# HSBC BANK (MAURITIUS) LIMITED

# ANNUAL REPORT

# FOR THE YEAR ENDED 31 DECEMBER 2021

**HSBC Bank (Mauritius) Limited**

**Annual Report**
*for the year ended 31 December 2021*

*Contents*

## HSBC Bank (Mauritius) Limited

### Management discussion and analysis

HSBC Bank (Mauritius) Limited ("the Bank") was incorporated in Mauritius on 27 April 2006 (Company number: 62412) and was granted its banking licence under section 7 of the Mauritian Banking Act 2004 by the Bank of Mauritius ("BoM") on 08 June 2006 and started its operations on 01 August 2006. The Bank's registered office is HSBC Centre, 18 CyberCity, Ebène, Mauritius. The Bank is primarily involved in commercial and global business banking.

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

The directors are pleased to present the annual report of HSBC Bank (Mauritius) Limited for the year ended 31 December 2021.

The financial statements on pages 73 to 162 have been prepared in accordance with International Financial Reporting Standards ("IFRS") and in compliance with the requirements of the Mauritian Companies Act 2001, the Mauritian Banking Act 2004 and the regulations and guidelines issued by the Bank of Mauritius.

In preparing the financial statements, the directors are required to:

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

The directors have authorised the issue of this annual report on 10 March 2022 and they do not have the power to amend the financial statements after issue.

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

## HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

## Financial Review

The Bank's financial performance in 2021 has been satisfactory. The Bank reported a Profit Before Tax of USD16.9m, representing a 15.2% reduction from 2020 as the impact of low interest rates became fully imbedded into the Bank's asset book. Throughout 2021, the ultra-low USD interest rate environment, triggered by the Covid-19 global pandemic, has persisted and has driven a USD6.1m reduction in net interest income. However, the interest-rate cycle has begun to show signs of turning, and given our positive gearing towards the USD interest rates, in 2022 the Bank should begin to recover some of this lost revenue.

The Bank's asset book quality remains strong, evidenced by the continued low levels of credit impairments recorded and customer loan balances have remained broadly stable over 2021. Whilst the Indian market remains the Bank's most significant market, in 2021 the Bank continued its push to diversify its asset book and increased its penetration into markets outside of India with increased lending and trade transactions seen in Vietnam and Sri Lanka. Customer deposits increased by 30% in 2021, benefiting from strong investment flows as confidence in the global economy rebounded.

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

The macro-economic environment remains important to the delivery of our financial objectives. In many of our markets, 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. As government restrictions are gradually eased and activity increases, it is expected that this will provide further opportunities for accelerated trade flows and supply chain shifts across our major markets.

The improvements seen in the external economic conditions, however, are not guaranteed and substantial uncertainties persist, in particular regarding continuing supply chain disruptions impacting trade flows, geopolitical tensions and the evolution of inflation and interest rates in the Bank's major markets in India and Asia.

## Performance against objectives

| Objectives for 2021 | Performance for 2021 | Objectives for 2022 |
|---|---|---|
| **1. Revenue Growth** | | |
| **Reduced revenue target in line with USD interest rate expectations.** | **Revenue (total operating income) fell by 12.2% compared to prior year. Continued low USD interest rates resulted in a further decrease in net interest income in 2021.** | **Increase revenue above 2021 levels.** |
| **2. Return on tangible equity** | | |
| **Deliver ongoing Return on Tangible Equity (“ROTE”) above the HSBC Group target of 10%.** | **The Bank recorded a ROTE of 5.5% due to fall in Revenue in 2021.** | **Deliver ongoing ROTE in line with Group target of 10%** |
| **3. Expense Growth** | | |
| **To maintain positive Jaws in line with HSBC Group target.** | **Revenue fell by 12.2%, and costs fell by 3.3%, yielding a negative Jaws of 8.9%.**<br><br>**The Bank's cost efficiency ratio was 47.0%, impacted by lower Revenue from lower interest rates.** | **Achieve positive Jaws in line with HSBC Group target.**<br><br>**Achieve a cost efficiency ratio (total expenses/total operating income) of less than 30%.** |
| **4. Portfolio Quality** | | |
| **Proactively continue to manage credit risk within the loan book and keep Expected Credit Losses (“ECLs”) at a minimum.** | **Impairment release of USD0.5m compared to a charge of USD0.3m in 2020.** | **Proactively continue to manage credit risk within the loan book and keep ECLs at a minimum (<1% of total on and off balance sheet exposures).** |
| **5. Capital and Liquidity Risk Management** | | |
| **• To maintain capital above the Bank of Mauritius (“BoM”) minimum regulatory requirement of 11.9%** | **The capital adequacy ratio at 31 December 2021 was at 28.3% and Core Equity Tier 1 (CET1) ratio was 27.1% under Basel III.** | **To maintain total capital ratio above the Bank of Mauritius (“BoM”) minimum regulatory requirement of 11.9%.** |
| **• To meet the BoM liquidity risk management guidelines.** | **Liquidity Coverage Ratio (LCR) stood at 258.0% as at year end well above the regulatory limit of 100%.** | **As per 2021 objectives.** |
| **6. Return on Average Assets** | | |
| **Monitor return on the average assets to achieve profit in line with the target.** | **Return on Average assets has decreased to 0.5% compared to 0.6% in 2020.** | **Monitor return on the average assets to achieve profit before tax above 0.5%.** |

**HSBC Bank (Mauritius) Limited**

**Management discussion and analysis (continued)**

**Financial Review (continued)**

**Performance against objectives (continued)**

▪ The Bank recorded a profit before income tax of USD16.9m (2020 – USD20.0m). The decrease was the result of a reduction in net interest income to USD21.9m (2020 – USD28.0m) due to the impact of low USD interest rates and a decrease in net trading income to USD1.0m (2020 – USD1.7m) partly offset by an increase in net fee and commission income to USD7.8m (2020 – USD5.2m).

▪ Operating expenses amounted to USD14.6m (2020 – USD15.0m), which consisted of staff costs of USD3.4m (2020 – USD3.5m) and administrative costs of USD11.0m (2020 – USD11.6m). The reduction in costs was mainly attributed to lower intercompany charges.

▪ Return on tangible equity decreased to 5.5% (2020 – 5.9%) mainly due to the lower Net Interest Income

▪ Return on average assets decreased to 0.5% (2020 – 0.6%) mainly due to the lower Net Interest Income reducing Profit after Tax.

▪ The increase in cash and cash equivalents to USD1.1bn (2020 – USD1.0bn) was mainly due to a increase in short term intergroup placements following an increase in customer deposits.

▪ Loans and advances to banks decreased to USD0.4bn (2020 – USD0.5bn) as a result of lower trade facilities disbursements to banks outside Mauritius.

▪ Loans and advances to customers remained stable at USD1.2bn (2020 – USD1.2bn). The quality of the loan book remains strong with no significant level of impairment charges.

▪ Investment securities held for regulatory liquidity management purposes increased to USD0.8bn (2020 – USD0.5bn) as Customer deposits increased.

▪ Deposits from customers increased to USD2.9bn (2020 – USD2.2bn) mainly due to an increase in current accounts.

▪ Other borrowed funds decreased to USD0.3bn (2020 – USD0.7bn). These consisted mainly of amounts due to group entities.

▪ At 31 December 2021, the capital adequacy ratio was 28.3% (2020 – 21.1%), significantly above the minimum regulatory requirement of 11.9%.

▪ During the year, no dividends were paid to the parent company (2020 – USD70m).

The HSBC Group divides its activities into four business segments: Wealth and Personal Banking (WPB), Commercial Banking (CMB), Global Banking and Markets (GBM), and the Corporate Centre. The business lines are responsible for developing, implementing and managing their business propositions consistently across the HSBC Group. Some entities in the HSBC Group are categorised as a Wholesale Banking (WSB) or a Global Banking and Markets (GBM) site due to the predominance of either CMB or GBM businesses respectively in these entities. The Bank has been categorised as a WSB site within the HSBC Group.

The Bank is involved in three segments, namely: WSB, GBM and Corporate Centre.

## Wholesale Banking

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

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Total Operating Income | 22,720 | 25,828 | 51,267 |
| Total Expenses and Net Impairment Release/(Charge) | (10,148) | (10,823) | (10,946) |
| Profit before income tax | 12,572 | 15,005 | 40,321 |

As at 31 December 2021, WSB had a customer deposit base of USD2.6bn (2020 – USD1.9bn) and a customer lending book of USD1.2bn (2020 – USD1.2bn), representing 90.7% (2020 – 86.4%) and 100.0% (2020 – 99.7%) of the Bank's customer deposit and customer lending respectively.

WSB's pre-tax profit decreased by 16.2% to USD12.6m mainly due to the drop in USD interest rates.

## Global Banking and Markets

GBM primarily aims at serving the banking needs of large corporations and institutions, using Mauritius as a platform for investment in India. The Bank arranges its GBM business into two distinct sub-businesses, namely Financial Institutions Group (FIG) and Institutional Clients Group (ICG), and Markets & Securities Services (MSS). FIG and ICG focus on provision of services such as deposit taking, payments and cash management, credit and lending and trade finance. 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. GM manages all of the Bank's foreign exchange and other market risks.

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Total Operating Income | 6,365 | 6,784 | 13,306 |
| Total Expenses and Net Impairment Release/(Charge) | (2,825) | (3,529) | (4,524) |
| Profit before income tax | 3,540 | 3,255 | 8,782 |

There was a increase in profit before income tax for GBM to USD3.5m (2020 – USD3.3m) due to fall in expenses.

## Corporate Centre

Corporate centre consists of Markets Treasury ("MKTY"), Treasury activities as well as support functions, that is business operations.

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Total Operating Income | 1,934 | 2,721 | 3,155 |
| Total Expenses and Net Impairment Release/(Charge) | (1,127) | (1,031) | (1,310) |
| Profit before income tax | 807 | 1,690 | 1,845 |

Corporate centre profits decreased by 52.2% mainly to an increase in intercompany expenses and decrease in income during the year.

## Management discussion and analysis (continued)

## Financial Review (continued)

### Key Ratios

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **%** | % | % |
| Net interest margin | **0.6** | 0.9 | 1.8 |
| Return on average assets | **0.5** | 0.6 | 1.5 |
| Cost / Income ratio | **47.0** | 42.7 | 25 |

### Key Balance Sheet items

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| **Assets** | **USD'm** | USD'm | USD'm |
| Cash and cash equivalents | **1,105.6** | 1,006.0 | 1,167.0 |
| Loan and advances to banks | **413.5** | 498.0 | 205.0 |
| Loan and advances to customers | **1,162.5** | 1,165.0 | 1,352.0 |
| Investment securities | **828.7** | 504.0 | 453.0 |
| **Liabilities** | | | |
| Deposits from customers | **2,906.2** | 2,231.0 | 1,952.0 |
| Other borrowed funds | **302.7** | 665.0 | 885.0 |

### Net Interest Income analysis

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'm** | USD'm | USD'm |
| **Interest Income** | | | |
| Cash and cash equivalents | **0.7** | 4.9 | 12.7 |
| Loans and advances to banks | **3.8** | 5.3 | 14.2 |
| Loans and advances to customers | **18.8** | 26.1 | 48.8 |
| Investment securities | **0.4** | 2.9 | 9.5 |
| Other | **0.4** | - | 1.3 |
| **Total** | **24.1** | 39.2 | 86.5 |
| **Interest Expense** | | | |
| Deposits from customers | **(0.3)** | (1.7) | (8.2) |
| Other borrowed funds | **(1.9)** | (9.5) | (20.2) |
| Other | **-** | - | (0.1) |
| **Total** | **(2.2)** | (11.2) | (28.5) |
| **Net interest income** | **21.9** | 28.0 | 58.0 |

Interest income decreased to USD24.1m in 2021 largely as a result of the decrease in USD interest rates.

Interest expense decreased by USD9.0m mainly due to lower interest rates on customer deposits and other borrowed funds.

As a result, net interest income for the year decreased by 21.8% to USD21.9m.

## Financial Review (continued)

### Non-interest income

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'm** | USD'm | USD'm |
| Net fee and commission income | **7.8** | 5.2 | 6.0 |
| Net trading income | **1.0** | 1.7 | 3.3 |
| Other operating income | **0.4** | 0.4 | 0.4 |
| | **9.2** | 7.3 | 9.7 |

Non-interest income increased to USD9.2m (2020 – USD7.3m) mainly because of an increase in net fee and commission income.

### Non-interest expense

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'm** | USD'm | USD'm |
| Personnel expenses | **(3.4)** | (3.5) | (3.8) |
| Other expenses (including depreciation) | **(11.1)** | (11.6) | (13.1) |
| | **(14.5)** | (15.1) | (16.9) |

Non-interest expense decreased to USD14.5m (2020 – USD15.1m) mainly due to a drop in intercompany charges costs.

### Credit exposure and quality

**General**

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

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

Credit Exposures denominated in Mauritian Rupee

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

## HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

## Credit exposure and quality (continued)

### General (continued)

Credit Exposures denominated in currencies other than the Mauritian Rupee

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

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

**Gross customer advances by industry sector**

| | **2021** | | 2020 | | 2019 | |
|---|---|---|---|---|---|---|
| | **USD'm** | **%** | USD'm | % | USD'm | % |
| Manufacturing Industries | **337.1** | **29.0%** | 575.4 | 49.3 | 798.3 | 59.1 |
| Construction | **123.2** | **10.6%** | 131.4 | 11.3 | 38.7 | 2.9 |
| Financial and business services | **68.1** | **5.9%** | 112.1 | 9.6 | 184.9 | 13.7 |
| International trade | **394.5** | **33.9%** | 173.4 | 14.9 | 133.6 | 9.9 |
| Telecommunication | **137.4** | **11.8%** | 99.8 | 8.6 | 113.0 | 8.4 |
| Other | **102.2** | **8.8%** | 73.2 | 6.3 | 83.4 | 6.2 |
| **Total** | **1,162.5** | | 1,165.3 | | 1,351.9 | |

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'm** | USD'm | USD'm |
| **Banks** : | | | |
| HSBC Group | **56.2** | 53.2 | 123.1 |
| Non HSBC Group | **-** | - | 2.4 |
| **Total** | **56.2** | 53.2 | 125.5 |

A breakdown of the foreign exchange trading contract by country is disclosed under section Credit Risk Exposures on page 21.

**Credit Quality**

A breakdown of the loan portfolio for financial year ends 2021, 2020 and 2019 is enclosed on the following page. Advances are mostly extended to highly rated companies. The high quality of the book is reflected in the fact that the Bank does not have a default history since incorporation in August 2006.

# HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

## Credit quality (continued)

*Customer Advances by Market Sector*

| | Manufacturing industries | Construction | Financial and business services | International trade | Telecommunication | Other | Total |
|---|---|---|---|---|---|---|---|
| **2021** | | | | | | | |
| **USD'm** | | | | | | | |
| **Total Advances** | **337** | **123** | **68** | **395** | **138** | **102** | **1,163** |
| **Non Performing Advances** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **As a % of Total Advances** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **Total Provisions** | **0.1** | **-** | **-** | **-** | **-** | **-** | **0.1** |
| **As a % of Total Advances** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| **As a % of NPA's** | **-** | **-** | **-** | **-** | **-** | **-** | **-** |
| 2020 | | | | | | | |
| USD'm | | | | | | | |
| Total Advances | 575 | 131 | 112 | 174 | 100 | 73 | 1,165 |
| Non Performing Advances | - | - | - | - | - | - | - |
| As a % of Total Advances | - | - | - | - | - | - | - |
| Total Provisions | 0.1 | - | - | - | - | - | 0.1 |
| As a % of Total Advances | - | - | - | - | - | - | - |
| As a % of NPA's | - | - | - | - | - | - | - |
| 2019 | | | | | | | |
| USD'm | | | | | | | |
| Total Advances | 798 | 39 | 185 | 133 | 113 | 84 | 1,352 |
| Non Performing Advances | - | - | - | - | - | - | - |
| As a % of Total Advances | - | - | - | - | - | - | - |
| Total Provisions | 0.2 | - | - | - | - | - | 0.2 |
| As a % of Total Advances | - | - | - | - | - | - | - |
| As a % of NPA's | - | - | - | - | - | - | - |

## Credit quality (continued)

*Restructured Credits*

No facilities have been restructured during the year.

*Credit Impairment*

A general banking reserve of USD15.9m (2020 – USD15.3m) has been set aside as an appropriation of retained earnings to cater for future potential losses in the loan portfolio in line with the provisions laid down in the Bank of Mauritius *Guideline on Credit Impairment Measurement and Income Recognition* .

Net impairment reversal/(charge) on financial assets stood at USD0.5m (2020 – USD(0.3m)), which is calculated under IFRS 9 'Financial Instruments' methodology. The variance can be explained by the release in ECL for one of the largest corporate clients and lower asset balances.

*Credit-impaired (Stage 3)*

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

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

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

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

### Risk management policies and controls

The nature of the Bank's risks and the approach to manage those risks differ fundamentally between the trading and the non-trading portfolio. Both risks are reviewed on a monthly basis by the Asset and Liability Management Committee (ALCO) and Risk Management Meeting (RMM). Risk management information relating to the trading activities and non-trading activities, are set out below and an analysis of the Bank's risks profile is disclosed in note 33 of the financial statements.

## HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

## Risk management policies and controls (continued)

| Risks | Arising from | Measurement, monitoring and management of risk |
|---|---|---|
| **Credit risk** | | |
| Credit risk is the risk of financial loss if a customer or counterparty fails to meet an obligation under a contract. | ▪ Credit risk arises principally from direct lending and trade finance, but also from certain other products such as guarantees and derivatives. | Credit risk is:<br>▪ measured as the amount which could be lost if a customer or counterparty fails to make repayments;<br>▪ monitored using various internal risk management measures and within limits approved by individuals within a framework of delegated authorities; and<br>▪ managed through a robust risk control framework which outlines clear and consistent policies, principles and guidance for risk managers. |
| **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.<br>▪ Funding risk arises when illiquid asset positions cannot be funded at the expected terms and when required. | Liquidity and funding risk is:<br>▪ measured using a range of metrics including liquidity coverage ratio and net stable funding ratio;<br>▪ assessed through the internal liquidity adequacy assessment process;<br>▪ monitored against the Bank's liquidity and BoM's Liquidity Risk Management framework which is in line with Basel III; and<br>▪ managed on a stand-alone basis with no reliance on any Group entity (unless pre-committed) or central bank unless this represents routine established business-as-usual market practice.<br>Liquidity and funding risk is:<br>▪ measured using a range of metrics including liquidity coverage ratio and net stable funding ratio;<br>▪ assessed through the internal liquidity adequacy assessment process;<br>▪ monitored against the Bank's liquidity and BoM's Liquidity Risk Management framework which is in line with Basel III; and<br>▪ managed on a stand-alone basis with no reliance on any Group entity (unless pre-committed) or central bank unless this represents routine established business-as-usual market practice. |
| **Market risk** | | |
| Market risk is the risk that movements in market factors, such as foreign exchange rates, interest rates, credit spreads, equity prices and commodity prices, will reduce the income or the value of the Bank's portfolios. | Exposure to market risk is separated into two portfolios:<br>▪ Trading portfolios<br>▪ Non-trading portfolios | Market risk is:<br>▪ 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;<br>▪ monitored using VaR, stress testing and other measures including the sensitivity of net interest income and the sensitivity of structural foreign exchange; and<br>▪ managed using risk limits approved by the Risk Management Meeting (RMM) for the Bank and the various global businesses. |

## 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.<br>▪ 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.<br>▪ The Bank uses Present Value of Basis Point ("PVBP") for quantifying outright interest rate risk. Refer to note 33. |
| **Currency risk** | | |
| Currency risk arises from the change in price of one currency in relation to another | The Bank is exposed to currency risk through transactions in foreign currencies. The Bank's main operations in foreign currencies are in Pound Sterling, Euro, the Japanese Yen and the Indian Rupee. As the currency in which the Bank presents its financial statements is US dollar, the Bank's financial statements are affected by movements in the exchange rates between these currencies and US dollar. The Bank's transactional exposures give rise to foreign currency gains and losses that are recognised in the statement of profit or loss and other comprehensive income. These exposures comprise the monetary assets and monetary liabilities that are not denominated in the functional currency of the Bank. However most of the Bank's transactions are in US dollars and for the remaining transactions the Bank finances its monetary assets in foreign currencies with borrowings in the same currencies or enters into cross currency swaps to mitigate its currency risk. The Bank's exposure in Indian Rupee receivables is hedged using non deliverable forwards ("NDF"). | The Bank monitors the foreign exchange position against the foreign exchange limits imposed by the Bank of Mauritius on a daily basis, in line with the Bank of Mauritius Guideline on Liquidity Risk Management and 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.<br><br>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.<br>▪ Regulatory compliance risk and financial crime risk are discussed below. | Operational risk is:<br>▪ measured using the risk and control assessment process, which assesses the level of risk and effectiveness of controls;<br>▪ monitored using key indicators and other internal control activities; and<br>▪ 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.<br><br>The RMM oversees the operational risk management framework of the Bank and amongst others, is mandated to:<br><br>▪ set the Bank's risk appetite for operational risk;<br>▪ review appropriate Key Performance Indicators, including operational loss and near miss figures, as well as specific operational risk incidents;<br>▪ consider any action required from the ongoing review of operational incidents across the Bank; and<br>▪ identify any unfavourable trend and escalate as required to Bank of Mauritius and the Board.<br>▪ 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.<br>▪ In 2021, the Bank 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).<br>▪ ORR establishes, embeds and manages 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 incurs fines and penalties and suffers damage to its business as a consequence. | ▪ Regulatory compliance risk is part of operational risk, and arises from the risks associated with the Bank breaching its duty to clients and other counterparties, inappropriate market conduct and breaching other regulatory requirements. | Regulatory compliance risk is:<br>▪ measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of our regulatory compliance teams;<br>▪ monitored against the first line of defense risk and control assessments, the results of the monitoring and control assurance activities of the second line of defense functions, and the results of internal and external audits and regulatory inspections; and<br>▪ managed by establishing and communicating appropriate policies and procedures, training employees in them, and monitoring activity to help ensure their observance. Proactive risk control and/or remediation work is undertaken where required. |

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

| Risks | Arising from | Measurement, monitoring and management of risk |
|---|---|---|
| **Financial crime risk** | | |
| Financial crime risk is the risk that the Bank knowingly or unknowingly help parties to commit or to further potentially illegal activity through the HSBC Group ("HSBC"). | ▪ Financial crime risk is part of operational risk and arises from day-to-day banking operations. | Financial crime risk is:<br>▪ measured by reference to identified metrics, incident assessments, regulatory feedback and the judgment and assessment of the Bank's Financial Crime Risk teams;<br>▪ 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 defense functions, and the results of internal and external audits and regulatory inspections; and<br>▪ 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 risk** | | |
| **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:<br>▪ measured by reference to the Bank's reputation as indicated by its dealings with all relevant stakeholders, including media, regulators, customers and employees;<br>▪ monitored through a reputational risk management framework that is integrated into the Bank's broader risk management framework; and<br>▪ managed by every member of staff and is covered by a number of policies and guidelines. There is a clear structure of committees and individuals charged with mitigating reputational risk. |
| **Pension risk** | | |
| Pension risk is the risk that the performance of assets held in the defined benefit pension plans is insufficient to cover existing pension liabilities resulting in an increase in obligation to support the plans. | ▪ Pension risk arises from investments delivering an inadequate return, adverse changes in interest rates or inflation, or members living longer than expected. Pension risk includes operational risks listed previously. | Pension risk is:<br>▪ measured in terms of the schemes' ability to generate sufficient funds to meet the cost of their accrued benefits;<br>▪ monitored through the specific risk appetite; and<br>▪ 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:<br>▪ Measured by assessing the potential sustainability effect of a customer's activities and assigning a Sustainability Risk Rating to all high risk transactions;<br>▪ monitored by the RMM. |

## Risk management policies and controls (continued)

## Concentration of risk policies (continued)

As at 31 December 2021, the top 6 customers or groups of related customers exposures accounted for 66.3% (2020 – 55.2%) of total large credit exposure extended to corporates. The six most significant concentration cases are listed below.

| | Total USD'm | % of Large credit Corporate exposure* | % of Tier 1 Capital (Under Basel III) |
|---|---|---|---|
| Customer Group 1 | **170.0** | **19.2%** | **59.8%** |
| Single Customer 1 | **100.0** | **11.3%** | **35.1%** |
| Single Customer 2 | **97.0** | **10.9%** | **34.2%** |
| Customer Group 2 | **85.0** | **9.6%** | **29.9%** |
| Customer Group 3 | **75.0** | **8.5%** | **26.4%** |
| Customer Group 4 | **60.0** | **6.8%** | **21.1%** |

*"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.*

As at 31 December 2021, the Bank's credit concentration risk stood at 311.4% (2020 – 434.1%).

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

**Related party transactions policies and practices**

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

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

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

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

***Category 1***

This includes credit exposures to:

(a) a person who has significant interest in the Bank, as defined under the Banking Act 2004;

(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 under Category 2 (e) below.

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

***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.

***Category 3***

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

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

(a) a credit exposure to the extent to which it is collateralised by deposits with the Bank or Government securities or a loan to the extent to which it is guaranteed by Government;

(b) a credit exposure to the extent to which it is collateralised by securities issued by another government or a loan to the extent to which it is guaranteed by another government provided that the exposure is

(i) denominated and funded in its national currency, and

(ii) approved by the Bank under paragraph 4 of the Guideline on Standardised Approach to Credit Risk for a zero per cent risk weight;

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

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

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

(f) category 3 type of related party exposures.

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

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

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

| Related Party | Exposure USD'm |
|---|---|
| 1. The Hongkong and Shanghai Banking Corporation Limited | 1,742 |
| 2. The Hongkong and Shanghai Banking Corporation Limited - India Branch | 1,029 |
| 3. The Hongkong and Shanghai Banking Corporation Limited - Singapore Branch | 403 |
| 4. HSBC Bank (Taiwan) Limited | 400 |
| 5. The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch | 321 |
| 6. The Hongkong and Shanghai Banking Corporation Limited - Japan Branch | 310 |

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.

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

***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.

***Category 3***

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

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

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

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

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

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| 3. The Hongkong and Shanghai Banking Corporation Limited - Singapore Branch | 403 |
| 4. HSBC Bank (Taiwan) Limited | 400 |
| 5. The Hongkong and Shanghai Banking Corporation Limited - Mauritius Branch | 321 |
| 6. The Hongkong and Shanghai Banking Corporation Limited - Japan Branch | 310 |

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.

## 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

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

The Capital Base under Basel III stood as follows:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| **Tier 1** | | | |
| **CET 1 capital** | | | |
| Paid Up Capital | **72,957** | 72,957 | 72,957 |
| Other Disclosed Reserves | **72,749** | 72,957 | 72,957 |
| Retained Earnings | **138,899** | 122,557 | 175,444 |
| **CET 1 capital before regulatory adjustments** | **284,605** | 268,471 | 321,358 |
| Regulatory adjustment: Deferred tax | **(129)** | (167) | (131) |
| **Tier 1 capital** | **284,476** | 268,304 | 321,227 |
| **Tier 2** | | | |
| General Banking Reserve | **12,274** | 15,711 | 13,915 |
| **Tier 2 capital** | **12,274** | 15,711 | 13,915 |
| **Total Capital** | **296,750** | 284,015 | 335,142 |

The Asset and Liability Management Committee (ALCO) reviews the actual and projected capital adequacy ratios under the local regulatory capital requirement on a monthly basis and ensures compliance with the regulatory requirement.

### Capital Adequacy

The Basel III Standardised Approach presents risk sensitivity in measuring credit risk in that it makes use of the credit ratings of External Credit Assessment Institutions (ECAIs) to define the weights used when calculating the risk-weighted assets. Sovereign, Central Bank and bank risk weights are based on the credit assessments of recognised external rating agencies with each category of borrower having a specific risk weight structure.

### Capital Adequacy (continued)

Claims on corporate customers as well as claims on corporate public sector entities are assigned a standard risk weight of 100% when they are not rated by any of the ECAIs as mentioned on page 23, recognised rating agencies. A standard risk weight of 75% is applied to retail exposures who meet the criteria set in the Bank of Mauritius *Guideline on Standardised Approach to Credit Risk* ; claims secured by residential property for purposes other than purchase/construction in Mauritius are allocated a risk weight of 35% subject to an exposure limit of MUR5m and a loan to-value not exceeding 80% as required by the above referred guideline.

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

With on-balance sheet risk weighted assets of USD951.9m (2020 – USD1,143.7m), details of which are given in the Credit Risk: Standardised approach section on pages 23 and 24, minimum capital requirements for credit risk for portfolios subject to the Standardised Approach as at 31 December 2021 was USD113.3m (2020 – USD135.8m). Risk weighted assets of USD30.0m (2020 – USD113.2m) for market and non-market related off-balance sheet exposures and USD0.3m (2020 – USD0.6m) for market risk foreign currency exposure, generated further capital requirement of USD3.6m (2020 – USD13.5m).

Capital requirement for Operational Risk in accordance with the Basic Indicator Approach which, based on the average gross income for the last 3 years per annum of USD44.7m (2020 – USD57.8m), gave a capital charge for operational risk of USD6.7m (2020 – USD8.7m).

Total risk weighted asset capital requirement therefore stood at USD124.9m (2020 – USD140.6m) compared to the Bank's capital base of USD296.8m (2020 – USD284.0m).

The regulatory limits applicable to the Bank were as follows:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **%** | % | % |
| CET 1 capital adequacy ratio | **27.1** | 20.0 | 26.5 |
| *Regulatory Limit – Minimum CET 1 CAR* | ***6.5*** | *6.5* | 6.5 |
| Tier 1 capital adequacy ratio | **27.1** | 20.0 | 26.5 |
| *Regulatory Limit – Minimum Tier 1 CAR* | ***8.0*** | *8.0* | 8.0 |
| Total capital adequacy ratio | **28.3** | 21.1 | 27.7 |
| *Regulatory Limit – Minimum Total CAR* | ***11.9*** | *11.9* | 11.9 |

Capital adequacy ratios include audited profits for 2021. Capital adequacy ratios for 2020 and 2019 have been calculated on the same basis.

### The Credit Risk Policy Framework

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

- Lending – that funds will not be repaid;
- Guarantees or bonds – that funds will not be forthcoming upon crystallisation of the liability;
- Treasury products – that the payment or series of payments due from the counterparty under the contract is not forthcoming or ceases;
- Trading businesses – that settlement will not be effected;

### The Credit Risk Policy Framework (continued)

- Insurance risks reinsured – that the reinsurance counterparty will be unwilling or unable to meet its commitments;
- Cross-border exposure – that the availability and free transfer of currency is restricted or ceases; and
- Holdings of assets in the form of debt securities – that the value of these falls e.g. after a downgrading of credit rating.

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

The Bank has historically sought to maintain a conservative, yet constructive and competitive credit risk culture. This has served the Bank well, through successive economic cycles and strategic plan periods, and remains valid today. This culture is determined and underpinned by the disciplined credit risk control environment which the Bank has put in place to govern and manage credit risk, and which is embodied in the formal policies and procedures within which the Bank must operate. These extend from the overall strategic approach to the daily actions of management, demonstrated in:

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

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

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

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

The identification, understanding and management of the Bank's different risks are of increasing importance and as a result, a comprehensive Enterprise-wide Risk Management Framework is applied throughout the HSBC Group and across all risk types, including credit risk. As outlined under the Statement on Corporate Governance Practices, risk governance is exercised in both an executive capacity, through the monthly Risk Management Meetings, and a non-executive capacity, through the quarterly Board of Directors' Meetings, advised and supported by the Risk Management and Conduct Review Committee. This structure helps to ensure appropriate oversight and accountability of risk, and facilitates reporting and escalation as appropriate.

The Bank's information system, has also been designed such that unauthorised excesses, overdue loan repayments and pending documentation are tracked and addressed in a timely manner. In addition, regular reporting on credit risk is made to the parent company in Hong Kong and to the Bank of Mauritius.

## HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

### Credit Risk Exposures

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

Fund based:

| Items | USD'000 |
|---|---|
| Claims on Sovereign | 798,021 |
| Claims on Central Banks | 80,520 |
| Claims on Banks | 1,537,386 |
| Claims on Corporates | 1,093,132 |
| Claims on Other assets | 5,637 |
| **Total** | **3,514,696** |

Non fund based:

| Items | USD'000 |
|---|---|
| Direct Credit Substitute | 116 |
| Transaction-related contingencies | 25,722 |
| Trade-related Contingent Items | 124,973 |
| Other commitments with an original maturity of up to one year | 4,307 |
| Other commitments with an original maturity of over one year | 13,381 |
| Unconditionally cancellable commitments * | 155,105 |
| Foreign Exchange Contracts | 56,199 |
| **Total** | **379,803** |

* Commitments that can be unconditionally cancellable at any time by the Bank without prior notice, or that effectively provide for automatic cancellation due to the deterioration in a borrower's credit worthiness.

