8.860	-	-	-	-		-	-	-	-	**-**
CRR7	8.861 to 15.000	-	87,824	-	87,824		-	(4)	-	(4)	**(0.00)**
CRR8	15.001 to 99.999	-	-	-	-		-	-	-	-	**-**
CRR9/10	100.000	-	-	-	-		-	-	-	-	**-**
Banks		**378,649**	**-**	**-**	**378,649**	**-**	**(18)**	**-**	**-**	**(18)**	**(0.00)**
CRR1	0.000 to 0.053	-	-	-	-		-	-	-	-	**-**
CRR2	0.054 to 0.169	378,649	-	-	378,649		(18)	-	-	(18)	**-**
CRR3	0.170 to 0.740	-	-	-	-		-	-	-	-	**-**
CRR4	0.741 to 1.927	-	-	-	-		-	-	-	-	**-**
CRR5	1.928 to 4.914	-	-	-	-		-	-	-	-	**-**
CRR6	4.915 to 8.860	-	-	-	-		-	-	-	-	**-**
CRR7	8.861 to 15.000	-	-	-	-		-	-	-	-	**-**
CRR8	15.001 to 99.999	-	-	-	-		-	-	-	-	**-**
CRR9/10	100.000	-	-	-	-		-	-	-	-	**-**
At 31 December 2021		**3,792,564**	**2,241,293**	**114,538**	**6,148,395**		**(26)**	**(18)**	**(73,220)**	**(73,264)**	**(0.01)**

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Wholesale lending - credit risk profile by obligor grade for loans and advances at amortised cost

2020		Gross carying amount				Allowance for ECL				
	PD range	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL coverage
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	%
Corporate and Commercial		**3,849,444**	**1,046,212**	**919,396**	**5,815,052**	**(851)**	**(1,194)**	**(532,597)**	**(534,642)**	**(0.09)**
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	**-**
CRR2	0.054 to 0.169	413,110	-	-	413,110	(16)	-	-	(16)	**0.00**
CRR3	0.170 to 0.740	1,423,292	55,937	-	1,479,229	(45)	(1)	-	(46)	**(0.00)**
CRR4	0.741 to 1.927	437,211		-	437,211	(6)	-	-	(6)	**(0.00)**
CRR5	1.928 to 4.914	1,575,831	150,330	-	1,726,161	(784)	(35)	-	(819)	**(0.00)**
CRR6	4.915 to 8.860	-	21,688	-	21,688	-	(11)	-	(11)	**(0.00)**
CRR7	8.861 to 15.000	-	170,797	-	170,797	-	(417)	-	(417)	**(0.00)**
CRR8	15.001 to 99.999	-	647,460	-	647,460	-	(730)	-	(730)	**(0.00)**
CRR9/10	100.000	-	-	919,396	919,396	-	-	(532,597)	(532,597)	**(0.58)**
Non bank financial institutions		**3,621,289**	**341,449**	**-**	**3,962,738**	**(41)**	**(435)**	**-**	**(476)**	**(0.00)**
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	**-**
CRR2	0.054 to 0.169	43,329	-	-	43,329	-	-	-	-	**-**
CRR3	0.170 to 0.740	3,375,524	-	-	3,375,524	(41)	-	-	(41)	**(0.00)**
CRR4	0.741 to 1.927	75	-	-	75	-	-	-	-	**-**
CRR5	1.928 to 4.914	202,361	-	-	202,361	-	-	-	-	**-**
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	**-**
CRR7	8.861 to 15.000	-	341,449	-	341,449	-	(435)	-	(435)	**(0.00)**
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	**-**
CRR9/10	100.000	-	-	-	-	-	-	-	-	**-**
Banks		**264,827**	**-**	**-**	**264,827**	**(775)**	**-**	**-**	**(775)**	**(0.00)**
CRR1	0.000 to 0.053	264,827	-	-	264,827	(775)	-	-	(775)	**(0.00)**
CRR2	0.054 to 0.169	-	-	-	-	-	-	-	-	**-**
CRR3	0.170 to 0.740	-	-	-	-	-	-	-	-	**-**
CRR4	0.741 to 1.927	-	-	-	-	-	-	-	-	**-**
CRR5	1.928 to 4.914	-	-	-	-	-	-	-	-	**-**
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	**-**
CRR7	8.861 to 15.000	-	-	-	-	-	-	-	-	**-**
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	**-**
CRR9/10	100.000	-	-	-	-	-	-	-	-	**-**
At 31 December 2020		**7,735,560**	**1,387,661**	**919,396**	**10,042,617**	**(1,667)**	**(1,629)**	**(532,597)**	**(535,893)**	**(0.05)**

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(ii) Credit Quality of financial instruments (continued)

Wholesale lending - credit risk profile by obligor grade for loans and advances at amortised cost

2019		Gross carying amount				Allowance for ECL				
	PD range	Stage 1	Stage 2	Stage 3	Total	Stage 1	Stage 2	Stage 3	Total	ECL coverage
	%	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	%
Corporate and Commercial		**4,268,257**	**2,882,844**	**-**	**7,151,101**	**(670)**	**(394)**	**-**	**(1,064)**	**0.0%**
CRR1	0.000 to 0.053	80,936	-	-	80,936	(1)	-	-	(1)	**0.0%**
CRR2	0.054 to 0.169	762,884	-	-	762,884	(5)	-	-	(5)	**0.0%**
CRR3	0.170 to 0.740	915,672	567,120	-	1,482,792	(39)	(71)	-	(110)	**0.0%**
CRR4	0.741 to 1.927	1,635,400	1,831,740	-	3,467,140	(154)	(204)	-	(358)	**0.0%**
CRR5	1.928 to 4.914	873,365	430,389	-	1,303,754	(471)	(69)	-	(540)	**0.0%**
CRR6	4.915 to 8.860	-	53,594	-	53,594	-	(50)	-	(50)	**0.0%**
CRR7	8.861 to 15.000	-	1	-	1	-	-	-	-	**(0.1%)**
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	**0.0%**
CRR9/10	100.000	-	-	-	-	-	-	-	-	**-**
Non bank financial institutions		**3,237,349**	**-**	**-**	**3,237,349**	**(669)**	**-**	**-**	**(669)**	**0.0%**
CRR1	0.000 to 0.053	-	-	-	-	-	-	-	-	**-**
CRR2	0.054 to 0.169	-	-	-	-	-	-	-	-	**-**
CRR3	0.170 to 0.740	3,088,849	-	-	3,088,849	(564)	-	-	(564)	**0.0%**
CRR4	0.741 to 1.927	-	-	-	-	-	-	-	-	**-**
CRR5	1.928 to 4.914	148,500	-	-	148,500	(105)	-	-	(105)	**(0.1%)**
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	**-**
CRR7	8.861 to 15.000	-	-	-	-	-	-	-	-	**-**
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	**-**
CRR9/10	100.000	-	-	-	-	-	-	-	-	**-**
Banks		**332,432**	**-**	**-**	**332,432**	**(10)**	**-**	**-**	**(10)**	**0.0%**
CRR1	0.000 to 0.053	268,157	-	-	268,157	(8)	-	-	(8)	**0.0%**
CRR2	0.054 to 0.169	64,275	-	-	64,275	(2)	-	-	(2)	**0.0%**
CRR3	0.170 to 0.740	-	-	-	-	-	-	-	-	**-**
CRR4	0.741 to 1.927	-	-	-	-	-	-	-	-	**-**
CRR5	1.928 to 4.914	-	-	-	-	-	-	-	-	**-**
CRR6	4.915 to 8.860	-	-	-	-	-	-	-	-	**-**
CRR7	8.861 to 15.000	-	-	-	-	-	-	-	-	**-**
CRR8	15.001 to 99.999	-	-	-	-	-	-	-	-	**-**
CRR9/10	100.000	-	-	-	-	-	-	-	-	**-**
At 31 December 2019		**7,838,038**	**2,882,844**	**-**	**10,720,882**	**(1,349)**	**(394)**	**-**	**(1,743)**	**0.0%**

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(ii) Credit risk measurement and analysis

(A) Expected credit loss measurement

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

- A financial instrument that is not credit-impaired on initial recognition is classified in 'Stage 1' and has its credit risk continuously monitored by the Bank.