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

Fund Based:

| Items | Risk Country | USD'000 |
|---|---|---|
| Claims on Sovereigns | Mauritius | 1,504 |
| | United States | 796,517 |
| **Total** | | 798,021 |

| Items | Risk Country | USD'000 |
|---|---|---|
| Claims on Central Banks | Mauritius | 80,520 |
| **Total** | | 80,520 |

**HSBC Bank (Mauritius) Limited**

**Management discussion and analysis (continued)**

**Credit Risk Exposures (continued)**

Fund Based: (continued)

| Items | Risk Country | USD'000 |
|---|---|---|
| Claims On Banks | Australia | 41 |
| | Belgium | 5 |
| | Canada | 213 |
| | China, P.R. | 54 |
| | France | 3,264 |
| | Hong Kong | 1,220,029 |
| | India | 72,833 |
| | Japan | 2,572 |
| | Mauritius | 62,466 |
| | New Zealand | 17 |
| | Singapore | 19,941 |
| | South Africa | 1,462 |
| | Switzerland | 238 |
| | United Arab Emirates | 41 |
| | United Kingdom | 6,580 |
| | United States | 144,823 |
| | Vietnam | 2,807 |
| **Total** | | **1,537,386** |

| Items | Risk Country | USD'000 |
|---|---|---|
| Claims on Corporates | Bangladesh | 1,498 |
| | Hungary | 28,583 |
| | India | 703,567 |
| | Kenya | 15,005 |
| | Madagascar | 45,014 |
| | Mauritius | 120,784 |
| | Netherlands | 2,273 |
| | Seychelles | 15,005 |
| | Sri Lanka | 49,584 |
| | Thailand | 172 |
| | United Kingdom | 9,571 |
| | Vietnam | 102,076 |
| **Total** | | **1,093,132** |

Non fund based:

| Items | Risk Country | USD'000 |
|---|---|---|
| Direct Credit Substitute | India | 45 |
| | Sri Lanka | 71 |
| **Total** | | **116** |

| Items | Risk Country | USD'000 |
|---|---|---|
| Transaction-related Contingent Items | Bangladesh | 93 |
| | India | 818 |
| | Mauritius | 3,594 |
| | Sri Lanka | 86 |
| | Vietnam | 21,130 |
| **Total** | | **25,721** |

## HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

### Credit Risk Exposures (continued)

Non-Fund Based: (continued)

| Items | Risk Country | USD'000 |
|---|---|---|
| Trade-related Contingent Items | India | 124,973 |
| **Total** | | **124,973** |

| Items | Risk Country | USD'000 |
|---|---|---|
| Other commitments with an original maturity of up to one year | Mauritius | 4,307 |
| Other commitments with an original maturity of over one year | India | 283 |
| | United Kingdom | 13,098 |
| Unconditionally cancellable commitments | Bangladesh | 3,506 |
| | India | 13,886 |
| | Mauritius | 100,110 |
| | Vietnam | 37,603 |
| **Total** | | **172,793** |

| Items | Risk Country | USD'000 |
|---|---|---|
| Foreign Exchange Contracts | Hong Kong | 31,782 |
| | United Kingdom | 24,417 |
| **Total** | | **56,199** |

The counterparty type distribution of exposures was as follows:

Fund based:

| Items | USD'000 |
|---|---|
| Financial Institutions | 1,617,906 |
| Corporates | 1,093,132 |
| Others | 803,658 |
| **Total** | **3,514,696** |

Non fund based:

| Items | USD'000 |
|---|---|
| Financial Institutions – banks | 182,317 |
| Corporates | 197,486 |
| **Total** | **379,803** |

## HSBC Bank (Mauritius) Limited

### Management discussion and analysis (continued)

### Credit Risk Exposures (continued)

The contractual maturity breakdown of the portfolio was as follows:

Fund based:

| Items | USD'000 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Number of Months | 0-3m | 3-6m | 6-12m | 12-24m | 24-36m | 36-60m | > 60m | **Total** |
| Claims on Sovereigns | 596,550 | - | 201,472 | - | - | - | - | 798,022 |
| Claims on Central Banks | 77,670 | - | 2,850 | - | - | - | - | 80,520 |
| Claims on Banks | 1,418,909 | 45,770 | 35,142 | 19,531 | 18,033 | - | - | 1,537,385 |
| Claims on Corporates | 391,907 | 22,920 | 206,709 | 154,273 | 90,788 | 226,535 | | 1,093,132 |
| **Total** | **2,485,036** | **68,690** | **446,173** | **173,804** | **108,821** | **226,535** | **-** | **3,509,059** |

Non fund based:

| Items | USD'000 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Number of Months | 0-3m | 3-6m | 6-12m | 12-24m | 24-36m | 36-60m | > 60m | **Total** |
| Direct Credit Substitute | - | 71 | 45 | - | - | - | - | 116 |
| Transaction-related Contingent Items | 59 | 14,560 | 226 | 689 | 10,187 | - | - | 25,721 |
| Trade-related Contingent Items | 124,973 | - | - | - | - | - | - | 124,973 |
| Other commitments with an original maturity of up to one year | 2,266 | - | 2,041 | - | - | - | - | 4,307 |
| Other commitments with an original maturity of over one year | - | - | - | - | 284 | 13,097 | - | 13,381 |
| Unconditionally cancellable commitments | 98,669 | 500 | 55,936 | - | - | - | - | 155,105 |
| Foreign Exchange Contracts | 55,809 | 390 | - | - | - | - | - | 56,199 |
| **TOTAL** | **281,776** | **15,521** | **58,248** | **689** | **10,471** | **13,097** | **-** | **379,802** |

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

**Credit Risk: Standardised Approach**

The Standardised Approach to Credit Risk requires banks to use credit assessments provided by external credit assessment institutions (ECAIs) that are recognised by national supervisors as eligible for regulatory capital purposes, to determine the risk weights on their credit exposures.

The following ECAIs are used by the Bank:

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

The ratings of these international credit rating agencies are used for capital adequacy purposes for risk weighting claims in all market segments**.** Claims on sovereigns, claims on central banks and international institutions, claims on banks and, claims on corporates are the major market segments where the Bank makes use of the above referred credit agencies rating data.

## Credit Risk Exposures (continued)

### Credit Risk: Standardised Approach (continued)

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

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

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

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

Fund Based:

| Items | Exposures Before CRM | Exposures After CRM | Risk | RWA |
|---|---|---|---|---|
| | USD’000 | USD’000 | % | USD’000 |
| Claims on Sovereigns | 798,021 | 798,021 | 0 | - |
| Claims on Central Banks | 80,520 | 80,520 | 0 | - |
| Claims on Banks | 825,457 | 825,457 | 0 | - |
| | 297,845 | 594,589 | 20 | 118,918 |
| | 253,025 | 253,025 | 50 | 126,513 |
| | 161,059 | 161,059 | 100 | 161,059 |
| Claims on Corporates | 191,350 | 191,350 | 20 | 38,270 |
| | 81,606 | 81,606 | 30 | 24,482 |
| | 59,431 | 59,431 | 50 | 29,716 |
| | 734,087 | 407,337 | 100 | 407,337 |
| | 26,658 | 26,659 | 150 | 39,989 |
| Claims on Other assets | 5,637 | 5,637 | 100 | 5,637 |
| **Total** | **3,514,696** | **3,484,691** | | **951,921** |

Non Fund Based:

| Items | Exposures Before CRM | Exposures After CRM | Credit Conversion Factor | Credit Equivalent Amount | RWA |
|---|---|---|---|---|---|
| | USD’000 | USD’000 | % | USD’000 | USD’000 |
| Direct Credit Substitute | 116 | 116 | 100 | 116 | 59 |
| Transaction-related Contingent Items | 25,722 | 25,715 | 50 | 12,857 | 12,774 |
| Trade-related Contingent Items | 124,973 | 124,973 | 20 | 29,487 | 9,454 |
| Other commitments with an original maturity of up to one year | 4,307 | 4,307 | 20 | 861 | 861 |
| Other commitments with an original maturity of over one year | 13,381 | 13,381 | 50 | 6,690 | 6,690 |
| Unconditionally cancellable commitments | 155,105 | 155,105 | - | - | - |
| **Total** | **323,604** | **323,597** | | **50,011** | **29,838** |

## HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

## Credit Risk Exposures (continued)

### Credit Risk: Standardised Approach (continued)

| Items | Notional principal amount | Credit Conversion Factor | Potential Future Risk | Current Exposure | Credit Equivalent Amount | RWA |
|---|---|---|---|---|---|---|
| | USD'000 | % | USD'000 | USD'000 | USD'000 | USD'000 |
| Foreign Exchange Contracts | 56,199 | 1 | 562 | 394 | 956 | 191 |

### Credit Risk Mitigation

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

Common acceptable forms of security are:

- standby letters of credit /guarantees from banks;
- cash or deposits held under lien;
- personal or corporate guarantees;
- letters of undertaking;
- registered mortgages; and
- fixed and floating charge on all assets.

### Market Risk

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

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

An Annual Limit Review (ALR) is prepared by HSBC Group Market Risk and reviewed by the Risk Management Meeting (RMM) of the HSBC Group Management Board (GMB) each year. The Bank henceforth submits a request annually to apply for market risk limits covering the following calendar year. All requests are submitted in writing and these clearly indicate the support of the country CEO, or his delegate and, the local and regional Head of Markets & Securities Services 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 USD0.3m (2020: USD0.6m) giving a capital requirement of USD0.03m (2020: USD0.07m).

## HSBC Bank (Mauritius) Limited

## Management discussion and analysis (continued)

## Basel III disclosures (continued)

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

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

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

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

The Bank's capital requirement for operational risk as at 31 December 2021 stood as follows:

| | | **Financial Year Ended 2021** | Financial Year Ended 2020 | Financial Year Ended 2019 |
|---|---|---|---|---|
| | | **USD'000** | USD'000 | USD'000 |
| | ***Annual Gross Income*** | 31,019 | 35,333 | 67,728 |
| (1) | Number of Years with positive income | 3 | | |
| (2) | Average Gross Income over last 3 years | 44,694 | | |
| (3) | Capital charge for Operational Risk | 6,704 | | |

**HSBC Bank (Mauritius) Limited**

**Management discussion and analysis (continued)**

## Interest rate risk in the trading book

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

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

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

PVBP is used by the Bank's treasury trading system to monitor interest rate risk. The outstanding position as at 31 December 2021 in the trading book by time buckets is disclosed in note 33 of the financial statements.

| | | |
|---|---|---|
| ---------------------------- | ---------------------------- | ---------------------------- |
| **Philip Fellowes** | **Dean Lam Kin Teng** | **Rajiv Gopaul** |
| *Chairman* | *Managing Director* | *Director* |

Date: 10 March 2022

**HSBC Bank (Mauritius) Limited**

**Statement on corporate governance practices**

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

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

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

During the year under review, the Board of HSBC Bank (Mauritius) Limited (the "Bank") continuously assessed the requirements and provisions as specified in the Code, and took the necessary steps to ensure adherence thereto.

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

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

***Group Values, Charter and Code of Conduct***

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

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

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

The Bank's values are:

We value difference

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

We succeed together

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

We take responsibility

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

We get it done

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

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

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

The Board ensures effective management in line with the above values and its Code of Conduct (Code of Ethics) which was reviewed and approved by the Board in December 2020 and there was no change to this Code in 2021. Employees are empowered through the Code to support responsible decision making and to adhere to the highest standards of business practice. Incident reporting is encouraged and a dedicated confidential telephone is available for all employees. The Board also renewed its pledge to adhere to the Code in December 2020.

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

### 1. Governance Structure

***1.1 Shareholding structure***

The Bank is incorporated in Mauritius as a subsidiary of The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in the United Kingdom, is the parent company. As at 31 December 2021, the Bank's issued capital was USD 72,956,783, solely held by The Hongkong and Shanghai Banking Corporation Limited.

***1.2 Responsibilities of the Board***

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

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

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

## 1. Governance Structure (continued)

### *1.2 Responsibilities of the Board (continued)*

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

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

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

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

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

### *1.3 Board & and its Committees Terms of Reference*

In line with the Code and the *Guideline on Corporate Governance* issued by the Bank of Mauritius, the composition, frequency of meetings and the responsibilities of the Board are set out in the Board Terms of Reference which was initially approved and adopted by the Board at its meeting held on 8 November 2018 and subsequently reviewed on an annual basis, last review being done on 9 November 2021. Similarly, responsibilities delegated to each Board Committee are embodied in respective Terms of Reference (ToRs), All the ToRs are reviewed annually, as and when any amendments are required to align with the core terms of reference of the group from time to time.

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

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

The Board is of sufficient size to discharge its responsibilities and allow changes to the Board's composition to be managed without undue disruption. The Board believes that based on Bank's size and operations, it possesses the right balance of executive and non-executive directors. The Constitution of the Bank allows for the Board to have a minimum of 7 Directors and a maximum of 9 Directors. During the year, there has been one new appointment namely Mr. Jonathon Lee, which took effect on 1 December 2021. Mr. Lee is a replacing Mr. Mark Prothero who has retired from the HSBC Group on 31 August 2021, and also from the Board of the Bank.

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

## 1. Governance Structure (continued)

### *1.3 Board & Board Committees Terms of References (continued)*

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

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

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

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

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

## 2. The Structure of the Board and its Committees

### *2.1 Board Composition*

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

| **Board of Directors** | | |
|---|---|---|
| Frequency of meetings | Quarterly | |
| Composition | Matthew Lobner[1] | Chairman of the Board and Non-Executive Director |
| | Philip Fellowes[2] | Chairman of the Board and Non-Executive Director |
| | Dean Lam | Managing Director |
| | Bonnie Y Qiu | Executive Director |
| | Rajiv Gopaul | Executive Director |
| | Laura Steer | Executive Director |
| | Timothy Evans | Non-Executive Director |
| | Todd Wilcox[3] | Non-Executive Director |
| | Mark Prothero[4] | Non-Executive Director |
| | Priyadarshini Kini | Non-Executive Director |
| | Jonathon Lee[5] | Non-Executive Director |
| Main Responsibilities | The key responsibilities of the Board include:<br>(i) setting and overseeing the objectives of the Bank and the strategies for achieving those objectives;<br>(ii) risk governance;<br>(iii) appointment and oversight of senior management, including the Managing Director, as and when required;<br>(iv) setting corporate values and standards;<br>(v) ensuring a suitable and transparent corporate structure;<br>(vi) ensuring effective audit functions; and<br>(vii) ensuring an appropriate degree of transparency in respect of the structure, operation and risk management of the Bank. | |

[1]: *Matthew Lobner resigned from the Board on 28 February 2022*
[2]: *Philip Fellowes was appointed on 01 March 2022*
[3]: *Todd Wilcox resigned from the Board on 15 March 2021*
[4]: *Mark Prothero resigned from the Board on 31 August 2021*
[5]: *Jonathon. Lee was appointed on 1 December 2021*

## HSBC Bank (Mauritius) Limited

### Statement on corporate governance practices (continued)

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

***2.2 Audit Committee***

| | | |
|---|---|---|
| Frequency of meetings | Quarterly | |
| Composition | Mark Prothero<br>Jonathon Lee<br>Timothy Evans<br>Priyadarshini Kini* | Chairman of Audit Committee up to August 2021<br>Chairman of Audit Committee as from December 2021<br>Member and Non-Executive Director Member and<br>Non-Executive Director |
| Main Responsibilities | The key responsibilities of the Audit Committee include:<br><br>(i) reviewing the financial statements of the Bank before they are approved by the directors, to monitor the integrity of such statements;<br>(ii) reviewing, evaluating and where necessary, approving, the Bank's financial and accounting policies and practices;<br>(iii) reviewing the Bank's internal financial controls and its internal control and risk management systems;<br>(iv) monitoring and reviewing the internal audit plan, the effectiveness of the internal audit function and co-ordination between the internal and external auditors, considering the major findings of internal investigations and management's response;<br>(v) reviewing such transactions as could adversely affect the sound financial condition of the Bank as the auditors or any officers of the Bank may bring to the attention of the Committee;<br>(vi) reviewing the terms of appointment, re-appointment or removal of the external auditors and approve the terms of engagement; and<br>(vii) reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process. | |

** Priyadarshini Kini was the acting Chairman from 01 September 2021 to 30 November 2021*

*Key topics considered during the year*

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

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

### *2.3 Risk Management and Conduct Review Committee (RMCRC)*

| | | |
|---|---|---|
| Frequency of meetings | Quarterly | |
| Composition | Todd Wilcox<br>Priyadarshini Kini<br>Dean Lam<br>Mark Prothero<br><br>Timothy Evans | Chairman of the RMCRC up to March 2021<br>Chairperson of the RMCRC as from March 2021<br>Member and Managing Director<br>Member and Non-Executive Director up to 31 August 2021<br>Member and Non-Executive Director |
| Main Responsibilities | The key responsibilities of the Risk Management and Conduct Review Committee include:<br>(i) overseeing and advising the Board on all high-level risk related matters;<br>(ii) identifying principal risks, including those relating to credit, market, liquidity, operational, compliance, and reputation of the Bank, and actions to mitigate the risks;<br>(iii) advising the Board on risk appetite and tolerance in determining strategy; | |
| Main Responsibilities | (i) requiring regular risk management updates from management in the form of the Chief Risk Officer's report which enables the Committee to assess the risks involved in the Bank's business and how they are controlled and monitored by management; as well as giving clear, explicit and dedicated focus to current and forward-looking aspects of risk exposure which may require a complex assessment of the Bank's vulnerability to hitherto unknown or unidentified risks;<br>(ii) reviewing the effectiveness of the Bank's risk management framework and internal control systems; and<br>(iii) seeking to embed and maintain throughout the Bank a supportive culture in relation to the management of risk and maintenance of internal controls alongside prescribed rules and procedures. | |

### *2.4 Management Committees*

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

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

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

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

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

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

### ***2.5 Executive Committee***

| | | |
|---|---|---|
| Frequency | Monthly | |
| Composition | Bonnie Y Qiu | Country Chief Executive Officer (Chairman) |
| | Dean Lam | Managing Director |
| | Sarina Saul-Hassam[1] | Chief Operating Officer |
| | Percy Talati[2] | 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 | Chief Risk Officer |
| | Ashish Gowreesunker | Chief Compliance Officer |
| | Ashiti Prosand | Head of Legal and Company Secretary |
| | Binsha Raderam[3] | 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.<br><br>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:<br>(i) Monitoring actual performance against budgets and providing planning and budgeting guidance where appropriate;<br>(ii) Managing profitability and revenue growth and profile, optimising the allocation and utilisation of all resources;<br>(iii) Resolving inter-departmental issues that have impacts on business performance; and<br>(iv) Making tactical decisions, based on the information presented and analysing business strategies of the Bank. | |

*[1] Effective from 01 May 2021*
*[2] Acting Chief Operating Officer from 12 January 2021 to 30 April 2021*
*[3] Effective from 01 June 2021*

### ***2.6 Asset and Liability Committee***

The Asset and Liability Committee (ALCO) of the Bank has a formal schedule of matters reserved to it and 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.

## HSBC Bank (Mauritius) Limited

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

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

***2.6 Asset and Liability Committee (continued)***

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

| | | |
|---|---|---|
| Frequency | Monthly | |
| Composition | Rajiv Gopaul | Chief Financial Officer (Chairman) |
| | Bonnie Y Qiu | Country Chief Executive Officer |
| | Dean Lam | Managing Director |
| | Laura Steer | 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:<br>(i) providing direction and ensure tactical follow-through to performance objectives within prescribed risk parameters;<br>(ii) reviewing all risks facing the bank and ensure their prudent management, including, but not limited to:<br>- structural interest rate risk;<br>- structural foreign exchange risk<br>- liquidity and funding risk<br>- regulatory changes<br>(iii) providing a forum for discussing ALCO issues;<br>(iv) facilitating teamwork between different businesses/ departments;<br>(v) resolving departmental inter-face issues such as transfer pricing and resource allocation;<br>(vi) reviewing overall sourcing and allocation of funding; and<br>(vii) determining the most likely banking environment for asset/liability forward planning and review contingency scenarios | |

***2.7 Risk Management Meeting (RMM)***

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

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

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

***2.7 Risk Management Meeting (RMM) (continued)***

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

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

| | | |
|---|---|---|
| Frequency | Monthly | |
| Composition | Laura Steer | Chief Risk Officer (CRO) (Chairperson) |
| | Dean Lam | Managing Director |
| | 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 |
| | Ashish Gowreensunker | Chief Compliance Officer and MLRO |
| | Rim Abohegab | Head of Human Resources |
| 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:<br><br>Strategy<br><br>• Ensuring that risk considerations are incorporated within the strategic planning and budgeting processes;<br>• 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;<br>• 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*

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

***2.7 Risk Management Meeting (RMM) (continued)***

| | |
|---|---|
| Main Responsibilities | Business Performance and Priorities<br>(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 Board approval where appropriate<br>(ii) Reviewing the Bank risk profile, and Risk Appetite Profile, and be informed of material changes to the Top and Emerging Risk Profile and Risk Map.<br>(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<br>(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.<br>(v) Reviewing processes governing new product approval, post-implementation reviews and ongoing monitoring of the current portfolios<br>(vi) Receiving and reviewing reports and updates on HBMU'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.<br>(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.<br>(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.<br>(ix) Receiving and reviewing reports on key legal risks and developments.<br>(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.<br>(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.<br>(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 |

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

***2.7 Risk Management Meeting (RMM) (continued)***

| | |
|---|---|
| Main Responsibilities | <u>Business Performance and Priorities (continued)</u><br>(xiii) reviewing, discussing and addressing regulatory risks and issues, policy changes and resultant impact. Promote, monitor and assess the regulatory risk culture.<br>(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.

***2.8 Corporate Governance Committee***

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

***2.9 Remuneration Committee***

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

**3. Director Appointments Procedures**

***3.1 Appointment of Directors***

The Board follows the Standard Practice Instruction ('SPI') on 'Appointments of Directors to Boards, Audit, Risk and Remuneration Committees, and appointments to Specified Executive Positions of Material Subsidiaries of The Hongkong and Shanghai Banking Corporation Limited ("HBAP")' for appointment of directors which is led by the Chairman of the Board. The Chairman reviews the structure, size and composition of the Board annually, or whenever appointments are considered, to ensure that the Board has a diverse mix of competencies, knowledge and experience, in order to enrich Board discussions and improve the quality of decision making. Directors are appointed by ordinary resolution by the shareholder or in line with the above SPI. There are no limits on the number of times a director may stand for re-election, subject to continued satisfactory performance.

***3.2 Board Access to Information & Advice***

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

## 3. Director Appointments Procedures (continued)

### ***3.2 Board Access to Information & Advice (continued)***

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

### ***3.3 Directors' Interests in Shares***

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

### ***3.4 Independent Directors***

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

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

### ***3.5 Evaluation of Board Performance***

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

### ***3.6 Succession Planning***

Succession Planning and the development of management are part of the standard HSBC group processes which are required by the Group and the shareholder, HBAP. To that effect, the SPI has been devised which ensures proper succession planning in the subsidiaries' Boards, including that of the Bank. The Board assumes the responsibility that the Bank has an effective management team and actively participates in the development of management and succession planning in line with this group process.

### ***3.7 Induction & Orientation Programme & Periodic Refresher Programme for Directors***

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

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

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

During the year there have been one new Director's appointment.

## 3. Director Appointments Procedures (continued)

### *3.8 Continuous Training & Development*

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

All the directors are employees of the Bank and have attended mandatory trainings that are critical in their roles as both directors of the Bank and employee of the HSBC Group. In addition to the mandatory training that all HSBC staff including directors undergo, 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.

### *3.9 Common directors between the Bank and its sole shareholder*

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

## 4. Director Duties, Remuneration and Performance

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

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

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

### *4.2 Role of Chairman*

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

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

## 4. Director Duties, Remuneration and Performance (continued)

### *4.2 Role of Chairman (continued)*

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

### *4.3 Role and Function of Managing Director*

The Managing Director is responsible for:

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

### *4.4 Role of Company Secretary*

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

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

### *4.5 Directors' Service Contracts*

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

### *4.6 Directors' Emoluments*

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

## 4. Director Duties, Remuneration and Performance (continued)

### *4.6 Directors' Emoluments (continued)*

During the financial year 2021, the Managing Director received emoluments, which includes salaries and other benefits, amounting to USD144,009 (2020: USD170,908). Other directors were not entitled to directors' fees and other remuneration during the year.

### *4.7 Job descriptions*

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

### *4.8 Statement of Remuneration Policy*

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

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

### *4.9 Conflict of Interest*

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

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

### *4.10 Information Governance*

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

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

## 4. Director Duties, Remuneration and Performance (continued)

### *4.10 Information Governance (continued)*

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

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

### *4.11 Directors' Profile*

**Matthew Lobner – Chairman and Non-Executive Director (Non - resident) – resigned on 28 February 2022**

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

Other roles occupied by Mr Lobner include being a US Naval Submarine Officer in the United States Navy. He has a Master of Science in Electrical Engineering from Massachusetts Institute of Technology, and graduated with distinction from the United States Naval Academy. Mr. Lobner was the Chairman of the Board of HSBC Bank (Mauritius) Limited up to 28 February 2022.

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

**Philip Fellowes – Chairman and Non-Executive Director (Non - resident) – appointed on 01 March 2022**

Mr. Fellowes is the Chief of Staff reporting to Co-Chief Executives of the Hong Kong and Shanghai Banking Corporation Limited, based in Hong Kong. He is a member of the Boards of banking subsidiaries in Indonesia, Vietnam and Mauritius.

Prior to HSBC, Mr. Philip was with the management consultancy Oliver Wyman where he served financial services clients across Europe, Middle East and Asia.

Mr. Philip is an Institute of International Finance (IIF) Future Leader and a former member of the UK Board of Directors for the Society for Worldwide Interbank Financial Telecommunications (SWIFT). Mr. Philip graduated from the University of Oxford and has an Executive MBA from Columbia Business School New York, London Business School and Hong Kong University.

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

## 4. Director Duties, Remuneration and Performance (continued)

***4.11 Directors' Profile (continued)***

**Dean Lam – Managing Director (Resident)**

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

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

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: Ascensia Group*

**Bonnie Y Qiu – Executive Director (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.

*Directorships held in companies listed on Market of the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

**Rajiv Gopaul – Executive Director (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.

*Directorships held in companies listed on Market of the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

## 4. Director Duties, Remuneration and Performance (continued)

### *4.11 Directors' Profile (continued)*

**Laura Steer – Executive Director (Resident)**

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

*Directorships held in companies listed on Market of the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

**Todd Wilcox – Non-Executive Director (Non – resident) – Resigned on 15 March 2021**

Mr Wilcox is the Chief Executive Officer of HSBC Bank in Egypt. Previously he held the post of Senior Executive Vice President and Deputy Chief Executive Officer of HSBC Bank (China) Company Limited. Mr Wilcox joined HSBC in Canada in 2005 to expand the Group's operations in western Canada. Before moving to Asia, he was also Head of Retail, Marketing and Public Affairs for HSBC Bermuda. Mr Wilcox became Chief Operating Officer for the Risk function in the Asia-Pacific in 2011, overseeing the function for Asia as well as acting as Chief Risk Officer for 11 markets in the region. Mr Wilcox was also appointed CEO of Brunei for The Hongkong and Shanghai Banking Corporation Limited in 2012. He became Head of Remediation Management Office for HSBC China in August 2016. In May, 2018 he was appointed Deputy Chief Executive Officer of HSBC China.

Prior to joining HSBC, Mr Wilcox worked for Royal Bank of Canada for 16 years in a wide range of roles. Mr Wilcox holds a Master's Degree in Business Administration from the University of Western Ontario

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

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

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

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

**4. Director Duties, Remuneration and Performance (continued)**

***4.11 Directors' Profile (continued)***

**Mark Prothero – Non-Executive Director (Non – resident) – Resigned on 31 August 2021**

Prior retirement from the HSBC Group in August 2021, Mr. Prothero was the Chief Executive Officer of HSBC Sri Lanka and Maldives. Mr. Prothero joined HSBC Group as a graduate in 1990. As a Bank executive with a blend of experience spanning sales, relationship management, operations, risk management, compliance and internal audit, across Retail Banking, Commercial Banking, Trade Services and Securities Services. He held senior leadership positions across Asia, the Middle East, Europe and the Americas, in a 29-year career with the HSBC Group. He was also Chief Auditor for HSBC Holdings Ltd based in Middle East and North Africa. Mr. Prothero holds a BA (Hons) in Geography from the University of Nottingham and is CAMS qualified.

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

**Priyadarshini Kini – Non-executive Director (Non- Resident)**

Ms Priyadarshini Kini is Managing Director and Head of Global Banking, Singapore, HSBC. She joined HSBC in 2001 and has served in a number of roles spanning Corporate and Institutional Banking, Client Coverage and Risk Management in HSBC offices in Mumbai, London, Hong Kong and Singapore. Prior to joining HSBC, she has also worked at other FIs in Treasury and Capital Markets roles. Ms Kini holds a Post-Graduate Degree in Management from the Indian Institute of Management, Ahmedabad.

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

**Jonathon Lee – Non-executive Director (Non- Resident)**

Mr. Jonathon Lee is HSBC's Financial Controller for Asia-Pacific, based in Hong Kong. He has formally performed roles with responsibility for Financial Reporting and the WPB business finance teams across HSBC in Asia. Previously, he worked in Hong Kong and the United Kingdom in audit, advisory and consulting roles across the banking, insurance and asset management industries with KPMG.

Mr. Lee graduated from the University of Bath with a BSc. (Hons) Degree in Economics, and holds an Executive Masters in Business Administration jointly from the University of Edinburgh and École Nationale des Ponts et Chaussées, Paris. He is a Fellow of the Institute of Chartered Accountants in England and Wales (ICAEW).

*Directorships held in companies listed on the Stock Exchange of Mauritius Ltd as at 31 December 2021: None*

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

**4. Director Duties, Remuneration and Performance (continued)**

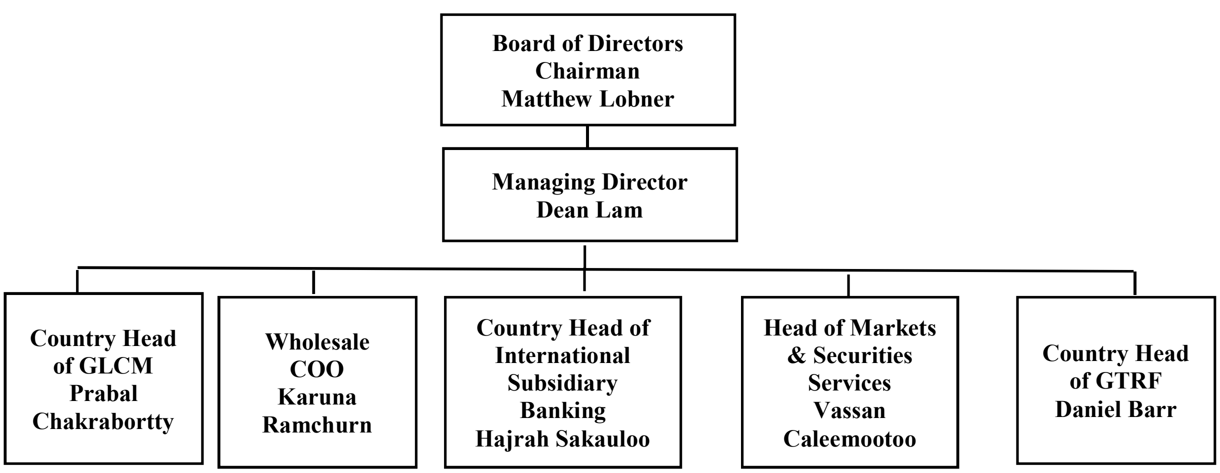
***4.12 Board and Committee Attendance***

| | | Board | Audit | RMCRC |
|---|---|---|---|---|
| Number of meetings held | | 4 | 4 | 4 |
| **Directors:** | | | | |
| Matthew Lobner | Chairman – Non Executive | 4 | - | - |
| Priyadarshini Kini | Non-Executive Director | 4 | 4 | 4 |
| Todd Wilcox* | Non-Executive Director | 1 | 1 | 1 |
| Mark Prothero* | Non-Executive Director | 3 | 3 | 3 |
| Timothy Evans | Non-Executive Director | 4 | 4 | 4 |
| Dean Lam | Executive Director | 4 | - | 4 |
| Bonnie Y Qiu | Executive Director | 4 | - | - |
| Rajiv Gopaul | Executive Director | 4 | - | - |
| Laura Steer | Executive Director | 4 | - | - |
| Jonathon Lee** | Non-Executive Director | - | - | - |

*The appointment and resignation dates of the Board members have been provided in the report which are aligned to their attendance to the Board and its subcommittee meetings
** Mr. Lee was appointed on 1 December 2021 and there were no meetings in 2021 post this date

***4.13 Senior Management Profile***

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




**Dean Lam – Managing Director**

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

## 4. Director Duties, Remuneration and Performance (continued)

### *4.13 Senior Management Profile (continued)*

**Hajrah Sakauloo – Head of International Subsidiary Banking**

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

**Karuna Ramchurn – Wholesale Chief Operating Officer**

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

**Prabal Chakrabortty – Country Head, Global Liquidity and Cash Management (GLCM)**

Prabal is an MBA with a professional career span of over 18 years. He joined HSBC in 2020, as Head of the Cash Management business in Mauritius with remit covering payments, liquidity, digital channels and P&L for the corporate banking liability business. Prior to joining HSBC, Prabal spent a few years in the digital payments and fintech sector before which he held a sales leadership role in the Cash Management business at HSBC India.

**Feizal Hosany – Head of HSBC Securities Services**

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

**Ashiti Prosand – Head of Legal & Company secretary**

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

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

**4. Director Duties, Remuneration and Performance (continued)**

***4.13 Senior Management Profile (continued)***

**Vassan Caleemootoo - Head of Markets & Securities Services**

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

**Daniel Barr – Head of GTRF**

Daniel joined the Bank on 9 May 2019 and is currently Country Head of GTRF. Previously, Daniel was a Director Corporate for HSBC UK GTRF and he has worked for a number of large trade finance focused banks managing International relationships for in excess of 17 years where he has developed experience in sales, risk and product across an array of GTRF focused markets. Whist at HSBC UK GTRF, Daniel worked on developing one of the largest MME trade finance portfolios in the UK based on key relationships with large multinationals across the European, Indian and Asian markets.

**Jennifer Hau – Chief Operating Officer - 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 - 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.

## 4. Director Duties, Remuneration and Performance (continued)

***4.13 Senior Management Profile (continued)***

**Ashish Gowreesunker – Chief Compliance Officer**

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.

**Rim Abohegab – Head of Human Resources**

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.

**Nitin Ramlugon – Head of Wealth and Personal Banking**

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

**Annick Meerun – Communications Manager**

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

***4.14 Interests register***

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

HSBC Bank (Mauritius) Limited

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

## 5. Risk Governance and Internal Controls

### ***5.1 Risk Management***

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

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

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

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

**Key Components of HSBC Bank (Mauritius) Limited Enterprise-wide Risk Management Framework**

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

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

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

### ***5.2 Risk Governance (continued)***

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

Executive accountability for the ongoing monitoring, assessment and management of the risk environment and the effectiveness of the risk management framework resides with the CRO. The CRO is supported by the Risk Management Meeting and ensures all matters of significance are raised to the Board through the CRO Report to the Risk Management and Conduct Review Committee. In turn, the Chair of the Committee reports such matters of significance to the Board, as appropriate. The minutes of the Risk Management Meeting and Risk Management and Conduct Review Committee are made available to all Board members.