- If a significant increase in credit risk (“SICR”) since initial recognition is identified, the financial instrument is moved to 'Stage 2' but is not yet deemed to be credit-impaired. A description of how the Bank determines when a significant increase in credit risk has occurred is given below.

- If the financial instrument is credit-impaired, the financial instrument is then moved to 'Stage 3'. A description of how the Bank defines credit-impaired and default is given below.

- Financial instruments in Stage 1 have their ECL measured at an amount equal to the portion of lifetime expected credit losses that result from default events possible within the next 12 months. Instruments in Stages 2 or 3 have their ECL measured based on expected credit losses on a lifetime basis. A description of inputs, assumptions and estimation techniques used in measuring the ECL is given below.

- A pervasive concept in measuring ECL in accordance with IFRS 9 is that it should consider forward-looking information. An explanation of how the Bank has incorporated this in its ECL models is given below.

- Purchased or originated credit-impaired financial assets are those financial assets that are credit-impaired on initial recognition. Their ECL is always measured on a lifetime basis (Stage 3).

(B) Explanation of inputs, assumptions and estimation techniques

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

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

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

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

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

Change in credit quality since initial recognition

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

Stage 1 and 2

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

Stage 3

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

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

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

Stage 3 (continued)

a) an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes;

b) the time value of money; and
c) reasonable and supportable information that is available without undue cost or effort at the end of the reporting date about past events, current conditions and forecasts of future economic conditions.

The ECL under stage 3 is determined on an individual basis using a discounted cash flow ("DCF") methodology. The expected future cash flows are based on the credit risk officer's estimates as at the end of the reporting date, reflecting reasonable and supportable assumptions and projections of future recoveries and expected future receipts of interest. Collateral is taken into account if it is likely that the recovery of the outstanding amount will include realisation of collateral based on its estimated fair value of collateral at the time of expected realisation, less costs for obtaining and selling the collateral. The cash flows are discounted at a reasonable approximation of the original effective interest rate.

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

An assessment of whether credit risk has increased significantly since initial recognition is performed at the end of each reporting period by considering the change in the risk of default occurring over the remaining life of the financial instrument. The assessment explicitly or implicitly compares the risk of default occurring at the end of the reporting date compared to that at initial recognition, taking into account reasonable and supportable information, including information about past events, current conditions and future economic conditions. The assessment is unbiased, probability-weighted, and to the extent relevant, uses forward-looking information consistent with that used in the measurement of ECL. The analysis of credit risk is multifactor. The determination of whether a specific factor is relevant and its weight compared with other factors depends on the type of product, the characteristics of the financial instrument and the borrower, and the geographical region. Therefore, it is not possible to provide a single set of criteria that will determine what is considered to be a significant increase in credit risk and these criteria will differ for different types of lending, particularly between retail and wholesale.

However, unless identified at an earlier stage, all financial assets are deemed to have suffered a significant increase in credit risk when 30 days past due for both retail and wholesale. In addition, wholesale loans that are individually assessed, typically corporate and commercial customers, and included on a watch or worry list are included in stage 2.

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

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

For wholesale portfolios, the quantitative comparison assesses default risk using a lifetime PD which encompasses a wide range of information including the obligor's customer risk rating, macroeconomic condition forecasts and credit transition probabilities. Significant increase in credit risk is measured by comparing the average PD for the remaining term estimated at origination with the equivalent estimation at reporting date (or that the origination PD has doubled in the case of origination CRR greater than 3.3). The significance of changes in PD was informed by expert credit risk judgement, referenced to historical credit migrations and to relative changes in external market rates. The quantitative measure of significance varies depending on the credit quality at origination as follows:

Origination CRR	Significant trigger – PD to increase by
CRR 0.1 – 1.2	15bps
CRR 2.1 – 3.3	30bps
Greater than CRR 3.3 and not impaired	2 times

For loans originated prior to the implementation of IFRS 9, the origination PD does not include adjustments to reflect expectations of future macroeconomic conditions since these are not available without the use of hindsight. For these loans, the quantitative comparison is supplemented with additional

CRR deterioration based thresholds as set out in the table below:

Origination CRR	Number notches in the band	Additional significance criteria – Number of CRR grade notches of deterioration required to identify as
0.1	1 notch	5 notches
1.1 – 4.2	9 notches	4 notches
4.3 – 5.1	2 notches	3 notches
5.2 – 7.1	5 notches	2 notches
7.2 – 8.2	3 notches	1 notch
8.3	1 notch	0 notch

For retail portfolios, default risk is assessed using a reporting date 12-month PD derived from credit scores which incorporate all available information about the customer. This PD is adjusted for the effect of macroeconomic forecasts for periods longer than 12 months and is considered to be a reasonable approximation of a lifetime PD measure. Retail exposures are first segmented into homogeneous portfolios, generally by country, product and brand. Within each portfolio, the stage 2 accounts are defined as accounts with an adjusted 12-month PD greater than the average 12-month PD of loans in that portfolio 12 months before they become 30 days past due. The expert credit risk judgement is that no prior increase in credit risk is significant. This portfolio-specific threshold identifies loans with a PD higher than would be expected from loans that are performing as originally expected and higher than that which would have been acceptable at origination. It therefore approximates a comparison of origination to reporting date PDs.

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(D) Period over which ECL is measured

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions. This applies to retail overdrafts and credit cards, where the period is the average time taken for stage 2 exposures to default or close as performing accounts, determined on a portfolio basis and ranging from between two and six years. In addition, for these facilities it is not possible to identify the ECL on the loan commitment component separately from the financial asset component. As a result, the total ECL is recognised in the loss allowance for the financial asset unless the total ECL exceeds the gross carrying amount of the financial asset, in which case the ECL is recognised as a provision.

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

(E) Definition of default and credit-impaired assets

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

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(E) Definition of default and credit-impaired assets

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

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

(F) Movement between stages

Financial assets can be transferred between the different categories depending on their relative increase in credit risk since initial recognition. Financial instruments are transferred out of stage 2 if their credit risk is no longer considered to be significantly increased since initial recognition based on the assessments described above. Except for renegotiated loans, financial instruments are transferred out of stage 3 when they no longer exhibit any evidence of credit impairment as described above. Renegotiated loans will continue to be in stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of non-payment of future cash flows, observed over a minimum one-year period and there are no other indicators of impairment. For loans that are assessed for impairment on a portfolio basis, the evidence typically comprises a history of payment performance against the original or revised terms, as appropriate to the circumstances. For loans that are assessed for impairment on an individual basis, all available evidence is assessed on a case-by-case basis.

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(G) Write-off policy

The Bank writes off a loan/security balance (and any related allowances for impairment losses) when the Bank's RMM determines that the loans/securities are uncollectible. This determination is reached after considering information such as the occurrence of significant changes in the borrower/issuer's financial position such that the borrower/issuer can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. For smaller balance standardised loans, charge off decisions generally are based on a product specific past due status. A total amount of MUR233.3m (2020: MUR16.1m) was written off during the year, which is still subject to enforcement activity. The Bank is complying with BoM *Guideline on Write-Off of Non-Performing Assets* issued in July 2019.

(H) Collaterals

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

The Bank holds collateral against loans and advances to customers in the form of mortgage on property, deposit and securities under lien and charge on plant and machinery. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated every 3 years and every year when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2021, 31 December 2020 and 31 December 2019. Additional information on collaterals is available in note 35 (b)(iv).

(I) Modification of financial assets

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

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(I) Modification of financial assets (continued)

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

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

(J) Renegotiated loans and forbearance

The following table shows the gross carrying amounts of the Bank's holdings of renegotiated loans and advances to customers by industry sector and by stages. The Bank does not hold any wholesale renegotiated loans as at 31 December 2021, however those renegotiated loans are to be classified as stage 3 until there is sufficient evidence to demonstrate a significant reduction in the risk of nonpayment of future cash flows, observed over a minimum one-year period, and there are no other indicators of impairment. Personal renegotiated loans are deemed to remain credit impaired until repayment or derecognition.