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

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

### ***5.3 Risk Roles and Responsibilities***

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

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

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

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

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

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

### ***5.4 Risk Processes and Tools***

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

- Risk Appetite: defined as the type and quantum of risks which the Bank is willing to accept in achieving its medium and long-term strategic goals. Risk Appetite therefore provides the anchor between the businesses, strategy, risk and finance, enabling senior management to optimally allocate capital to finance strategic growth within tolerated risk levels. The Bank's Risk Appetite defines its desired forward-looking risk profile, and informs the strategic and financial planning process. Furthermore, it is integrated with other key risk management tools to help ensure consistency in risk management practices. The Risk Appetite Statement is a written articulation of the aggregate level and types of risk that the Bank is willing to accept in order to achieve its business objectives. It provides a baseline for decisions based on balancing risk and return.

- Risk Map: the Risk Map provides a point-in-time view of the Bank's risk profile across the Bank's risk taxonomy. It assesses the potential for these risks to have a material impact on the Bank's financial results, reputation and sustainability of its business. 'Current' and 'projected' risk ratings are assigned by the second line of defence and those risks which have 'amber' or 'red' risk ratings require monitoring and mitigating action plans to be either in place or initiated to manage the risk down to acceptable levels.

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

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

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

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

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

### ***5.4 Risk Processes and Tools (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.
- Financial Crime Risk Environment - There is insufficient governance around Financial Crime Risk models including review of material models across ASP sites, which were not always fully tailored for the local context and have resulted into large volume of alerts and associated controls causing negative customer experiences.
- Financial Crime Risk Regulatory Environment - The regulatory environment is becoming increasingly challenging as a result of the outcome of the Feb 2020 FATF Plenary session decision to place Mauritius under enhanced monitoring and the blacklisting of Mauritius by the European Commission effective 1 Oct 2020. As a result, several amendments were brought to the local legislative and regulatory environment on AML/CFT. The Bank is potentially vulnerable to regulatory fines pending full compliance to the new regulatory guideline and the regulator being under pressure to demonstrate implementation of targeted financial sanctions through outreach and supervision. HSBC has devised and agreed a remediation plan with the regulator, which will be completed over 18 months to accommodate the additional CDD requirement.

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

***5.5 Internal Controls***

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

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

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

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

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

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

### *5.6 Whistleblowing and HSBC Confidential*

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

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

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

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

## 6. Reporting with integrity

### *6.1 Statement of directors' responsibility*

The Board is responsible for the preparation and fair presentation of the financial statements, comprising the statement of financial position at 31 December 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 directors' responsibility for financial reporting at page 62 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. Reporting with integrity (continued)

### ***6.3 Health & safety***

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

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

During the year under review, a Health and Safety Report was presented at the Board Meeting on 9 Nov 2021.

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

Related party transactions of the Bank were conducted in line with relevant internal policies and guidelines. For related party transactions please refer to note 32 of the financial statements.

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

### ***6.5 Website***

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

## 7. Audit

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

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

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

## 7. Audit (continued)

### *7.1 Internal audit (continued)*

A risk based audit approach is adopted to focus on key risk areas and activities. The audit coverage is driven by the annual risk assessment results and regulatory expectations of the Bank. Executive management of the Bank is responsible for ensuring control issues raised by Internal Audit are adequately addressed within an appropriate and agreed time frame. The 2021 Internal Audit annual plan was presented to the Audit Committee on March 2021 with regular updates being provided to the Board throughout the year.

### *7.2 External auditors*

With a view to ensuring the overall adequacy of the Bank's internal control framework, the Audit Committee evaluates the independence and effectiveness of the external auditor on an ongoing basis before making a recommendation to the Board on their appointment and retention. The proposal to re-appoint PricewaterhouseCoopers ("PwC") who were first appointed in 2015 as external auditor was approved by the Audit Committee and brought to the Board's attention for approval during 2021. 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.

The external auditor is invited to attend the audit committee where they are given the opportunity to present their audit plan, audit findings and any significant or material changes in accounting policies and principles. During the year the external auditor also had an opportunity to meet the Chairman of the Audit Committee in the absence of the Executive Directors.

The annual audit plan for 2021 has been presented to the Audit Committee in November 2021 and was approved on this date by the same Committee.

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Audit fees for statutory audit | **105** | 97 | 90 |
| Non-audit fees (Note a) | **-** | - | 19 |
| | **105** | 97 | 109 |

Note a: We have a policy on non-audit services which are provided by our External Auditors. There were no non-audit services during 2021. During 2019, the principal area of non-audit fees performed by PwC relates to tax compliance work for the year 2018 and corporate governance gap analysis for 2018.

## 8. Relationship with shareholders and key stakeholders

### *8.1 Shareholder's meeting*

There was no annual shareholder's meeting during the year 2021 and decisions that need to be taken by the shareholders at this meeting were taken through the shareholders' resolution dated 2 June 2021. An Annual Meeting will be conducted as and when necessary.

### *8.2 Shareholder feedback and concerns*

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

### *8.3 Shareholder's Calendar*

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

### *8.4 Employee share plans*

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

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

All-employee share option plans have operated within the Group and eligible employees have been granted options to acquire HSBC Holdings ordinary shares. Options under the plans are usually exercisable after one, three or five years. The exercise of options may be advanced to an earlier date under certain circumstances, for example, on retirement. It may also be extended under certain conditions, for example upon the death of a participant, the executors of the latter's estate may exercise options up to six months beyond the normal exercise period.

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

### *8.6 Dividend policy*

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

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

During the year under review, there has not been any dividend payment (2020: USD 0.96) per share.

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

### *8.7 Material clauses to the Constitution*

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

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

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

### *8.9 Third Party Management Agreement*

No third party management agreement presently exists.

### *8.10 Rights to Minority Shareholders*

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

### *8.11 Information for Key Stakeholders*

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

*Customers*

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

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

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

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

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

*Employees*

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

*Diversity and inclusion*

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

*Employee development*

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

*Giving employees a voice*

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

## HSBC Bank (Mauritius) Limited

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

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

***8.12 Corporate Social Responsibility and Donations***

**Committed to sustainable growth**

At HSBC, we recognise that how we do business is as important as what we do. We have a responsibility to our customers, employees and the communities in which we operate and understand that to achieve success in the long term, economic growth must also be sustainable.

We aim to minimise our impact on the environment and to help the global transition to a low-carbon economy. We are mindful of our social responsibilities, and committed to invest in the long-term prosperity of the communities where we operate. We recognise that technology is developing at a rapid pace and that a range of new and different skills are now needed to succeed in the workplace.

Regarding the Bank's community role, supporting charitable programmes, notably providing quality education and care services to children growing up in deprived areas, continued to be a major focus in 2021.

The amount of provision made for Statutory Charitable Giving in line with Income Tax regulations was USD19,740 (2020: USD33,170). This amount was paid in full during the year.

There were no political donations made for the year 2021.

| | | |
|---|---|---|
| **Philip Fellowes** | **Dean Lam Kin Teng** | **Ashiti Prosand** |
| *Chairman* | *Managing Director* | *Company Secretary* |

Date : 10 March 2022

**HSBC Bank (Mauritius) Limited**

## STATEMENT OF COMPLIANCE

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

**Name of Public Interest Entity (the "PIE"): HSBC Bank (Mauritius) Limited**

**Reporting Period: 31 December 2021**

We, the Directors of HSBC Bank (Mauritius) Limited, confirm that to the best of our knowledge, the PIE has complied with the obligations and requirements of The National Code of Corporate Governance for Mauritius (2016).

| | | |
|---|---|---|
| ---------------------------- | --------------------- | ---------------------- |
| **Philip Fellowes** | **Dean Lam Kin Teng** | **Rajiv Gopaul** |
| *Chairman* | *Managing Director* | *Director* |

Date : 10 March 2022

**HSBC Bank (Mauritius) Limited**

**Statement of directors' responsibility for financial reporting**

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

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

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

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

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

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

| | | |
|---|---|---|
| **Philip Fellowes** | **Dean Lam Kin Teng** | **Rajiv Gopaul** |
| *Chairman* | *Managing Director* | *Director* |

Date : 10 March 2022

**HSBC Bank (Mauritius) Limited**

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

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

..........................................

**Ashiti Prosand**
*Company Secretary*

Date: 10 March 2022

# Independent Auditor's Report

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

## Report on the Audit of the Financial Statements

### Our Opinion

In our opinion, the financial statements give a true and fair view of the financial position of HSBC Bank (Mauritius) Limited (the "Bank") as at 31 December 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 HSBC Bank (Mauritius) Limited set out on pages 73 to 162 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 Shareholder of HSBC Bank (Mauritius) Limited (Continued)

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

### Key Audit Matters

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

| Key audit matter | How our audit addressed the key audit matter |
|---|---|
| **Credit impairment provisions under IFRS 9**<br><br>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:<br><br>• Evaluation of significant increase in credit risk ('SICR');<br>• Input assumptions applied to estimate the probability of default ('PD'), exposure at default ('EAD') and loss given default('LGD');<br>• Incorporating forward economic guidance;<br>• Likelihood of economic scenarios; and<br>• 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.<br><br>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.<br><br>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.<br><br>We further performed the following to assess the significant assumptions, data and disclosures:<br><br>• We challenged the Bank's basis for determining significant assumptions and, where relevant, their interrelationships.<br>• We involved our economic experts in assessing the reasonableness of the severity and likelihood of the economic scenarios used.<br>• We performed substantive audit procedures over critical data used in the determination of ECL to ensure these are relevant and reliable; and<br>• 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 Shareholder of HSBC Bank (Mauritius) Limited (Continued)

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

### Other Information

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

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

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

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

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

#### Corporate Governance Report

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

### Responsibilities of the Directors for the Financial Statements

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

pwc

# Independent Auditor's Report

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

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

### Responsibilities of the Directors for the Financial Statements (Continued)

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

The directors are responsible for overseeing the financial reporting process.

### 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.

pwc

# Independent Auditor's Report

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

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

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

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

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

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

## Report on Other Legal and Regulatory Requirements

### Mauritian Companies Act 2001

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

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

# Independent Auditor's Report

## To the Shareholder of HSBC Bank (Mauritius) 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

Michael Ho Wan Hau, licensed by FRC

10 March 2022

## HSBC Bank (Mauritius) Limited

### Statement of profit or loss and other comprehensive income
*for the year ended 31 December 2021*

| | Notes | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| | | **USD'000** | USD'000 | USD'000 |
| Interest income | | **24,126** | 39,187 | 86,508 |
| Interest expense | | **(2,260)** | (11,188) | (28,474) |
| **Net interest income** | 8 | **21,866** | 27,999 | 58,034 |
| Fee and commission income | | **8,740** | 6,158 | 6,670 |
| Fee and commission expense | | **(929)** | (929) | (683) |
| **Net fee and commission income** | 9 | **7,811** | 5,229 | 5,987 |
| Net trading income | 10 | **992** | 1,714 | 3,326 |
| | | **30,669** | 34,942 | 67,347 |
| Other operating income | 11 | **350** | 391 | 381 |
| **Total operating income** | | **31,019** | 35,333 | 67,728 |
| **Net impairment release/(charge) on financial assets** | 12 | **493** | (291) | 158 |
| Personnel expenses | 13 | **(3,411)** | (3,459) | (3,802) |
| Depreciation | 21 | **(135)** | (144) | (148) |
| Other expenses | 14 | **(11,047)** | (11,489) | (12,988) |
| **Total expenses** | | **(14,593)** | (15,092) | (16,938) |
| **Profit before income tax** | | **16,919** | 19,950 | 50,948 |
| Income tax expense | 15 | **(845)** | (1,746) | (1,741) |
| **Profit for the year** | | **16,074** | 18,204 | 49,207 |
| **Other comprehensive income** | | | | |
| **Items that will not be reclassified to profit or loss** | | | | |
| Remeasurements of retirement obligations | | **866** | (1,281) | (378) |
| Deferred tax | 22 | **(68)** | 151 | (6) |
| | | **798** | (1,130) | (384) |
| **Items that may be reclassified to profit or loss** | | | | |
| Net change in fair value on debt instruments | | **(321)** | (118) | 206 |
| | | **(321)** | (118) | 206 |
| **Total other comprehensive income for the year** | | **477** | (1,248) | (178) |
| **Total comprehensive income for the year** | | **16,551** | 16,956 | 49,029 |

The notes on pages 78 to 162 form part of the financial statements.

# HSBC Bank (Mauritius) Limited

## Statement of financial position
*at 31 December 2021*

| | Notes | **2021** | 2020 | 2019 |
|---|---|---|---|---|
| | | **USD’000** | USD’000 | USD’000 |
| **Assets** | | | | |
| Cash and cash equivalents | 16 | **1,105,581** | 1,005,780 | 1,167,107 |
| Trading assets | 17 | **394** | 63 | 37 |
| Loans and advances to banks | 18 | **413,472** | 498,053 | 204,607 |
| Loans and advances to customers | 19 | **1,162,521** | 1,165,330 | 1,351,969 |
| Investment securities at FVOCI | 20 | **800,334** | 504,057 | 453,108 |
| Investment securities at amortised cost | 20 | **28,334** | - | - |
| Other assets | 23 | **3,677** | 17,983 | 22,590 |
| Current tax assets | 15 | **-** | 272 | - |
| Property, plant and equipment | 21 | **181** | 640 | 760 |
| Deferred tax assets | 22 | **129** | 167 | 131 |
| **Total assets** | | **3,514,623** | 3,192,345 | 3,200,309 |

The notes on pages 78 to 162 form part of the financial statements.

## HSBC Bank (Mauritius) Limited

### Statement of financial position (continued)
*at 31 December 2021*

| | Notes | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| **Liabilities** | | | | |
| Deposits from customers | 24 | **2,906,215** | 2,230,515 | 1,952,340 |
| Trading liabilities | 17 | **8** | 177 | 234 |
| Other borrowed funds | 25 | **302,693** | 665,487 | 884,985 |
| Current tax liabilities | 15 | **145** | - | 396 |
| Other liabilities | 26 | **5,087** | 12,239 | 25,431 |
| **Total liabilities** | | **3,214,148** | 2,908,418 | 2,863,386 |
| **Shareholder's equity** | | | | |
| Stated capital | 28 | **72,957** | 72,957 | 72,957 |
| Retained earnings | 29 | **138,899** | 122,557 | 175,444 |
| Other reserves | 29 | **88,619** | 88,413 | 88,522 |
| **Total equity attributable to equity holder** | | **300,475** | 283,927 | 336,923 |
| **Total liabilities and shareholder's equity** | | **3,514,623** | 3,192,345 | 3,200,309 |

Approved by the Board of Directors on 10 March 2022 and signed on its behalf by:

| **Philip Fellowes**<br>*Chairman* | **Dean Lam Kin Teng**<br>*Managing Director* | **Rajiv Gopaul**<br>*Director* |
|---|---|---|

Date :

The notes on pages 78 to 162 form part of the financial statements.

## HSBC Bank (Mauritius) Limited

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

| | Stated Capital | Retained earnings | Statutory reserve | General banking reserve | Reserves for own shares | Fair value reserve | Total equity |
|---|---|---|---|---|---|---|---|
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **Balance at 01 Jan 2019** | **72,957** | **148,907** | **72,957** | **21,093** | **38** | **(57)** | **315,895** |
| Profit for the year | - | 49,207 | - | - | - | - | 49,207 |
| Other comprehensive income | | | | | | | |
| Net change in fair value on debt instruments | - | - | - | - | - | 206 | 206 |
| Remeasurements of defined benefit liabilities | - | (378) | - | - | - | - | (378) |
| Tax on other comprehensive income | - | (6) | - | - | - | - | (6) |
| Total other comprehensive income for the year | - | (384) | - | - | - | 206 | (178) |
| **Total comprehensive income for the year** | **-** | **48,823** | **-** | **-** | **-** | **206** | **49,029** |
| Transactions with owner of the Bank | | | | | | | |
| Dividends paid (note 29) | **-** | **(28,000)** | **-** | **-** | **-** | **-** | (28,000) |
| Exchange difference | **-** | - | **-** | **-** | (1) | - | (1) |
| Transactions with owner of the Bank | **-** | **(28,000)** | **-** | **-** | **(1)** | **-** | **(28,001)** |
| Transfer from general banking reserve | - | 5,714 | - | (5,714) | - | - | - |
| **Balance at 31 December 2019** | **72,957** | **175,444** | **72,957** | **15,379** | **37** | **149** | **336,923** |
| Profit for the year | - | 18,204 | - | - | - | - | 18,204 |
| Other comprehensive income | | | | | | | |
| Net change in fair value on debt instruments | - | - | - | - | - | (118) | (118) |
| Remeasurements of retirement obligations | - | (1,281) | - | - | - | - | (1,281) |
| Tax on other comprehensive income | - | 151 | - | - | - | - | 151 |
| Total other comprehensive income for the year | - | (1,130) | - | - | - | (118) | (1,248) |
| **Total comprehensive income for the year** | **-** | **17,074** | **-** | **-** | **-** | **(118)** | **16,956** |
| Transactions with owner of the Bank | | | | | | | |
| Dividends paid (note 29) | - | (70,000) | - | - | - | - | (70,000) |
| Share based payment | - | - | - | - | 48 | - | 48 |
| Transactions with owner of the Bank | - | (70,000) | - | - | 48 | - | (69,952) |
| Transfer from general banking reserve | - | 39 | - | (39) | - | - | - |
| **Balance at 31 December 2020** | **72,957** | **122,557** | **72,957** | **15,340** | **85** | **31** | **283,927** |
| Profit for the year | **-** | **16,074** | **-** | **-** | **-** | **-** | **16,074** |
| Other comprehensive income | | | | | | | |
| Net change in fair value on debt instruments | **-** | **-** | **-** | **-** | **-** | **(321)** | **(321)** |
| Remeasurements of retirement obligations | **-** | **866** | **-** | **-** | **-** | **-** | **866** |
| Tax on other comprehensive income | **-** | **(68)** | **-** | **-** | **-** | **-** | **(68)** |
| Total other comprehensive income for the year | **-** | **798** | **-** | **-** | **-** | **(321)** | **477** |
| Total comprehensive income for the year | **-** | **16,872** | **-** | **-** | **-** | **(321)** | **16,551** |
| **Transactions with owner of the Bank** | | | | | | | |
| Share based payment | **-** | **-** | **-** | **-** | **(3)** | **-** | **(3)** |
| Transactions with owner of the Bank | **-** | **-** | **-** | **-** | **(3)** | **-** | **(3)** |
| Transfer to general banking reserve | **-** | **(530)** | **-** | **530** | **-** | **-** | **-** |
| **Balance at 31 December 2021** | **72,957** | **138,899** | **72,957** | **15,870** | **82** | **(290)** | **300,475** |

*The notes on pages 78 to 162 form part of the financial statements.*

**HSBC Bank (Mauritius) Limited**

## Statement of cash flows

*for the year ended 31 December 2021*

| | Notes | 2021<br>USD'000 | 2020<br>USD'000 | 2019<br>USD'000 |
|---|---|---|---|---|
| **Cash flows from operating activities** | | | | |
| Profit before income tax | | **16,919** | 19,950 | 50,948 |
| **Adjustments for:** | | | | |
| Depreciation | 21 | **135** | 144 | 148 |
| Loss on sale of equipment | | **3** | 7 | 2 |
| Loss on modification of lease | | **-** | (10) | - |
| Net impairment (release)/change on financial assets | 12 | **(493)** | 291 | (158) |
| Net interest income | 8 | **(21,866)** | (27,999) | (58,034) |
| Exchange differences in respect of cash and cash equivalents | | **(7,446)** | (3,145) | (149) |
| | | **(12,748)** | (10,762) | (7,243) |
| **Change in:** | | | | |
| Other assets | | **14,345** | 1,291 | 14,257 |
| Other liabilities | | **(5,533)** | (11,673) | (219) |
| Trading assets | 17 | **(331)** | (26) | 1,246 |
| Trading liabilities | 17 | **(169)** | (57) | (887) |
| Loans and advances to banks | 18 | **84,962** | (293,791) | 202,367 |
| Loans and advances to customers | 19 | **2,866** | 186,753 | 409,135 |
| Deposits from customers | 24 | **675,700** | 278,175 | (287,751) |
| Other borrowed funds | 25 | **(362,794)** | (219,498) | 45,623 |
| | | **396,298** | (69,588) | 376,528 |
| Interest received | | **24,146** | 41,077 | 93,348 |
| Interest paid | | **(2,489)** | (13,883) | (26,891) |
| Income tax paid | 15 | **(458)** | (2,299) | (2,414) |
| **Net cash from/(used in) operating activities** | | **417,497** | (44,693) | 440,571 |
| **Cash flows from investing activities** | | | | |
| Acquisition of property, plant and equipment | | **(7)** | (21) | (28) |
| Purchase of investment securities | 20 | **(1,645,193)** | (1,208,349) | (1,429,536) |
| Proceed on maturity of investment securities | 20 | **1,320,186** | 1,158,699 | 1,429,654 |
| **Net cash (used in)/from investing activities** | | **(325,014)** | (49,671) | 90 |
| **Cash flows from financing activities** | | | | |
| Principal elements of lease payments | | **(128)** | (108) | (109) |
| Dividends paid | | **-** | (70,000) | (28,000) |
| **Net cash used in financing activities** | | **(128)** | (70,108) | (28,109) |
| **Net change in cash and cash equivalents** | | **92,355** | (164,472) | 412,552 |
| Cash and cash equivalents at 01 January | | **1,005,780** | 1,167,107 | 754,406 |
| Exchange differences in respect of cash and cash equivalents | | **7,446** | 3,145 | 149 |
| **Cash and cash equivalents at 31 December** | | **1,105,581** | 1,005,780 | 1,167,107 |

The notes on pages 78 to 162 form part of the financial statements.

**Notes to and forming part of the financial statements**
*for the year ended 31 December 2021*

## 1. Reporting entity

HSBC Bank (Mauritius) Limited (the "Bank") is a company incorporated on 27 April 2006 and domiciled in the Republic of Mauritius. It holds a banking licence issued by the Bank of Mauritius on 8 June 2006. The Bank's registered office is HSBC Centre, 18 CyberCity, Ebène, Mauritius. The Bank is primarily involved in commercial and global business banking.

## 2. Basis of preparation

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

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

### *(b) 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 are measured at fair value; and
- net defined benefit (asset)/liability is measured at fair value of plan assets less present value of the defined benefit obligations.

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

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

***(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.

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

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

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

***(h) Segmental reporting***

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

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

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

- Segment A relates to banking business other than Segment B business.

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

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

**3. Summary of significant accounting policies**

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

***(a) Foreign currencies***

*(i) Functional and presentation currency*

Items included in the financial statements of the Bank are measured using the currency of the primary economic environment in which the Bank operates ('the functional currency'). The financial statements of the Bank are presented in United States dollar (USD), which is the Bank's functional currency.

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

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

(ii) Transactions and balances

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

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

### *(b) Interest*

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

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

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

Interest income is calculated by applying the effective interest rate to the gross carrying amount of financial assets, except for 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).

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

### *(c) Fees and commission*

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

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

***(c) Fees and commission (continued)***

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 (other fee and commission income), global custody fees and commission on performance bonds and when performance obligation have been fulfilled. Where the contract requires services to be provided over time, income is recognised on a systematic basis over the life of the agreement (for example, account servicing fee-corporate banking fees). It should be noted that the Bank does not offer services with multiple non-distinct/distinct performance obligations.

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

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

Net trading income comprises gains less losses related to trading assets and liabilities, and includes all realised and unrealised fair value changes, interest income and expense and foreign exchange differences.

***(e) Lease payments***

Leases are recognised as a 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.

***(f) Income tax***

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

(i) Current tax

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

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.

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

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

(i) Current tax (continued)

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

The Bank is also liable to pay a special levy on its leviable income (Net interest income and other income before deduction of expenses) derived during the year. Special levy is calculated at the rate of 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. The Bank is subject to the Advances Payment System ('APS') whereby it pays income tax on a quarterly basis.

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

(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.

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

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

(i) Measurement methods

Amortised cost and effective interest rate

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

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

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

(ii) Initial recognition and measurement

The Bank initially recognises loans and advances, deposits, debt securities issued and subordinated liabilities on the date on which they are originated. All other financial instruments (including regular-way purchases and sales of financial assets) are recognised on the trade date, which is the date the Bank becomes a party to the contractual provisions of the instrument. A financial asset or financial liability is measured initially at fair value plus or minus, for an item not at fair value through profit or loss, transaction costs that are incremental and directly attributable to its acquisition or issue. Transaction costs of financial assets and financial liabilities carried at fair value through profit or loss are expensed in profit or loss. Immediately after initial recognition, an expected credit loss allowance (ECL) is recognised for financial assets measured at amortised cost and investments in debt instruments measured at fair value through other comprehensive income (‘FVOCI’), as described in note 33(b)(iii), which results in an accounting loss being recognised in profit or loss when an asset is newly originated.

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

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

(ii) Initial recognition and measurement (continued)

'Fair value' is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date in the principal market or, in its absence, the most advantageous market to which the Bank has access at that date. The fair value of a liability reflects its non-performance risk. When available, the Bank measures the fair value of an instrument using the quoted price in an active market for that instrument. A market is regarded as active if transactions for the asset or liability take place with sufficient frequency and volume to provide pricing information on an ongoing basis.

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

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

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.

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

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

(iii) Classification and subsequent measurement of financial assets

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

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

***Debt instruments***

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

Classification and subsequent measurement of debt instruments depend on:

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

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

<u>Amortised cost</u>

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

<u>Fair value through other comprehensive income ('FVOCI')</u>

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'.

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

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

(iii) Classification and subsequent measurement of financial assets

Fair value through profit or loss ('FVPL')

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

***Business model***

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

***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.

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

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

(iii) Classification and subsequent measurement of financial liabilities

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

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

- Financial liabilities arising from the transfer of financial assets which did not qualify for derecognition, whereby a financial liability is recognised for the consideration received for the transfer. In subsequent periods, the Bank recognises any expense incurred on the financial liability; and

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

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

(v) Offsetting

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

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

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

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

(vi) Derecognition

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

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

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

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

### *(h) Impairment*

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

### *(i) Reversals of impairment*

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

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

### *(j) 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.

### *(k) 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)**

***(l) Property, plant and equipment***

(i) Recognition and measurement

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

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

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

Any gain or loss on disposal of an item 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.

(ii) Subsequent costs

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

(iii) Depreciation

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

| | |
|---|---|
| Office furniture and equipment | – 5 years to 10 years |
| Computer and other IT equipment | – 3 years to 5 years |
| Motor vehicles | – 5 years |

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

***(m) Deposits and other borrowed funds***

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

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

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

### *(n) Deposits and other borrowed funds (continued)*

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

### *(o) 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.

### *(p) Employee benefits*

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

(i) Defined contribution plans

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

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

### *(p) Employee benefits (continued)*

(i) Defined contribution plans (continued)

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

(ii) Defined benefit plans

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

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

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

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

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

(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.

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

***(p) Employee benefits (continued)***

(iv) Share based payment

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

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

(v) Short-term employee benefits

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

***(q) Stated capital***

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

***(r) 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.

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

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

(ii) Financial guarantee contracts and loan commitments

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

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 33(b)(iii)). The Bank has not provided any commitment to provide loans at a below-market interest rate, or that can be settled net in cash or by delivering or issuing another financial instrument.

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

(iii) Acceptances and letters of credit

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

***(s) 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.

## 4. Use of judgements and estimates

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

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

### (i) Judgements

Information about judgements made in applying accounting policies that have the most significant effects on the amounts in the financial statements are described in note 3.

### (ii) Assumption and estimation uncertainties

*Measurement of the expected credit loss allowance*

The measurement of the expected credit loss allowance for financial assets measured at amortised cost and FVOCI is an area that requires the use of complex models and significant assumptions about future economic conditions and credit behaviour (e.g. the likelihood of customers defaulting and the resulting losses). The assessment of credit risk, and the estimation of ECL, are unbiased and probability-weighted, and incorporate all available information which is relevant to the assessment including information about past events, current conditions and reasonable and supportable forecasts of future events and economic conditions at the end of the reporting period. In addition, the estimation of ECL should take into account the time value of money. Explanation of the inputs, assumptions and estimation techniques used in measuring ECL is further detailed in note 33(b)(iii), which also sets out key sensitivities of the ECL to changes in these elements.

A number of significant judgements are also required in applying the accounting requirements for

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

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

**4. Use of judgements and estimates (continued)**

(ii) <u>Assumption and estimation uncertainties (continued)</u>

*Measurement of the expected credit loss allowance (continued)*

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

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 33(b)(iii) and 33(b)(vi).

*Retirement Benefit Obligations*

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

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

The sensitivity analysis for the key assumptions are disclosed in Note 27.

## 4. Use of judgements and estimates (continued)

(ii) Assumption and estimation uncertainties (continued)

*Provisions*

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

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

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

*Fair Value of Financial Instruments*

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

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

## 5. Fair values of financial instruments

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

### *(i) Valuation of financial instruments*

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

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

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

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

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

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

Valuation models for financial instruments measured at fair value that employ significant unobservable inputs require a higher degree of management judgement and estimation in determination of fair value. Management judgement and estimation are usually required for selection of the appropriate valuation model to be used, determination of expected future cash flows on the financial instrument being valued, determination of probability of counterparty default and prepayments and selection of appropriate discount rates. However, as at the end of the reporting period, the Bank did not have any instruments whose valuation required significant unobservable input.

## 5. Fair values of financial instruments (continued)

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

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

| | Valuation techniques | | | |
|---|---|---|---|---|
| | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total |
| | USD'000 | USD'000 | USD'000 | USD'000 |
| **At 31 December 2021** | | | | |
| **Trading assets** | **-** | **394** | **-** | **394** |
| **Investment securities** | **796,517** | **3,817** | **-** | **800,334** |
| **Trading liabilities** | **-** | **8** | **-** | **8** |
| At 31 December 2020 | | | | |
| Trading assets | - | 63 | - | 63 |
| Investment securities | 499,879 | 4,178 | - | 504,057 |
| Trading liabilities | - | 177 | - | 177 |
| At 31 December 2019 | | | | |
| Trading assets | - | 37 | - | 37 |
| Investment securities | 448,573 | 4,535 | - | 453,108 |
| Trading liabilities | - | 234 | - | 234 |

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

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

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

| | | Fair value | | | |
|---|---|---|---|---|---|
| | | Valuation techniques | | | |
| | Carrying Amount | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total fair values |
| **Assets and Liabilities at 31 December 2021** | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** |
| **Assets** | | | | | |
| Loans and advances to banks | **413,472** | **-** | **413,472** | **-** | **413,472** |
| Loans and advances to customers | **1,162,521** | **-** | **1,160,928** | **-** | **1,160,928** |
| Other financial assets at amortised cost | **28,334** | **-** | **28,334** | **-** | **28,334** |
| **Liabilities** | | | | | |
| Deposits from customers | **2,906,215** | **-** | **2,906,215** | **-** | **2,906,215** |
| Other borrowed funds | **302,693** | **-** | **303,791** | **-** | **303,791** |

## 5. Fair values of financial instruments (continued)

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

| | | Fair value | | | |
|---|---|---|---|---|---|
| | | Valuation techniques | | | |
| | Carrying Amount | Quoted market price Level 1 | Using observable inputs Level 2 | With significant unobservable inputs Level 3 | Total fair values |
| Assets and Liabilities at 31 December 2020 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Assets | | | | | |
| Loans and advances to banks | 498,053 | - | 498,053 | - | 498,053 |
| Loans and advances to customers | 1,165,330 | - | 1,168,897 | - | 1,168,897 |
| Liabilities | | | | | |
| Deposits from customers | 2,230,515 | - | 2,230,515 | - | 2,230,515 |
| Other borrowed funds | 665,487 | - | 669,207 | - | 669,207 |

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

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

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

Bases of valuation

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

Fair values of the following assets and liabilities are estimated for the purpose of disclosure as described in the following section.

## 5. Fair values of financial instruments (continued)

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

*Loans and advances to banks and customers*

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

Loans are grouped, as far as possible, into homogeneous groups and stratified by loans with similar characteristics to improve the accuracy of estimated valuation outputs. Valuation techniques are calibrated on a regular basis and tested for validity using prices from observable current market transactions in the same instrument, without modification or repackaging, or are based on any available observable market data. The fair value of a loan reflects both loan impairments at the end of the reporting period and estimates of market participants' expectations of credit losses over the life of the loans, and the fair value effect of re-pricing between origination and the reporting date. The fair valuation of loans and advances to banks and customers is based on indirect observable inputs and are therefore classified under Level 2.