Renegotiated loans and advances to customers at amortised costs by stage allocation

	Stage 3		
	MUR'000	MUR'000	MUR'000
	2021	2020	2019
Gross carrying amount			
Personal lending	37,265	27,972	23,967
– Residential mortgages	37,265	27,972	23,967
– Other personal lending	-	-	-
At 31 December	**37,265**	27,972	23,967
Allowance for ECL			
Personal lending	(1,196)	(664)	(3,785)
– Residential mortgages	(1,196)	(664)	(3,785)
– Other personal lending	-	-	-
At 31 December	**(1,196)**	(664)	(3,785)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

(K) Forward looking economic inputs

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

The HSBC group has adopted the use of four economic scenarios, which are representative of our view of forecast economic conditions, sufficient to calculate unbiased ECL. They represent a ‘most likely outcome’, (the Central scenario) and two, less likely, ‘Outer’ scenarios on either side of the Central, referred to as an ‘Upside’ and a ‘Downside’ scenario respectively. The HSBC group has chosen to use a fourth scenario to represent their view of severe downside risks. Each outer scenario is consistent with a probability of 10%, while the Central scenario is assigned the remaining 80%. This weighting scheme is deemed as appropriate for the computation of unbiased ECL in most economic environments. Setting key scenario assumptions using the average of forecasts from external economists helps to ensure that the IFRS 9 scenarios are unbiased and maximise the use of independent information.

For the Central scenario, key assumptions such as GDP growth rate and inflation are set using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies or market prices. An external vendor’s global macro model, which is conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This vendor model is subject to HSBC’s risk governance framework with oversight by a specialist internal unit.

The Upside and Downside scenarios are designed to be cyclical in that GDP growth and inflation usually revert back to the Central scenario after the first three years for major economies.

The HSBC Group determines the maximum divergence of GDP growth from the Central scenario using the 10^{th} and the 90^{th} percentile of the entire distribution of forecast outcomes for major economies. Using externally available forecast distributions ensures independence in scenario construction. While key economic variables are set with reference to external distributional forecasts, the Group also aligns the overall narrative of the scenarios to the macroeconomic risks described in HSBC’s Top and Emerging Risks. This ensures that scenarios remain consistent with the more qualitative assessment of risks captured in the Top and Emerging Risks. The HSBC Group projects additional variable paths using the external vendor’s global macro model.

Management have incorporated the forward economic guidance “FEG” in the impairment model and as at 31 December 2021, the impact of the FEG was insignificant.

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(iii) Credit risk measurement and analysis (continued)

Critical accounting estimates and judgements

The calculation of ECL under IFRS 9 involves significant judgements, assumptions and estimates. Despite a general recovery in economic conditions during 2021, the level of estimation uncertainty and judgement has remained high during 2021 as a result of the ongoing economic effects of the Covid-19 pandemic and other sources of economic instability, including significant judgements relating to:

- the selection and weighting of economic scenarios, given rapidly changing economic conditions in an unprecedented manner, uncertainty as to the effect of government and central bank support measures designed to alleviate adverse economic impacts, and a wider distribution of economic forecasts than before the pandemic. The key judgements are the length of time over which the economic effects of the pandemic will occur, and the speed and shape of recovery. The main factors include the effectiveness of pandemic containment measures, the pace of roll-out and effectiveness of vaccines, and the emergence of new variants of the virus, plus a range of geopolitical uncertainties, which together represent a high degree of estimation uncertainty, particularly in assessing Downside scenarios;

- estimating the economic effects of those scenarios on ECL, where there is no observable historical trend that can be reflected in the models that will accurately represent the effects of the economic changes of the severity and speed brought about by the Covid-19 pandemic and the recovery from those conditions. Modelled assumptions and linkages between economic factors and credit losses may underestimate or overestimate ECL in these conditions, and there is significant uncertainty in the estimation of parameters such as collateral values and loss severity; and

- the identification of customers experiencing significant increases in credit risk and credit impairment, particularly where those customers have accepted payment deferrals and other reliefs designed to address short-term liquidity issues given muted default experience to date. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk

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

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

	Gross carrying/ nominal amount	**Allowance for ECL**	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000	**MUR'000**	MUR'000	MUR'000	MUR'000	MUR'000
	2021	**2021**	2020	2020	2019	2019
Loans and advances to customers at amortised cost:	**10,948,535**	**(140,400)**	14,967,828	(633,974)	15,919,090	(53,765)
- Personal	5,178,789	(67,146)	5,190,039	(98,856)	5,530,641	(52,032)
- Corporate and Commercial	5,536,912	(73,250)	5,815,052	(534,642)	7,151,100	(1,064)
- Non-bank financial institutions	232,834	(4)	3,962,737	(476)	3,237,349	(669)
Loans and advances to banks at amortised cost:	**378,649**	**(18)**	264,827	(775)	332,432	(10)
Other financial assets at amortised costs:	**9,712,866**	**(11)**	8,536,571	(33)	5,566,166	(5)
– cash and cash equivalents	6,405,261	-	6,110,262	-	3,721,079	-
– investment securities	148,183	(10)				
– acceptance and endorsement	1,039,973	(1)	731,378	(33)	201,674	(5)
– mandatory balances with central bank	1,958,117	-	1,567,270	-	1,490,384	-
– accrued income and other assets	161,332	-	127,661	-	153,029	-
Total gross carrying amount on balance sheet	**21,040,050**	**(140,429)**	23,769,226	(634,782)	21,817,688	(53,780)
Loan and other credit related commitments	7,968,663	(122)	8,574,018	(709)	10,456,997	(387)
Financial guarantee and similar contracts	3,683,923	(946)	3,634,641	(1,274)	3,604,515	(921)
Total nominal amount off-balance sheet	**11,652,586**	**(1,068)**	12,208,659	(1,983)	14,061,512	(1,308)
At 31 December	**32,692,636**	**(141,497)**	35,977,885	(636,765)	35,879,200	(55,088)

	Fair Value	**Allowance for ECL**	Fair Value	Allowance for ECL	Fair Value	Allowance for ECL
	MUR'000	**MUR'000**	MUR'000	MUR'000	MUR'000	MUR'000
	2021	**2021**	2020	2020	2019	2019
At 31 December	**10,612,728**	**(221)**	8,331,008	(11,936)	7,757,596	(893)
Investment securities measured at FVOCI (Stage 1)	10,600,736	(221)	8,324,946	(11,936)	7,755,621	(893)
Trading assets measured at FVPL	11,992	-	6,062	-	1,975	-

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Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk

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

2021	Gross carrying/ notional amount						Allowance/ provision for ECL						ECL coverage %					
	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Gross carrying/ notional amount	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Allowance/ provision for ECL	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total ECL coverage %
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000						
Loans and advances to customers at amortised cost:	8,359,110	2,391,142	52,406	18,733	198,283	10,948,535	(24,723)	(22,280)	-	-	(93,397)	(140,400)	0.3%	0.9%	0.0%	0.0%	47.1%	1.3%
- Personal	4,945,195	149,849	52,406	18,733	83,745	5,178,789	(24,715)	(22,254)	-	-	(20,177)	(67,146)	0.5%	14.9%	0.0%	0.0%	24.1%	1.3%
- Corporate and Commercial	3,268,905	2,153,469	-	-	114,538	5,536,912	(8)	(22)	-	-	(73,220)	(73,250)	0.0%	0.0%	0.0%	0.0%	63.9%	1.3%
- Non-bank financial institutions	145,010	87,824	-	-	-	232,834	-	(4)	-	-	-	(4)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances to banks at amortised cost:	378,649	-	-	-	-	378,649	(18)	-	-	-	-	(18)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other financial assets measured at amortised cost	9,596,484	116,397	-	-		9,712,881	(11)	-	-	-	-	(11)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan and other credit related commitments:	5,308,657	2,616,111	-	-	43,895	7,968,663	(81)	(41)	-	-	-	(122)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial guarantee and similar contracts	2,875,331	807,754	-	-	838	3,683,923	(738)	(208)	-	-	-	(946)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
At 31 December	26,518,231	5,931,404	52,406	18,733	243,016	32,692,651	(25,571)	(22,529)	-	-	(93,397)	(141,497)	0.1%	0.4%	0.0%	0.0%	38.4%	0.4%

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk

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

2020	Gross carrying/ notional amount						Allowance/ provision for ECL						ECL coverage %					
	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Gross carrying/ notional amount	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Allowance/ provision for ECL	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total ECL coverage %
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000						
Loans and advances to customers at amortised cost:	12,364,719	1,595,565	131,318	43,480	1,007,544	14,967,828	(53,643)	(27,527)	(11,011)	(5,715)	(552,804)	(633,974)	0.4%	1.7%	8.4%	13.1%	54.9%	4.2%
- Personal	4,893,987	207,904	129,929	43,480	88,148	5,190,039	(52,751)	(25,898)	(11,011)	(5,715)	(20,207)	(98,856)	1.1%	12.5%	8.5%	13.1%	22.9%	1.9%
- Corporate and Commercial	3,849,444	1,046,212	1,389	-	919,396	5,815,052	(851)	(1,194)	-	-	(532,597)	(534,642)	0.0%	0.1%	0.0%	0.0%	57.9%	9.2%
- Non-bank financial institutions	3,621,288	341,449	-	-	-	3,962,737	(41)	(435)	-	-		(476)	0.0%	0.1%	0.0%	0.0%	0.0%	0.0%
Loans and advances to banks at amortised cost:	264,827	-	-	-	-	264,827	(775)	-	-	-	-	(775)	0.3%	0.0%	0.0%	0.0%	0.0%	0.3%
Other financial assets measured at amortised cost	8,469,371	67,200	-	-	-	8,536,571	(4)	(29)	-	-	-	(33)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan and other credit related commitments:	7,655,875	903,100	-	-	15,752	8,574,727	(382)	(31)	-	-	(296)	(709)	0.0%	0.0%	0.0%	0.0%	1.9%	0.0%
Financial guarantee and similar contracts	2,900,081	703,190	-	-	32,644	3,635,915	(157)	(98)	-	-	(1,019)	(1,274)	0.0%	0.0%	0.0%	0.0%	3.1%	0.0%
At 31 December	31,654,873	3,269,055	131,318	43,480	1,055,940	35,979,868	(54,961)	(27,685)	(11,011)	(5,715)	(554,119)	(636,765)	0.2%	0.8%	8.4%	13.1%	52.5%	1.8%

35 Financial Risk Managements (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk

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

2019	Gross carrying/ notional amount						Allowance/ provision for ECL						ECL coverage %					
	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Gross carrying/ notional amount	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total Allowance/ provision for ECL	Stage 1	Stage 2	Of which: <30 DPD	Of which: >30 DPD	Stage 3	Total ECL coverage %
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000						
Loans and advances to customers at amortised cost:	12,806,247	3,043,896	110,919	12,678	68,947	15,919,090	(16,661)	(20,232)	(8,208)	(2,150)	(16,872)	(53,766)	0.1%	0.7%	7.4%	17.0%	24.5%	0.3%
- Personal	5,300,642	161,052	69,580	12,678	68,947	5,530,641	(15,328)	(19,832)	(8,195)	(2,150)	(16,872)	(52,032)	0.3%	12.3%	11.8%	17.0%	24.5%	0.9%
- Corporate and Commercial	4,268,256	2,882,844	41,339	-	-	7,151,100	(670)	(394)	(14)	-		(1,064)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
- Non-bank financial institutions	3,237,349	-	-	-	-	3,237,349	(663)	(6)	-	-		(669)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loans and advances to banks at amortised cost:	332,432	-	-	-	-	332,432	(10)	-	-	-	-	(10)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Other financial assets measured at amortised cost	5,488,175	77,991	-	-	-	5,566,166	(1)	(4)	-	-	-	(5)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Loan and other credit related commitments:	9,915,732	541,265	-	-	-	10,456,997	(318)	(69)	-	-	-	(387)	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Financial guarantee and similar contracts	2,551,009	1,052,656	-	-	850	3,604,515	(27)	(44)	-	-	(850)	(921)	0.0%	0.0%	0.0%	0.0%	100.0%	0.0%
At 31 December	31,093,595	4,715,807	110,919	12,678	69,797	35,879,200	(17,018)	(20,349)	(8,208)	(2,150)	(17,722)	(55,089)	0.1%	0.4%	7.4%	17.0%	25.4%	0.2%

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

Collateral and other credit enhancements

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

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

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

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

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

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

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

	Gross exposure	Impairment allowance	Carrying amount	Fair value of collateral held
Credit-impaired assets	**MUR'000**	**MUR'000**	**MUR'000**	**MUR'000**
Loans to customers				
Personal				
- Mortgages	76,322	(14,834)	61,488	54,431
- Credit cards	1,146	(683)	463	-
- Other personal lending	6,277	(4,660)	1,617	6,551
Wholesale	114,538	(73,220)	41,318	5,700
Total credit-impaired assets	**198,283**	**(93,397)**	**104,886**	**66,682**

As at 31 December 2021, the Bank did not have any repossessed collateral (2020: nil, 2019: nil).

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

Collateral and other credit enhancements (continued)

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

Mortgage portfolio - LTV distribution	Credit-impaired (Gross carrying amount)
	MUR'000
Lower than 50%	**8,383**
50% to 60%	**8,327**
60% to 70%	**14,086**
70% to 80%	**18,223**
80% to 90%	**13,551**
90% to 100%	**13,752**
Higher than 100%	**-**
Total	**76,322**

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

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

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

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

2021	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January 2021	23,185,503	(54,957)	3,201,855	(27,656)	1,055,940	(554,119)	27,443,298	(636,732)
Transfers of financial instruments:	(2,523,009)	(48,823)	2,510,942	46,214	12,067	2,609	-	-
- transfers from stage 1 to stage 2	(4,505,778)	4,522	4,505,778	(4,522)	-	-	-	-
- transfers from stage 2 to stage 1	1,973,154	(49,850)	(1,973,154)	49,850	-	-	-	-
- transfers to stage 3	(3,419)	56	(39,473)	6,765	42,892	(6,821)	-	-
- transfers from stage 3	13,034	(3,551)	17,791	(5,879)	(30,825)	9,430	-	-
Net remeasurement of ECL arising from transfer of stage	-	36,396	-	(12,848)	-	(175)	-	23,373
Net new and further lending/repayments	2,042,545	(9,180)	-	-	-	-	2,042,545	(9,180)
Changes in risk parameters - credit quality	(7,321,434)	4,813	(140,792)	458	(249,168)	77,524	(7,711,394)	82,795
Asset derecognised (including final repayment)	1,538,142	6,197	243,002	1,560	(557,077)	397,207	1,224,067	404,964
Changes to model used form ECL calculation	-	40,235	-	(30,095)	-	(35,592)	-	(25,452)
Assets written off	-	-	-	-	(18,746)	18,746	(18,746)	18,746
At 31 December 2021	**16,921,747**	**(25,319)**	**5,815,007**	**(22,367)**	**243,016**	**(93,800)**	**22,979,770**	**(141,486)**
ECL release/(charge) for the year	-	29,638	-	5,289	-	460,319	-	495,246
Recoveries	-	-	-	-	-	-	-	3,593
Write off	-	-	-	-	-	-	-	(233,321)
Foreign exchange difference	-	-	-	-	-	-	-	45,576
Total change in ECL for the year	-	-	-	-	-	-	-	**311,094**

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

2020

	Non-credit impaired				Credit impaired			
	Stage 1		Stage 2		Stage 3		Total	
	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL	Gross carrying/ nominal	Allowance for ECL	Gross carrying/ nominal amount	Allowance for ECL
	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000	MUR'000
At 01 January 2020	25,605,421	(17,015)	4,637,816	(20,346)	69,797	(17,722)	30,313,034	(55,083)
Transfers of financial instruments:	2,228,942	(2,502)	(3,104,806)	2,649	875,864	(147)	-	-
- transfers from stage 1 to stage 2	(3,465,587)	2,127	3,465,587	(2,127)	-	-	-	-
- transfers from stage 2 to stage 1	6,538,932	(4,629)	(6,538,932)	4,629	-	-	-	-
- transfers to stage 3	(844,403)	-	(33,141)	147	877,544	(147)	-	-
- transfers from stage 3	-	-	1,680	-	(1,680)	-	-	-
Net remeasurement of ECL arising from transfer of stage	-	333	-	(199)	-	(324,399)	-	(324,265)
Net new and further lending/repayments	396,963	(37,518)	-	-	51,390	10,191	448,353	(27,327)
Changes in risk parameters - credit quality	(1,401,102)	1,410	2,353,601	(3,927)	75,597	(206,139)	1,028,096	(208,656)
Asset derecognised (including final repayment)	(3,644,721)	335	(684,756)	(5,833)	(613)	192	(4,330,090)	(5,306)
Changes to model used form ECL calculation	-	-	-	-	-	-	-	-
Assets written off	-	-	-	-	(16,095)	(16,095)	(16,095)	(16,095)
At 31 December 2020	**23,185,503**	**(54,957)**	**3,201,855**	**(27,656)**	**1,055,940**	**(554,119)**	**27,443,298**	**(636,732)**
ECL release/(charge) for the year	-	(37,942)	-	(7,310)	-	(536,397)	-	(581,649)
Recoveries	-	-	-	-	-	-	-	5,598
Write off	-	-	-	-	-	(16,095)	-	(16,095)
Total change in ECL for the year	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(592,146)**