*Deposits from banks, customers and other borrowed funds*

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

## 6. Operating segments

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

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

| | Note | **2021 USD'000** | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | 16 | **1,362** | 815 | 30,313 |
| Loans and advances to banks | 18 | **35,997** | 64,947 | 49,088 |
| Loans and advances to customers | 19 | **40,427** | 22,039 | 27,317 |
| Investment securities | 20 | **3,817** | 4,178 | 4,535 |
| **Total assets** | | **81,603** | 91,979 | 111,253 |
| **Liabilities** | | | | |
| Deposits from customers | 24 | **10,833** | 11,690 | 8,313 |
| Other borrowed funds | 25 | **10,689** | 14,795 | 16,122 |
| **Total liabilities** | | **21,522** | 26,485 | 24,435 |

## 6. Operating segments (continued)

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Interest income | **730** | 1,759 | 3,476 |
| Interest expense | **(61)** | (196) | (465) |
| **Net interest income** | **669** | 1,563 | 3,011 |
| Other operating income | **348** | 378 | 306 |
| **Total operating income** | **1,017** | 1,941 | 3,317 |

Business segments

The Bank comprises the following main business segments:

| Reportable Segments | Description |
|---|---|
| Wholesale Banking | Involves loans, deposits and other transactions and balances with corporate customers. |
| Global Banking and Markets | Global Banking involves loans, deposits and other transactions and balances with corporate and institutional clients worldwide.<br><br>Market & Securities Services ("MSS") undertakes the Bank's centralised market risk management activities and foreign currency |
| Corporate Centre | Corporate Centre includes Markets Treasury ("MKTY") and support functions. MKTY undertakes treasury activities which include funding through borrowings, issues of debt securities, use of derivatives for risk management purposes and investing in liquid assets such as short-term placements and corporate and government debt securities. |

| USD'000 | Wholesale Banking | Global Banking and Markets | Corporate Centre | Consolidated |
|---|---|---|---|---|
| **2021** | | | | |
| External revenue: | | | | |
| Net interest income | **16,106** | **3,624** | **2,136** | **21,866** |
| Net fee and commission income | **5,725** | **2,134** | **(48)** | **7,811** |
| Net trading income | **539** | **607** | **(154)** | **992** |
| Other operating income | **350** | **-** | **-** | **350** |
| Total segment revenue | **22,720** | **6,365** | **1,934** | **31,019** |
| Segment profit before tax | **12,572** | **3,540** | **807** | **16,919** |
| Income tax expense | | | | **(845)** |
| Profit for the year | | | | **16,074** |
| Segment assets | **2,815,044** | **303,062** | **396,517** | **3,514,623** |
| Segment liabilities | **2,637,840** | **269,058** | **307,250** | **3,214,148** |
| Depreciation | | | **135** | **135** |
| Capital expenditure | | | **7** | **7** |

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

## 6. Operating segments (continued)

Business segments (continued)

| USD'000 | Wholesale Banking | Global Banking and Markets | Corporate Centre | Consolidated |
|---|---|---|---|---|
| 2020 | | | | |
| External revenue: | | | | |
| Net interest income | 21,766 | 4,261 | 1,972 | 27,999 |
| Net fee and commission income | 3,345 | 1,884 | - | 5,229 |
| Net trading income | 475 | 496 | 743 | 1,714 |
| Other operating income | 242 | 143 | 6 | 391 |
| Total segment revenue | 25,828 | 6,784 | 2,721 | 35,333 |
| Segment profit before tax | 15,005 | 3,255 | 1,690 | 19,950 |
| Income tax expense | | | | (1,746) |
| Profit for the year | | | | 18,204 |
| Segment assets | 2,103,029 | 329,876 | 759,440 | 3,192,345 |
| Segment liabilities | 1,926,100 | 307,597 | 674,721 | 2,908,418 |
| Depreciation | - | - | 144 | 144 |
| Capital expenditure | - | - | 21 | 21 |

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

## 7. Classification of financial assets and financial liabilities

See accounting policies in Note 3 (g).

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

| | IFRS 9 Measurement Category | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| **Assets** | | | | |
| Cash and cash equivalents | Amortised cost | **1,105,581** | 1,005,780 | 1,167,107 |
| Trading assets | FVPL | **394** | 63 | 37 |
| Loans and advances to banks | Amortised cost | **413,472** | 498,053 | 204,607 |
| Loans and advances to customers | Amortised cost | **1,162,521** | 1,165,330 | 1,351,969 |
| Investment securities | FVOCI | **800,334** | 504,057 | 453,108 |
| Other financial assets at amortised cost | Amortised cost | **28,334** | - | - |
| Other assets | Amortised cost | **3,522** | 17,806 | 22,278 |
| | | **3,514,158** | 3,191,089 | 3,199,106 |
| **Liabilities** | | | | |
| Deposits from customers | Amortised cost | **2,906,215** | 2,230,515 | 1,952,340 |
| Trading liabilities | FVPL | **8** | 177 | 234 |
| Other borrowed funds | Amortised cost | **302,693** | 665,487 | 884,985 |
| Other liabilities | Amortised cost | **4,087** | 11,027 | 23,617 |
| | | **3,213,003** | 2,907,206 | 2,861,176 |

## 8. Net interest income

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| **Interest income** | | | |
| *Recognised on financial assets measured at amortised cost* | | | |
| Cash and cash equivalents | **674** | 4,860 | 12,696 |
| Loans and advances to banks | **3,783** | 5,326 | 14,220 |
| Loans and advances to customers | **18,793** | 26,088 | 48,781 |
| Other | **-** | - | 1,262 |
| Investment securities | **489** | - | - |
| *Recognised on financial assets measured at FVOCI* | | | |
| Investment securities | **387** | 2,913 | 9,549 |
| Total interest income | **24,126** | 39,187 | 86,508 |
| **Interest expense** | | | |
| *Recognised on financial liabilities measured at amortised cost* | | | |
| Deposits from customers | **(345)** | (1,687) | (8,226) |
| Other borrowed funds | **(1,913)** | (9,501) | (20,173) |
| Other (including interest expense under IFRS 16) | **(2)** | - | (75) |
| Total interest expense | **(2,260)** | (11,188) | (28,474) |
| **Net interest income** | **21,866** | 27,999 | 58,034 |

## 9. Net fee and commission income

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| **Fee and commission income** | | | |
| Corporate banking related fees | 4,848 | 4,519 | 5,341 |
| Financial guarantee contracts issued | 68 | 40 | 40 |
| Global custody | 1,419 | 1,101 | 843 |
| Other | 2,405 | 498 | 446 |
| Total fee and commission income | 8,740 | 6,158 | 6,670 |
| **Fee and commission expense** | | | |
| Other | (929) | (929) | (683) |
| Total fee and commission expense | (929) | (929) | (683) |
| **Net fee and commission income** | 7,811 | 5,229 | 5,987 |

Other fee and commission income consists of mainly commission received on performance bonds.

## 10. Net trading income

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Foreign exchange | 992 | 1,714 | 3,326 |

## 11. Other operating income

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Intercompany management fees | 348 | 410 | 358 |
| External recovery – third party | 5 | 12 | 25 |
| Loss on disposal of equipment | (3) | (7) | (2) |
| Loss on remeasurements of ROU | - | (24) | - |
| | 350 | 391 | 381 |

## 12. Net impairment release/(charge) on financial assets

| | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Release/(Charge) for impairment losses for the year: | | | |
| Loans and advances to customers | 57 | 114 | 54 |
| Investment securities | (17) | (9) | - |
| Loans and advances to banks | 381 | (345) | 101 |
| Loan commitments and financial guarantees | 72 | (51) | 3 |
| | 493 | (291) | 158 |

## 13. Personnel expenses

| | Note | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| Wages and salaries | | **2,117** | 2,353 | 2,425 |
| Compulsory social security obligations | | **144** | 87 | 65 |
| Contributions to defined contribution plans | 27 | **44** | 17 | 17 |
| Contributions to defined benefit plans | 27 | **280** | 178 | 299 |
| Equity settled share based payments | | **13** | 52 | - |
| Other personnel expenses | | **813** | 772 | 996 |
| | | **3,411** | 3,459 | 3,802 |

## 14. Other expenses

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Premises and equipment | **57** | 87 | 120 |
| Administrative expenses | **661** | 708 | 1,002 |
| Intercompany IT charges | **3,427** | 2,654 | 1,537 |
| Intercompany regionally allocated costs | **1,918** | 2,432 | 3,248 |
| Intercompany management fees | **4,248** | 4,627 | 6,621 |
| Other intercompany expenses | **729** | 971 | 447 |
| Operating lease expense | **7** | 10 | 13 |
| | **11,047** | 11,489 | 12,988 |

## 15. Income tax

| | Note | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| Income tax charge | | **875** | 1,631 | 1,727 |
| Deferred tax credit/(charge) | 22 | **(30)** | 115 | 14 |
| Total tax expense per statement of profit or loss and other comprehensive income | | **845** | 1,746 | 1,741 |
| *Reconciliation of effective tax rate* | | | | |
| Profit before income tax per statement of profit or loss and other comprehensive income. | | **16,919** | 19,950 | 50,948 |
| Income tax at applicable tax rate | | **846** | 998 | 7,642 |
| Tax effect of non-deductible expenses | | **1** | 12 | 28 |
| Prior years (over)/under – provision | | **(55)** | 396 | (5) |
| Tax credit on foreign income | | **-** | - | (5,984) |
| Special levy on banks | | **71** | 166 | 54 |
| Corporate Social Responsibility | | **39** | 66 | 16 |
| Other | | **-** | (9) | (10) |
| (Over)/underprovision of deferred income tax in current year | | **(57)** | 117 | - |
| | | **845** | 1,746 | 1,741 |

## 15. Income tax (continued)

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Current tax (assets)/liabilities at 01 January | **(272)** | 396 | 1,083 |
| Income tax charge | **875** | 1,631 | 1,727 |
| Tax paid during the year | **(458)** | (2,299) | (2,414) |
| **Current tax liabilities/(assets) at 31 December** | **145** | (272) | 396 |

## 16. Cash and cash equivalents

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| **Bank** | | | |
| Balances with banks in Mauritius or abroad | **168,398** | 226,718 | 431,752 |
| Unrestricted balances with Central Bank | **77,357** | 59,522 | 36,355 |
| Money market placements | **859,826** | 719,540 | 699,000 |
| | **1,105,581** | 1,005,780 | 1,167,107 |
| Current | **1,105,581** | 1,005,780 | 1,167,107 |
| **Segment A** | | | |
| Balances with banks in Mauritius | **1,362** | 815 | 1,313 |
| Money market placements | **-** | - | 29,000 |
| | **1,362** | 815 | 30,313 |
| **Segment B** | | | |
| Balances with banks abroad | **167,036** | 225,903 | 430,439 |
| Unrestricted balances with Central Bank | **77,357** | 59,522 | 36,355 |
| Money market placements | **859,826** | 719,540 | 670,000 |
| | **1,104,219** | 1,004,965 | 1,136,794 |

Unrestricted balances with Central Bank include both interest and non-interest bearing balances over and above the minimum cash reserve requirement (CRR).

Money market placements under cash and cash equivalents are fixed/floating interest bearing investments with original maturities of three months or less from the acquisition date. Placements are measured at amortised cost, less impairment.

## 17. Trading assets and liabilities

| Trading assets | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Derivative assets | **394** | 63 | 37 |
| Current | **394** | 63 | 37 |

| Trading liabilities | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Derivative liabilities | **8** | 177 | 234 |
| Current | **8** | 177 | 234 |

Trading assets and liabilities comprise of derivative foreign exchange contracts which are denominated mainly in JPY and GBP. The nominal amount is USD56.2m (2020: USD53.2m and 2019: USD125.5m).

## 18. Loans and advances to banks

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Loan and advances to banks: | | | |
| outside Mauritius | **377,502** | 433,464 | 155,573 |
| in Mauritius | **36,000** | 65,000 | 49,100 |
| | **413,502** | 498,464 | 204,673 |
| Less impairment | **(30)** | (411) | (66) |
| | **413,472** | 498,053 | 204,607 |
| **Segment A** | | | |
| Remaining term of maturity: | | | |
| Up to 3 months | **-** | 64,947 | 19,093 |
| Over 3 months and up to 6 months | **-** | - | 15,000 |
| Over 12 months | **35,997** | - | 14,995 |
| | **35,997** | 64,947 | 49,088 |
| **Segment B** | | | |
| Remaining term of maturity: | | | |
| Up to 3 months | **374,730** | 288,538 | 101,403 |
| Over 3 months and up to 6 months | **1,597** | 111,768 | 42,368 |
| Over 6 months and up to 12 months | **1,148** | 16,528 | 11,716 |
| Over 12 months | **-** | 16,272 | 32 |
| | **377,475** | 433,106 | 155,519 |
| Current | **377,475** | 481,781 | 189,580 |
| Non-current | **35,997** | 16,272 | 15,027 |
| | **413,472** | 498,053 | 204,607 |

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

## 19. Loans and advances to customers

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Entities outside Mauritius | **1,122,101** | 961,122 | 1,162,524 |
| Entities in Mauritius | **40,428** | 204,273 | 189,624 |
| | **1,162,529** | 1,165,395 | 1,352,148 |
| Less impairment | **(8)** | (65) | (179) |
| | **1,162,521** | 1,165,330 | 1,351,969 |
| Remaining term of maturity: | | | |
| Up to 3 months | **434,827** | 284,881 | 264,465 |
| Over 3 months and up to 6 months | **73,550** | 106,579 | 50,880 |
| Over 6 months and up to 12 months | **210,239** | 148,930 | 125,453 |
| Over 1 year and up to 5 years | **443,905** | 506,353 | 776,889 |
| Over 5 years | **-** | 118,587 | 134,282 |
| | **1,162,521** | 1,165,330 | 1,351,969 |
| Segment A | **40,427** | 22,039 | 27,317 |
| Segment B | **1,122,094** | 1,143,291 | 1,324,652 |
| | **1,162,521** | 1,165,330 | 1,351,969 |
| Current | **718,616** | 540,390 | 440,798 |
| Non-current | **443,905** | 624,940 | 911,171 |
| | **1,162,521** | 1,165,330 | 1,351,969 |

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Credit Concentration of risk by industry sectors: | | | |
| Manufacturing | **337,147** | 575,376 | 798,279 |
| Construction | **123,187** | 131,393 | 38,695 |
| Financial and business services | **68,053** | 112,136 | 184,908 |
| International trade | **394,457** | 173,406 | 133,626 |
| Telecommunication | **137,446** | 99,810 | 113,048 |
| Others | **102,231** | 73,209 | 83,413 |
| | **1,162,521** | 1,165,330 | 1,351,969 |

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

## 20. Investment securities

### (a) Investment securities at FVOCI

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| ***Segment A*** | | | |
| Government of Mauritius Treasury bills | **3,817** | 4,178 | 4,535 |
| ***Segment B*** | | | |
| US Treasury bills | **796,517** | 499,879 | 448,573 |
| | **800,334** | 504,057 | 453,108 |

## 20. Investment securities

**(b) Investment securities at amortised cost**

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| ***Segment B*** | | | |
| Other financial assets at amortised cost | **28,334** | - | - |
| | **28,334** | 504,057 | 453,108 |
| Current | **828,668** | 504,057 | 453,108 |

| | 2021 USD'000 FVOCI | 2021 USD'000 Other financial assets at amortised cost | 2020 USD'000 FVOCI | 2020 USD'000 Other financial assets at amortised cost | 2019 USD'000 FVOCI | 2019 USD'000 Other financial assets at amortised cost |
|---|---|---|---|---|---|---|
| At 1 January | **504,067** | **-** | 453,109 | - | 453,122 | - |
| Additions during the year | **1,616,834** | **28,359** | 1,208,349 | - | 1,429,536 | - |
| Matured during the year | **(1,320,186)** | **-** | (1,158,699) | - | (1,429,654) | - |
| Accrual | **(58)** | **-** | 1,426 | - | (101) | - |
| Fair value (loss)/gain through other comprehensive income | **(321)** | **-** | (118) | - | 206 | - |
| Gross carrying amount | **800,336** | **28,359** | 504,067 | - | 453,109 | - |
| ECL allowance | **(2)** | **(25)** | (10) | - | (1) | - |
| **At 31 December** | **800,334** | **28,334** | 504,057 | - | 453,108 | - |

Investments securities comprise US treasury bills and Government of Mauritius treasury bills that are held for regulatory purposes. Investment securities of USD28m represents investment in corporate bonds.

## 21. Property, plant and equipment

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Owned property, plant and equipment | **36** | 50 | 57 |
| Right-of-use assets | **145** | 590 | 703 |
| At 31 December | **181** | 640 | 760 |

| **USD'000** | **Right-of-use assets** | **Computer and other IT equipment** | **Office furniture and equipment** | **Total** |
|---|---|---|---|---|
| ***Cost:*** | | | | |
| At 1 January 2019 | - | 90 | 201 | 291 |
| Acquisitions | - | 5 | 23 | 28 |
| Impact on transition of IFRS 16 - Leases | 823 | - | - | 823 |
| Disposals | - | (27) | (52) | (79) |
| At 31 December 2019 | 823 | 68 | 172 | 1,063 |
| Acquisitions | - | - | 21 | 21 |
| Disposals | - | - | (30) | (30) |
| Modification of Lease | (40) | - | - | (40) |
| Exchange and other adjustments | (161) | - | - | (161) |
| At 31 December 2020 | **622** | **68** | **163** | **853** |
| Acquisitions | **-** | **10** | **0** | **10** |
| Disposals | **-** | **(1)** | **(27)** | **(28)** |
| Transfers | **-** | **35** | **(35)** | **-** |
| Modification of Lease | **(353)** | **-** | **-** | **(353)** |
| Exchange and other adjustments | **22** | **-** | **-** | **22** |
| **At 31 December 2021** | **291** | **112** | **101** | **504** |

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

## 21. Property, plant and equipment (continued)

| USD'000 | Right-of-use assets | Computer and other IT equipment | Office furniture and equipment | Total |
|---|---|---|---|---|
| ***Accumulated depreciation:*** | | | | |
| At 1 January 2019 | - | 72 | 160 | 232 |
| Depreciation for the year | 120 | 12 | 16 | 148 |
| Disposals | - | (26) | (51) | (77) |
| At 31 December 2019 | 120 | 58 | 125 | 303 |
| Depreciation for the year | 123 | 9 | 12 | 144 |
| Disposals | - | - | (23) | (23) |
| Modification of Lease | (30) | - | - | (30) |
| Exchange and other adjustments | (181) | - | - | (181) |
| At 31 December 2020 | **32** | **67** | **114** | **213** |
| Depreciation for the year | **114** | **14** | **7** | **135** |
| Disposals | **-** | **-** | **(25)** | **(25)** |
| **At 31 December 2021** | **146** | **81** | **96** | **323** |
| **Net book value at 31 December 2021** | **145** | **31** | **5** | **181** |
| Net book value at 31 December 2020 | 590 | 1 | 49 | 640 |
| Net book value at 31 December 2019 | 703 | 10 | 47 | 760 |

The Bank does not have any assets held under finance lease as at 31 December 2021 (2020 and 2019 – Nil).