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(iv) Summary of credit risk (continued)

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

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure

Maximum exposure to credit risk

The Bank's credit exposure is spread across a broad range of asset classes, including trading assets, loans and advances to customers, loans and advances to banks. The following table presents the maximum exposure to credit risk from balance sheet and off-balance sheet financial instruments, before taking account of any collateral held or other credit enhancements (unless such credit enhancements meet accounting offsetting requirements). For financial assets recognised on the balance sheet, the maximum exposure to credit risk equals their carrying amount; for financial guarantees and similar contracts granted, it is the maximum amount that the Bank would have to pay if the guarantees were called upon. For loan commitments and other credit-related commitments that are irrevocable over the life of the respective facilities, it is generally the full amount of the committed facilities. Total exposure to credit risk remained broadly unchanged in 2021 with loans and advances continuing to be the largest element.

	Note	**2021**	2020	2019
		MUR'000	MUR'000	MUR'000
Cash and cash equivalents	(A)	**6,405,261**	6,110,262	3,721,079
Trading assets	(B)	**11,992**	6,062	1975
Loans and advances to banks	(C)	**378,631**	264,052	332,422
Loans and advances to customers	(C)	**10,808,135**	14,333,854	15,865,325
Investment securities - fair value through other comprehensive income	(D)	**10,600,515**	8,313,010	7,762,913
Investment securities - Amortised cost	(D)	**148,173**	-	-
Other assets	(E)	**3,159,421**	2,426,275	1,845,082
Financial guarantees and other credit-related contingent liabilities	(F)	**3,682,978**	3,634,641	3,603,594
Loan and other credit-related commitments	(G)	**7,968,541**	8,574,018	10,456,610
		43,163,647	43,662,174	43,589,000

The Bank does not hold any collaterals against its financial assets other than loans and advances to customers.

(A) Cash and cash equivalents

The Bank held cash and cash equivalents of MUR6.6bn (2020: MUR6.1bn) which represents its maximum credit exposure on these assets, which excludes cash in hand and foreign currency notes and coins.

(B) Trading Assets

The Bank held trading assets of MUR12.0m at 31 December 2021 (2020: MUR6.1m). An analysis of the credit quality of the maximum credit exposure is as follows:

		2021	2020	2019
		MUR'000	MUR'000	MUR'000
Derivatives assets:				
- Bank counterparties	18	**11,019**	8	687
- Non-bank counterparties	18	**973**	6,054	1288
		11,992	6,062	1975

The derivatives assets are with Group banks and local corporates, with a strong credit rating.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure (continued)

Maximum exposure to credit risk (continued)

(C) Loans & advances neither past due nor impaired

Loans and advances are summarized as follows:

	Loans and advances to customers			Loans to banks		
	2021	2020	2019	**2021**	2020	2019
	MUR'000	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000
Neither past due nor impaired	**10,773,669**	13,785,484	15,577,539	**378,649**	264,827	332,432
Past due but not impaired	**134,097**	174,800	272,604	**-**	-	-
Individually impaired	**40,769**	1,007,544	68,947	**-**	-	-
Gross	**10,948,535**	14,967,828	15,919,090	**378,649**	264,827	332,432
Less: allowance for impairment	**(140,400)**	(633,974)	(53,765)	**(18)**	(775)	(10)
Net	**10,808,135**	14,333,854	15,865,325	**378,631**	264,052	332,422

The total impairment release of MUR322.8m represents the IFRS 9 ECL.

The credit quality of the portfolio of loans and advances that were neither past due nor impaired can be assessed by reference to the internal rating system adopted by the Bank.

	Loans and advances to customers			Loans to banks		
	2021	2020	2019	**2021**	2020	2019
	MUR'000	MUR'000	MUR'000	**MUR'000**	MUR'000	MUR'000
CRR 1	**-**	804,067	1,012,143	**378,649**	264,827	332,432
CRR 2	**248,484**	4,489,600	4,984,782	**-**	-	-
CRR 3	**1,970,836**	4,854,752	4,570,288	**-**	-	-
CRR 4	**693,917**	437,286	3,467,140	**-**	-	-
CRR 5	**1,697,870**	1,943,060	1,429,272	**-**	-	-
CRR 6	**591,255**	97,013	113,914	**-**	-	-
CRR 7	**375,696**	512,246	-	**-**	-	-
CRR 8	**5,195,611**	647,460	-	**-**	-	-
Total	**10,773,669**	13,785,484	15,577,539	**378,649**	264,827	332,432

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure (continued)

Maximum exposure to credit risk (continued)

(C) Loans and advances past due but not impaired

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

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

	Loans and advances to customers		
	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Past due up to 30 days	**112,339**	135,675	259,926
Past due 30 - 60 days	**19,895**	27,833	8,937
Past due 60 - 90 days	**1,863**	11,291	3,741
Total	**134,097**	174,799	272,604

Loans and advances individually impaired

Impaired loans and securities are loans and securities for which the Bank determines that it is probable that it will be unable to collect all principal and interest due according to the contractual terms of the loan/securities agreement(s). These loans are graded 6 to 7 (CRR 8 to 9) in the Bank's internal credit risk grading system.

The table below shows the gross amount of individually impaired assets.

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Gross amount	**40,769**	1,007,544	68,947
Individual allowance	**93,539**	552,804	16,872

(D) Investment securities

Investment securities amounting to MUR10.6bn (2020: MUR8.3bn) as at 31 December 2021 consist mainly of Treasury Bill / Notes held with the Bank of Mauritius. Investment securities at amortised cost amounting to MUR0.1bn comprise of corporate bonds.

(E) Other assets

Other assets consisted mainly of mandatory balance of MUR2.0bn (2020: MUR1.6bn) held with the Bank of Mauritius.

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(v) Credit exposure (continued)

Maximum exposure to credit risk (continued)

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

Financial guarantee contracts are contracts that require the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due, in accordance with the terms of a debt instrument. Such financial guarantees are given to banks, financial institutions and other bodies on behalf of customers to secure loans, overdrafts and other banking facilities. As at 31 December 2021, the Bank held MUR3.7bn (2020: MUR3.6bn) financial guarantees mainly with corporate customers.

(G) Loan commitments

As at 31 December 2021, the Bank held MUR8.0bn (2020: MUR8.6bn) as undrawn credit facilities with both retail and corporate customers.

(vi) Concentration of credit risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below. The tables below show the concentration of credit risk by sector.

Prepayments amounting to MUR4.5m (2020: MUR5.3m) and have been excluded from other assets.

Notes to and forming part of the financial statements

for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(vi) Concentration of credit risk (continued)

2021 (MUR '000)	**Retail**	**Corporate**	**Sovereign**	**Bank**	**Other**	**Total**
Cash & cash equivalents	**-**	**-**	**2,319,893**	**4,085,368**	**-**	**6,405,261**
Loans & advances to customers	**5,111,643**	**5,696,492**	**-**	**-**	**-**	**10,808,135**
Loans & advances to banks	**-**	**-**	**-**	**378,631**	**-**	**378,631**
Financial assets held for trading	**-**	**973**	**-**	**11,019**	**-**	**11,992**
Investment securities - FVOCI	**-**	**-**	**10,600,515**	**-**	**-**	**10,600,515**
Investment securities - Amortised cost	**-**	**-**	**148,173**	**-**	**-**	**148,173**
Other assets	**-**	**1,039,972**	**1,958,117**	**1,265**	**160,067**	**3,159,421**
As at 31 December 2021	**5,111,643**	**6,737,437**	**15,026,698**	**4,476,283**	**160,067**	**31,512,128**
Undrawn Commitments	**962,740**	**7,005,801**	**-**	**-**	**-**	**7,968,541**
Financial guarantees and other credit related contingencies	**930**	**2,692,276**	**-**	**989,771**	**-**	**3,682,977**
	963,670	**9,698,077**	**-**	**989,771**	**-**	**11,651,518**

2020 (MUR '000)	Retail	Corporate	Sovereign	Bank	Other	Total
Cash & cash equivalents	-	-	2,634,004	3,476,258	-	6,110,262
Loans & advances to customers	5,091,183	8,440,525	802,146	-	-	14,333,854
Loans & advances to banks	-	-	-	264,052	-	264,052
Financial assets held for trading	-	6,054	-	8	-	6,062
Investment securities	-	-	8,313,010	-	-	8,313,010
Other assets	-	731,344	1,567,270	462	127,199	2,426,275
As at 31 December 2020	5,091,183	9,177,923	13,316,430	3,740,780	127,199	31,453,515
Undrawn Commitments	915,851	7,658,167	-	-	-	8,574,018
Financial guarantees and other credit related contingencies	1,130	2,923,736	-	709,775	-	3,634,641
	916,981	10,581,903	-	709,775	-	12,208,659

2019 (MUR '000)	Retail	Corporate	Sovereign	Bank	Other	Total
Cash & cash equivalents	-	-	1,096,502	2,624,577	-	3,721,079
Loans & advances to customers	5,562,281	9,770,717	532,327	-	-	15,865,325
Loans & advances to banks	-	-	-	332,422	-	332,422
Financial assets held for trading	-	-	-	1,975	-	1,975
Investment securities	-	-	7,754,728	-	8,185	7,762,913
Other assets	-	263,736	1,490,384	4,115	86,847	1,845,082
As at 31 December 2019	5,562,281	10,034,453	10,873,941	2,963,089	95,032	29,528,796
Undrawn Commitments	953,244	9,503,366	-	-	-	10,456,610
Financial guarantees and other credit related contingencies	1,260	3,049,728	-	552,606	-	3,603,594
	954,504	12,553,094	-	552,606	-	14,060,204

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(b) Credit risk (continued)

(vi) Concentration of credit risk (continued)

The tables below show the concentration of credit risk by region and country.

2021 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	953,621	1,351,817	1,564,226	23,190	2,512,407	6,405,261
Loans & advances to customers	4,754	11,838	21,568	25,707	10,744,268	10,808,135
Loans & advances to banks	-	-	111,131	-	267,500	378,631
Financial assets held for trading	-	10,797	-	-	1,195	11,992
Investment securities - FVOCI	-	-	-	-	10,600,515	10,600,515
Investment securities - Amortised cost	-	-	-	-	148,173	148,173
Other assets	-	-	70,750	769,885	2,318,786	3,159,421
As at 31 December 2021	958,375	1,374,452	1,767,675	818,782	26,592,844	31,512,128
Undrawn Commitments	-	392	1,471,019	522,009	5,975,121	7,968,541
Financial guarantees and other credit related contingencies	13,850	284,942	2,033,721	-	1,350,464	3,682,977
	13,850	285,334	3,504,740	522,009	7,325,585	11,651,518

2020 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	783,930	541,025	1,710,155	25,931	3,049,221	6,110,262
Loans & advances to customers	4,927	11,576	3,230,138	97,983	10,989,230	14,333,854
Loans & advances to banks	-	-	96,910	-	167,142	264,052
Financial assets held for trading	-	8	-	-	6,054	6,062
Investment securities	-	-	-	-	8,313,010	8,313,010
Other assets	-	-	1,276	630,323	1,794,676	2,426,275
As at 31 December 2020	788,857	552,609	5,038,479	754,237	24,319,333	31,453,515
Undrawn Commitments	394	443	1,552,751	480,418	6,540,012	8,574,018
Financial guarantees and other credit related contingencies	12684	350,285	1,795,105	-	1,476,567	3,634,641
	13,078	350,728	3,347,856	480,418	8,016,579	12,208,659

2019 (MUR '000)	North America	Europe	Asia Pacific	Middle East & Africa	Mauritius	Total
Cash & cash equivalents	1,512,340	202,137	470,033	38,202	1,498,367	3,721,079
Loans & advances to customers	5,488	11,966	3,632,142	149,288	12,066,441	15,865,325
Loans & advances to banks	-	-	83574	-	248,848	332,422
Financial assets held for trading	16	12	659	-	1288	1975
Investment securities	-	-	-	-	7,762,913	7,762,913
Other assets	-	-	76370	36353	1,732,359	1,845,082
As at 31 December 2019	1,517,844	214,115	4,262,778	223,843	23,310,216	29,528,796
Undrawn Commitments	394	318	2,655,375	812,092	6,988,431	10,456,610
Financial guarantees and other credit related contingencies	6,722	274,921	1,964,027	134,183	1,223,741	3,603,594
	7,116	275,239	4,619,402	946,275	8,212,172	14,060,204

35 Financial Risk Management (continued)

(c) Liquidity risk

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

(i) Management of liquidity risk

The Bank's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Bank's reputation.

Markets Treasury ("MKTY") receives information from other business units regarding the liquidity profile of their financial assets and liabilities and details of other projected cash flows arising from projected future business. MKTY accordingly maintains a portfolio of short-term liquid assets, largely loans and advances to banks and other inter-bank facilities, to ensure that sufficient liquidity is maintained within the Bank as a whole.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

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

(ii) Exposure to liquidity risk

Risk is managed by cash flow matching and maintaining sufficient cash resources, investing in high credit-quality investments with deep and liquid markets, monitoring investment concentrations and restricting them where appropriate, and establishing committed contingency borrowing facilities.

HSBC uses the Liquidity Coverage Ratio ("LCR") framework as the basis for its liquidity management and ensures that an adequate stock of unencumbered high-quality liquid assets ("HQLA"), that can be converted easily and immediately in private markets into cash to meet the liquidity needs for a 30 calendar day liquidity stress scenario, are maintained. The LCR is calculated as a percentage of the stock of HQLA over net cash outflows over a 30-day time period and is tracked and reported to senior management daily and to ALCO on a monthly basis. At 31 December 2021, the Bank maintained an LCR ratio of 518% against a set limit of 100% for BoM reporting.

In addition to regulatory metrics, HSBC enhanced its liquidity framework in 2021 to include an 'internal liquidity metric', which is being used to monitor and manage liquidity risk via a low-point measure across a 270-day horizon, taking into account recovery capacity.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(c) Liquidity risk (continued)

(iii) Maturity analysis for financial assets and financial liabilities

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

In MUR millions	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
2021						
Non -derivative liabilities						
Deposits from banks	(1,177)	-	-	-	-	(1,177)
Deposits from customers	(22,728)	(334)	(1,715)	(1,110)	-	(25,887)
Other borrowed funds	-	(1,076)	-	(8)	-	(1,084)
Other liabilities	(344)	(228)	(733)	(67)	-	(1,372)
	(24,249)	(1,638)	(2,448)	(1,185)	-	(29,520)
Derivative liabilities						
Trading:						
Outflow	(64)	(50)	-	-	-	(114)
Inflow	64	49	-	-	-	113
	-	(1)	-	-	-	(1)
Unrecognised loan commitments	(959)	(4,677)	(2,196)	(136)	-	(7,968)
Financial guarantees and other credit related contingencies	(108)	(597)	(1,938)	-	(1,041)	(3,684)
Non-derivative assets						
Cash and cash equivalents	6,643	-	-	-	-	6,643
Loans and advances to banks	14	88	276	-	-	378
Loans and advances to customers	2,124	2,162	273	1,804	4,446	10,809
Investment securities	900	1,170	5,282	3,397	-	10,749
Other assets	2,120	241	726	38	35	3,160
	11,801	3,661	6,557	5,239	4,481	31,739
Derivative assets						
Trading:						
Outflow	(2,090)	-	-	-	-	(2,090)
Inflow	2,102	-	-	-	-	2,102
	12	-	-	-	-	12
Net liquidity gap	(13,503)	(3,252)	(25)	3,918	3,440	(9,422)

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

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

In MUR millions	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years	Total
2020						
Non -derivative liabilities						
Deposits from banks	(748)	-	-	-	-	(748)
Deposits from customers	(21,254)	(201)	(787)	(576)	-	(22,818)
Other borrowed funds	(1)	(2,261)	(2,956)	-	-	(5,218)
Other liabilities	(300)	(420)	(292)	(31)	(3)	(1,046)
	(22,303)	(2,882)	(4,035)	(607)	(3)	(29,830)
Derivative liabilities						
Trading:						
Outflow	(165)	-	-	-	-	(165)
Inflow	162	-	-	-	-	162
	(3)	-	-	-	-	(3)
Unrecognised loan commitments	(1,937)	(5,052)	(1,490)	(9)	(86)	(8,574)
Financial guarantees and other credit related contingencies	(152)	(677)	(1,426)	(1,031)	(349)	(3,635)
Non-derivative assets						
Cash and cash equivalents	6,443	-	-	-	-	6,443
Loans and advances to banks	1	2	261	-	-	264
Loans and advances to customers	3,244	4,113	780	1,923	4,274	14,334
Investment securities	374	884	1,712	5,343	-	8,313
Other assets	1,768	430	236	-	-	2,434
	11,830	5,429	2,989	7,266	4,274	31,788
Derivative assets						
Trading:						
Outflow	(177)	-	(20)	-	-	(197)
Inflow	182	-	20	-	-	202
	5	-	-	-	-	5
Net liquidity gap	(12,560)	(3,182)	(3,962)	5,619	3,836	(10,249)

35 Financial Risk Management (continued)

(c) Liquidity risk (continued)

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

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

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

35 Financial Risk Management (continued)

(d) Market risks

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

(i) Management of market risks

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

All foreign exchange risk within the Bank is transferred and managed by Global Banking and Markets. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk management purposes.

Overall authority for market risk is vested in RMM. Group Market Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

(ii) Exposure to market risks – trading portfolios

One of the tools used to measure and control market risk exposure within the Bank's trading portfolios is Value at Risk (VaR). The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified year of time (holding year) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding year. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- The use of historical data as a proxy for estimating future market moves may not encompass all potential market events, particularly those that are extreme in nature.
- the use of a one-day holding period for risk management purposes of trading and non-trading books assumes that this short period is sufficient to hedge or liquidate all positions.
- The use of a 99% confidence level by definition does not take into account losses that might occur beyond this level of confidence.
- VaR is calculated on the basis of exposures outstanding at the close of business and therefore does not reflect intra-day exposures.

The Bank uses VaR limits for total market risk and specific foreign exchange, interest rate, and equity and other price risks. The overall structure of VaR limits is subject to review and approval by the Bank's ALCO. VaR limits are allocated to trading portfolios. However, PVBP and FX Exposure are more actively used for market risk management and as such no information is disclosed for VaR.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(d) Market risks (continued)

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

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

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

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

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

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

In MUR Million	**At 31 December**	**Average**	**Maximum**	**Minimum**
2021				
Interest rate risk (PVBP)	**0.04940**	**0.05428**	**0.18147**	**0.00102**
2020				
Interest rate risk (PVBP)	0.03340	0.30160	0.68608	0.01600
2019				
Interest rate risk (PVBP)	0.00689	0.00666	0.01463	0.00141

35 Financial Risk Management (continued)

(d) Market risks (continued)

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

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for repricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Global Banking and Markets in its day-to-day monitoring activities. A summary of the Bank's interest rate gap position on non-trading portfolios is as follows:

2021	Note	**Carrying amount**	**Less than 3 months**	**3 - 6 months**	**6 - 12 months**	**1 - 5 years**	**More than 5 years**	**Non-interest bearing**
In MUR thousand								
Cash and cash equivalents	17	**6,643,354**	**3,843,244**	**-**	**-**	**-**	**-**	**2,800,110**
Trading assets	18	**11,992**	**-**	**-**	**-**	**-**	**-**	**11,992**
Loans and advances to banks	19	**378,631**	**102,495**	**-**	**276,136**	**-**	**-**	**-**
Loans and advances to customers	20	**10,808,135**	**4,340,305**	**2,923**	**274,009**	**1,827,169**	**4,363,729**	**-**
Investment securities	21	**10,748,688**	**2,069,164**	**1,881,509**	**3,400,516**	**3,397,499**	**-**	**-**
Other assets		**3,159,419**	**-**	**-**	**-**	**-**	**-**	**3,159,419**
		31,750,219	**10,355,208**	**1,884,432**	**3,950,661**	**5,224,668**	**4,363,729**	**5,971,521**
Deposits from banks	25	**1,177,285**	**1,177,285**	**-**	**-**	**-**	**-**	**-**
Deposits from customers	26	**25,814,918**	**18,177,963**	**474,907**	**1,220,231**	**1,061,931**	**-**	**4,879,886**
Other borrowed funds	27	**1,083,503**	**1,075,938**	**-**	**-**	**7,565**	**-**	**-**
Other liabilities		**1,350,486**	**33,931**	**886**	**2,278**	**1,982**	**-**	**1,311,409**
Lease liabilities		**21,412**	**5,265**	**4,426**	**3,065**	**8,322**	**334**	**-**
		29,447,604	**20,470,382**	**480,219**	**1,225,574**	**1,079,800**	**334**	**6,191,295**
Interest sensitivity gap		**2,302,615**	**(10,115,174)**	**1,404,213**	**2,725,087**	**4,144,868**	**4,363,395**	**(219,774)**

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(d) Market risks (continued)

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

2020 *In MUR thousand*	Note	Carrying amount	Less than 3 months	3 - 6 months	6 - 12 months	1 - 5 years	More than 5 years	Non-interest bearing
Cash and cash equivalents	17	6,443,248	4,602,894	-	-	-	-	1,840,354
Trading assets	18	6,062	-	-	-	-	-	6,062
Loans and advances to banks	19	264,052	2,909	-	261,143	-	-	-
Loans and advances to customers	20	14,333,854	13,722,719	128,058	887	92,395	389,795	-
Investment securities	21	8,313,010	1,257,694	801,384	910,256	5,343,676	-	-
Other assets		2,433,580	-	-	-	-	-	2,433,580
		31,793,806	19,586,216	929,442	1,172,286	5,436,071	389,795	4,279,996
Deposits from banks	25	747,792	747,792	-	-	-	-	-
Deposits from customers	26	22,778,413	16,068,491	391,846	1,032,548	965,957	-	4,319,571
Other borrowed funds	27	5,218,552	1,971,994	290,433	2,956,125	-	-	-
Other liabilities		1,046,443	23,237	30,298	30,298	11,767	1,598	949,245
		29,791,200	18,811,514	712,577	4,018,971	977,724	1,598	5,268,816
Interest sensitivity gap		2,002,606	774,702	216,865	(2,846,685)	4,458,347	388,197	(988,820)

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(d) Market risks (continued)

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

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

35 Financial Risk Management (continued)

(d) Market risks (continued)

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

PVBP is used by the Bank's treasury trading system to monitor interest rate risk and the outstanding position as at 31 December 2021 in the banking book by time buckets stood as follows:

2021											
USD PVBP	**1M**	**2M**	**3M**	**6M**	**9M**	**1Y**	**2Y**	**3Y**	**4Y**	**5Y**	**7Y**
Currency Limit	**30,000**	**30,000**	**30,000**	**30,000**	**30,000**	**30,000**	**30,000**	**20,000**	**20,000**	**-**	**-**
Total Position	**(74)**	**3**	**(321)**	**101**	**(453)**	**(40)**	**(1,977)**	**(2,846)**	**(121)**	**-**	**-**

2020											
USD PVBP	1M	2M	3M	6M	9M	1Y	2Y	3Y	4Y	5Y	7Y
Currency Limit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total Position	212	210	984	1637	2,301	1458	7,679	2,925	5041	1,285	-

2019											
USD PVBP	1M	2M	3M	6M	9M	1Y	2Y	3Y	4Y	5Y	7Y
Currency Limit	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000
Total Position	101	1291	762	608	1,161	634	2,423	2,263	70	1,939	-

35 Financial Risk Management (continued)

(d) Market risks (continued)

(iv) Exposure to currency risk

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

	2021	2020	2019
	MUR Million	MUR Million	MUR Million
Pound Sterling	**(1)**	(1)	
Euro	**(2)**	1	(1)
Japanese yen	**(1)**	-	
USD	**(17)**	23	41
Other foreign currencies	**(2)**	2	(2)
	(23)	25	38

(v) Interbank Offer Rates ('IBOR') transition

Throughout 2021, our interbank offered rate ('Ibor') transition programme, which is tasked with the development of new replacement near risk-free rate ('RFR') products and transition from legacy Ibor products, has continued to implement the required IT and operational changes necessary to facilitate an orderly transition from Ibors to RFRs, or alternative benchmarks, such as policy interest rates. These changes have enabled HSBC to meet regulatory endorsed milestones related to product readiness and the clearing house-led transition to RFR discounting.

Business lines, functions and, where appropriate, HSBC entities have identified financial and non-financial risks related to the transition and developed key actions to mitigate the identified risks. These risks include those associated with the continued sale of products referencing Ibor, through 2021. However, HSBC has actively removed certain Ibor referencing products from sale, and implemented processes and controls to manage the continued sale of Ibor products to assist in meeting our clients' needs. As products referencing Ibor continue to be sold, and RFR products are developed, considerations relating to the enforceability of Ibor fallback provisions and the evolution of RFR market conventions have increased legal and compliance risks.

Furthermore, the impact of the Covid-19 outbreak has compressed timelines for client engagement and potentially increased the resilience risks associated with the rollout of new products, transition of legacy contracts, and new RFR product sales.

The Bank is exposed to the effects of USD LIBOR reform on its financial assets. As at 31 December 2021, non-derivative financial assets amounting to Rs1,896m are yet to transition to alternative benchmarks. It is expected that SONIA (Sterling Overnight Index Average) will replace USD LIBOR.

35 Financial Risk Management (continued)

(e) Capital management

Regulatory capital

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

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

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

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

(a) Tier 1 capital, which comprises of Common Equity Tier 1 (CET1)

(b) Tier 2 capital

For each of the two categories above, there is a single set of criteria described in the guideline that the instruments are required to meet before they are included in the relevant category.

For the purpose of determining the capital adequacy ratio, the capital base is the sum of Tier 1 and Tier 2 capital net of regulatory adjustments applied.

Notes to and forming part of the financial statements
for the year ended 31 December 2021 (continued)

35 Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital is analysed as follows:

- Tier 1 capital (all qualifies as CET1 capital), which includes ordinary stated capital, statutory reserve, reserves for own shares, fair value reserves and retained earnings reserves.
- Tier 2 capital, which includes general banking reserves.

Regulatory adjustment applicable to CET1 capital which was only is the deferred tax asset as at 31 December 2021.

The Bank's regulatory capital position at 31 December 2021 was as follows:

MUR'000		2021	2020	2019
Reference		Basel III	Basel III	Basel III
Tier 1 capital				
CET1 Capital				
Assigned Capital	A	**794,150**	794,150	400,000
Other Disclosed Reserves	B	**378,640**	306,835	306,835
Retained Earnings	C	**1,172,631**	707,398	1,347,030
CET1 before regulatory adjustments		**2,345,421**	1,808,383	2,053,865
Deferred tax assets	D	**(56,239)**	(105,548)	(46,823)
Total regulatory adjustments to CET1		**(56,239)**	(105,548)	(46,823)
Tier 1 Capital (T1)		**2,289,182**	1,702,835	2,007,042
Tier 2 Capital				
Fixed Assets Revaluation Reserves (subject to a discount of 55%)	E	**99,600**	93,822	91,845
Provisions	F	**103,045**	102,273	126,469
Tier 2 Capital (T2)		**202,645**	196,095	218,314
Total Capital (T1 + T2)		**2,491,827**	1,898,930	2,225,356

	2021	2020	2019
	MUR'000	MUR'000	MUR'000
Total on-balance sheet risk-weighted credit exposures	**7,733,392**	7,659,096	9,536,087
Total non-market-related off-balance sheet risk-weighted credit exposures	**510,138**	514,752	576,527
Total market-related off-balance sheet risk-weighted credit exposures	**2,039**	7,995	4,868
Risk weighted assets for operational risk	**1,548,186**	1,696,850	1,791,915
Aggregate net open foreign exchange position	**22,927**	26,719	43,968
Total risk weighted assets	**9,816,682**	9,905,412	11,953,365
Capital adequacy ratio (%)	**25.4%**	19.2%	18.6%

35 Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

Each component of the capital base is mapped by cross reference to a full reconciliation of the Bank's statement of financial position as at 31 December 2021 as described in the table below:

(MUR'000)	As Published	Capital Base under Basel III	Reference
ASSETS			
Cash and cash equivalents	6,643,354		
Trading assets	11,992		
Loans and advances to banks	378,631		
Loans and advances to customers	10,808,135		
of which,			
- Gross loans			
- Stage 3 impairment			
- Stage 1&2 impairment		46,861	F
Investment securities - fair value through other comprehensive income	10,600,515		
Investment securities - Amortised cost	148,173		
Intangible assets	3,392		
Property, plant and equipment	345,243		
Deferred tax assets	56,239	56,239	D
Other assets	3,163,913		
Total assets	32,159,587		
LIABILITIES			
Deposits from banks	1,177,285		
Deposits from customers	25,814,918		
Trading liabilities	1,089		
Other borrowed funds	1,083,503		
Current tax liabilities	52,002		
Other liabilities	1,372,155		
Total liabilities	29,500,952		
Shareholder's funds			
Assigned capital	794,150	794,150	A
Retained earnings	1,172,632	1,172,631	C
Other reserves	691,853		
of which,			
- Statutory Reserve	*306,835*	*306,835*	B
- Reserves for own shares	*12,493*	*12,493*	B
- Fair value reserve	*59,312*	*59,312*	B
- General Banking Reserve	*91,881*	*56,184*	F
- Revaluation Reserves	*221,332*	*99,599*	E
Total shareholder's funds	2,658,635		
Total liabilities and shareholder's funds	32,159,587		

35 Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

Banks are required to apply a capital conservation buffer which aims at promoting the conservation of capital and build-up of adequate buffers above the minimum during normal times which can be drawn down during stressed period.

The capital conservation buffer had increased to 2.5% as from 01 January 2020. However, in the face of the challenges posed by Covid-19 and its effect on economic activity, the local regulator deferred effectiveness of the revised capital conservation buffer to 1 April 2022.

As from 01 January 2021, banks are required to meet the following new minimum capital requirements in relation to risk-weighted assets (RWAs):

(a) 6.5% Common Equity Tier 1/RWAs;
(b) 8.0% Tier 1 capital/RWAs, and
(c) 12.9% total capital/RWAs.

Moreover, banks are required to apply a capital conservation buffer which aims at promoting the conservation of capital and build-up of adequate buffers above the minimum during normal times which can be drawn down during stressed year.

The bank is required to maintain additional Common Equity Tier 1 Capital (CET1) of 1.00 per cent as additional loss absorbency under BoM Domestic Systemically Important Banks ("DSIB") framework.

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

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

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

35 Financial Risk Management (continued)

(e) Capital management (continued)

Regulatory capital (continued)

The Bank's regulatory capital position at 31 December 2021 was as follows:

	2021	2020	2019
	%	%	%
CET 1 capital adequacy ratio*	**23.3**	17.2	16.8
Regulatory Limit - Minimum CET 1 CAR	***6.5***	*6.5*	*6.5*
Tier 1 capital adequacy ratio	**23.3**	17.2	16.8
Regulatory Limit - Minimum Tier 1 CAR	***8.0***	*8.0*	*8.0*
Total capital adequacy ratio*	**25.4**	19.2	18.6
Regulatory Limit - Minimum Total CAR	***12.9***	*12.9*	*12.6*

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

Main features of capital

The Bank's assigned capital is at MUR794.2 which is above the minimum capital requirement of MUR400 million for banks as per Section 20 of the Mauritian Banking Act 2004. The main feature of the assigned capital is that it is perpetual and there are no circumstances under which distributions are mandatory.

Capital allocation

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

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

36 Subsequent event

Management approved a repatriation of profit of MUR281m to the head office for the financial year 2021 on 30 March 2022. Management is not aware of any matter or circumstance arising since the end of the financial year to the date of this report which could significantly affect the financial position of the Bank at 31 December 2021.

37 Ultimate holding company

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