## 22. Deferred tax assets

| | Note | **2021 USD'000** | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| At 1 January | | **167** | 131 | 151 |
| Movement during the year recognised in other comprehensive income | | **(68)** | 151 | (6) |
| Movement during the year recognised in profit or loss | 15 | **30** | (115) | (14) |
| **At 31 December** | | **129** | 167 | 131 |
| Analysed as follows: | | | | |
| Impairment of financial assets | | **3** | 28 | 12 |
| Accelerated capital allowance | | **-** | 2 | - |
| Pension liability | | **110** | 137 | 119 |
| Fair value reserve | | **16** | - | - |
| | | **129** | 167 | 131 |

## 23. Other assets

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Mandatory balance with Central Bank (Note a) | **784** | 721 | 430 |
| Accrued interest receivable | **-** | 2,875 | 6,191 |
| Receivable from Indian Revenue Authority (Note b) | **2,390** | 12,049 | 12,347 |
| Others | **503** | 2,338 | 3,622 |
| | **3,677** | 17,983 | 22,590 |
| Current | **3,677** | 17,983 | 22,590 |

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

Note b – The other assets as at 31 December 2021 is the tax and penalty deposits paid to the Indian Revenue Authority.

## 24. Deposits from customers

| | 2021 USD'000 | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Corporate customers: | | | |
| Current account | **2,702,447** | 1,902,736 | 1,765,512 |
| Time deposits with remaining term to maturity: | | | |
| Up to 3 months | **147,100** | 184,614 | 186,813 |
| Over 3 months and up to 6 months | **24,153** | 142,650 | - |
| Over 6 months and up to 12 months | **32,515** | 515 | 15 |
| | **2,906,215** | 2,230,515 | 1,952,340 |
| **Segment A** | | | |
| Corporate customers: | | | |
| Current account | **10,833** | 11,690 | 7,251 |
| Time deposits with remaining term to maturity: | | | |
| Up to 3 months | **-** | - | 1,062 |
| | **10,833** | 11,690 | 8,313 |
| **Segment B** | | | |
| Corporate customers: | | | |
| Current account | **2,691,614** | 1,891,046 | 1,758,261 |
| Time deposits with remaining term to maturity: | | | |
| Up to 3 months | **147,100** | 184,614 | 185,751 |
| Over 3 months and up to 6 months | **24,153** | 142,650 | - |
| Over 6 months and up to 12 months | **32,515** | 515 | 15 |
| | **2,895,382** | 2,218,825 | 1,944,027 |
| Current | **2,906,215** | 2,230,515 | 1,952,340 |

## 25. Other borrowed funds

| | **2021 USD'000** | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|
| Borrowings from banks: | | | |
| In Mauritius | **10,689** | 14,795 | 16,122 |
| Abroad | **292,004** | 650,692 | 868,863 |
| | **302,693** | 665,487 | 884,985 |
| Borrowings from banks: | | | |
| Segment A | **10,689** | 14,795 | 16,122 |
| Segment B | **292,004** | 650,692 | 868,863 |
| | **302,693** | 665,487 | 884,985 |
| Current | **10,689** | 126,082 | 37,767 |
| Non-current | **292,004** | 539,405 | 847,218 |
| | **302,693** | 665,487 | 884,985 |

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

## 26. Other liabilities

| | Note | **2021 USD'000** | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| Accrued interest payable | | **289** | 518 | 3,213 |
| Retirement benefit obligations (funded) | 27 | **207** | 816 | 1,689 |
| Other retirement obligation (unfunded) | 27 | **292** | 396 | 125 |
| Intercompany payable (HSBC Hong Kong)* | | **2,273** | 5,883 | 5,454 |
| Lease liabilities | | **136** | 593 | 717 |
| Drawings payable | | **590** | 1,842 | 10,592 |
| Unclaimed demand drafts | | **65** | 1,065 | 1,226 |
| Accruals and Deferred income | | **1,063** | 724 | 1,508 |
| Other | | **172** | 402 | 907 |
| | | **5,087** | 12,239 | 25,431 |
| Current | | **4,452** | 10,433 | 23,006 |
| Non-current | | **635** | 1,806 | 2,425 |
| | | **5,087** | 12,239 | 25,431 |

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

## 27. Retirement benefits

### (a) Defined benefit plan

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

The pension plan is managed by a committee which comprise representatives from across the Bank and regulated by the Mauritian Private Pension Scheme Act 2012. The committee is responsible of the investment policy with regards to the assets of the pension plan in accordance with the Mauritian Private Pension Scheme Act 2012.

## 27. Retirement benefits (continued)

### (a) Defined benefit plan (continued)

The assets of the plan are invested in the following two funds: The Hongkong and Shanghai Banking Corporation Limited Mauritius Superannuation Fund for Staff Officers, Clerical and Subordinate Staff ("SOCS") and The Hongkong and Shanghai Banking Corporation Limited Superannuation Fund for Resident Officers ("ROCS"). As the funds are expected to produce a smooth return, a fairly reasonable indication of future returns can be obtained by looking at historical ones. Therefore, the long term expected return on asset assumption has been based on historical performance of the funds. In terms of the individual expected returns, the expected return on equities has been based on an equity risk premium above a risk free rate. The risk free rate has been measured in accordance to the yields on government bonds at the measurement date. The fixed interest portfolio includes government bonds, loan stocks and mortgages. The expected return for this asset class has been based on yields of government bonds at the measurement date. The actual return on plan assets was USD1,169,725 (2020 – USD323,659; 2019 – USD30,845).

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

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

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

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

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

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

Based on the latest valuation report, the bank is not expected to contribute to the pension scheme for the year ending 31 December 2022.

## 27. Retirement benefits (continued)

### (a) Defined benefit plan (continued)

The principal actuarial assumptions were:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **%** | % | % |
| Discount rate | **4.7 / 4.6** | 2.8 / 2.7 | 5.1 |
| Future long-term salary increase | **4.0 / 4.7** | 3.0 / 4.0 | 3.0 / 4.0 |
| Future expected pension increase | **3.75 / 4.03** | 2.49 | 4 |

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Equities | **1,170** | 799 | 444 |
| Fixed interest | **2,780** | 3,261 | 1,431 |
| Cash | **1,614** | 594 | 640 |
| Total market value of assets | **5,564** | 4,654 | 2,515 |
| Present value of plan liabilities | **(5,771)** | (5,470) | (4,204) |
| Deficit | **(207)** | (816) | (1,689) |
| Net liability for retirement obligations recognised in the statement of financial position | **(207)** | (816) | (1,689) |

*Expected contribution next year*

The Bank is not expected to contribute to the pension scheme for the year ending 31 December 2022.

*Maturity profile of the defined benefit obligations*

The average remaining working life of the employees at 31 December 2021 is 12 years for ROCS Funded and 11 years for SOCS Funded.

| **(i) Pension expense components for the year ended** | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Current service cost | **262** | 149 | 158 |
| Interest cost | **137** | 198 | 283 |
| Interest income | **(119)** | (169) | (142) |
| Net interest cost | **18** | 29 | 141 |
| **Total amount recognised in profit or loss** | **280** | 178 | 299 |

| **(ii) Movement in liability recognised in statement of financial position** | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| **At start of the year** | **(816)** | (1,689) | (1,643) |
| Total amount recognised in profit or loss | **(280)** | (178) | (299) |
| Actuarial gains/(losses) | **680** | (1,130) | (327) |
| Employer's contributions | **149** | 2,049 | 444 |
| Exchange differences arising on translation | **60** | 132 | 136 |
| **At end of the year** | **(207)** | (816) | (1,689) |

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

## 27. Retirement benefits (continued)

### (a) Defined benefit plan (continued)

| (iii) Change in defined benefit obligations | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| **Present value of defined benefit obligations** | | | |
| At start of the year | (5,470) | (4,204) | (3,850) |
| Current service cost | (262) | (149) | (158) |
| Interest cost | (137) | (198) | (283) |
| Remeasurements – loss from change in financial assumptions | (371) | (1,285) | (215) |
| Benefits paid | 36 | 40 | 75 |
| Exchange differences arising on translation | 433 | 326 | 227 |
| **Present value of defined benefit obligations at end of the year** | (5,771) | (5,470) | (4,204) |

| (iv) Change in plan assets | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| **Fair value of plan assets at start of the year** | 4,654 | 2,515 | 2,207 |
| Interest income | 119 | 169 | 142 |
| Employer's contributions | 149 | 2,049 | 444 |
| Return on plan assets, excluding amounts included in interest income | 1,051 | 155 | (112) |
| Benefits paid | (36) | (40) | (75) |
| Exchange differences arising on translation | (373) | (194) | (91) |
| **Fair value of plan assets at end of the year** | 5,564 | 4,654 | 2,515 |

| (v) Analysis of amount recognised in other comprehensive income | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Gains/(losses) on pension scheme assets | 1,051 | 155 | (112) |
| Experience (losses)/gains on the liabilities | (1,746) | 32 | (168) |
| Changes in financial assumptions on the liabilities | 1,375 | (1,317) | (47) |
| **Actuarial gain/(losses) recognised in other comprehensive income** | 680 | (1,130) | (327) |

| (vi) Net liability relating to the funded plans | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Present value of funded obligations | (5,771) | (5,470) | (4,204) |
| Fair value of plan assets | 5,564 | 4,654 | 2,515 |
| Deficit of funded plans | (207) | (816) | (1,689) |

| (vii) Sensitivity analysis | 2021 | 2020 | 2019 |
|---|---|---|---|
| | USD'000 | USD'000 | USD'000 |
| Decrease in Defined Benefit Obligations due to 1% increase in Discount Rate | 936 | 1,035 | 751 |
| Increase in Defined Benefit Obligation due to 1% decrease in Discount rate | 1,219 | 1,379 | 989 |
| Increase in Defined Benefit Obligations due to 1% increase in Future long-term Salary assumption | 347 | 393 | 308 |
| Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Salary assumption | 321 | 360 | 283 |
| Increase in Defined Benefit Obligation due to 1% increase in future long-term Pension assumption | 818 | 927 | 661 |
| Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Pension assumption | 666 | 750 | 540 |

## 27. Retirement benefits (continued)

### (a) Defined benefit plan (continued)

The sensitivity analysis above has been determined based on sensibly possible changes of the discount rate, salary increase rate and long term pension rate occurring at the end of the reporting period if all other assumptions remained unchanged.

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

### (b) Defined contribution plan

The Bank expects to contribute approximately USD34,404 to its post-employment defined contribution plans for the year ending 31 December 2022.

The principal actuarial assumptions were:

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **%** | % | % |
| Discount rate | **5.30%** | 3.10% | 5.40% |
| Future long-term salary increase | **4.35%** | 3.40% | 3.40% |

| **(i) Pension expense components for the year ended** | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Current service cost | **33** | 10 | 6 |
| Net interest cost | **11** | 7 | 11 |
| **Total amount recognised in profit or loss** | **44** | 17 | 17 |

| **(ii) Movement in liability recognised in statement of financial position** | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| **At start of the year** | **(396)** | (125) | (127) |
| Total amount recognised in profit or loss | **(44)** | (17) | (17) |
| Actuarial gains/(losses) | **114** | (250) | - |
| Exchange differences arising on translation | **34** | (4) | 19 |
| **At end of the year** | **(292)** | (396) | (125) |

| **(iii) Change in defined benefit obligations** | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| **Present value of defined benefit obligations** | | | |
| At start of the year | **(396)** | (125) | (127) |
| Current service cost | **(33)** | (10) | (6) |
| Interest cost | **(11)** | (7) | (11) |
| Remeasurements – loss from change in financial assumptions | **114** | (250) | - |
| Exchange differences arising on translation | **34** | (4) | 19 |
| **Present value of defined benefit obligations at end of the year** | **(292)** | (396) | (125) |

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

## 27. Retirement benefits (continued)

### (b) Defined contribution plan (continued)

| **(iv) Analysis of amount recognised in other comprehensive income** | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Experience gains/(losses) on the liabilities | **25** | (49) | (81) |
| Changes in financial assumptions on the liabilities | **88** | (201) | 81 |
| **Actuarial losses recognised in other comprehensive income** | **113** | (250) | - |

| **(v) Sensitivity analysis** | **2021** | 2020 |
|---|---|---|
| | **USD'000** | USD'000 |
| Decrease in Defined Benefit Obligations due to 1% increase in Discount Rate | **79** | 115 |
| Increase in Defined Benefit Obligation due to 1% decrease in Discount rate | **77** | 100 |
| Increase in Defined Benefit Obligations due to 1% increase in Future long-term Salary assumption | **78** | 113 |
| Decrease in Defined Benefit Obligation due to 1% decrease in future long-term Salary assumption | **78** | 101 |

## 28. Stated capital

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| *Authorise* | | | |
| 100,000,000 ordinary shares | **100,000** | 100,000 | 100,000 |
| Stated Capital – 72,956,783 shares issued at par | **72,957** | 72,957 | 72,957 |

The Bank's issued stated capital was USD72,956,783 (2020: USD72,956,783), which is above the minimum capital requirement of MUR400m or equivalent in foreign currency in compliance with Section 20 of the Mauritian Banking Act 2004.

## 29. Reserves

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Other reserves: | | | |
| Statutory reserve | **72,957** | 72,957 | 72,957 |
| General banking reserve | **15,870** | 15,340 | 15,379 |
| Reserve for own shares | **82** | 85 | 37 |
| Fair value reserve | **(290)** | 31 | 149 |
| | **88,619** | 88,413 | 88,522 |
| Retained earnings | **138,899** | 122,557 | 175,444 |
| | **227,518** | 210,970 | 263,966 |

During the year under review, no dividend was declared and paid (2020:USD 70m or USD 0.96 per share and 2019: USD 28m or USD 0.38 per share). The dividend was paid out of retained earnings in the previous year.

## 29. Reserves (continued)

### (a) *Retained earnings*

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

### (b) *Statutory reserve*

The Bank's statutory reserve was at **USD72,956,783** (2020 & 2019: USD72,956,783) in accordance with Section 21 of the Mauritian Banking Act 2004 which requires the Bank to transfer 15% of its annual profits to a statutory reserve until this reserve equals its stated capital.

### (c) *General banking reserve*

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

### (d) *Reserves for own shares*

This represents reserves for all-employee share plan granted to employees.

| | **Reserves for own shares**<br>**USD'000** |
|---|---|
| At 1 January 2019 | 38 |
| Other movement | (1) |
| At 31 December 2019 | 37 |
| Other movement | 48 |
| At 31 December 2020 | **85** |
| Charge to profit or loss | **(3)** |
| **At 31 December 2021** | **82** |

All-employee share plan

HSBC operates all-employee share option plans under which options are granted over HSBC ordinary shares. Subject to leaver provisions, options are normally exercisable after three or five years.

### (e) *Fair value reserve*

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

## 30. Contingent liabilities

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

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| Guarantees on account of customers | **25,838** | 171,586 | 45,915 |
| Letters of credit and other obligations | **124,973** | 193,010 | 3206 |
| | **150,811** | 364,596 | 49,121 |

## 31. Commitments

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| ***Loans and other facilities*** | | | |
| Undrawn credit facilities | **172,792** | 318,695 | 510,719 |

## 32. Related party transactions

*Key management personnel*

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'000** | USD'000 | USD'000 |
| *Key management compensation* | | | |
| Short term employee benefits | **449** | 498 | 512 |
| Post-employment benefits | **336** | 224 | 226 |
| | **785** | 722 | 738 |

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

There were no termination benefits paid during the year.

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

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

The following table summarises the transactions during the year and the balances at year-end with related parties. Contributions to superannuation funds on behalf of employees have been disclosed under note 27.

| | | | **31-Dec-21** | | |
|---|---|---|---|---|---|
| | | | **USD'000** | | |
| | **HSBC Hong Kong*** | **HSBC Bank plc*** | **HSBC Bank USA** | **Other related parties** | **Total** |
| ***Statement of financial position*** | | | | | |
| **Assets** | | | | | |
| Intercompany bank accounts | **10,178** | **7,562** | **144,889** | **3,613** | **166,242** |
| Balances and placements with banks | **859,855** | **-** | **-** | **4** | **859,859** |
| **Liabilities** | | | | | |
| Intercompany deposit | **2,266** | **-** | **-** | **183** | **2,449** |
| Intercompany bank loans | **300,427** | **-** | **-** | **-** | **300,427** |
| Other liabilities | **2,670** | **-** | **-** | **-** | **2,670** |
| ***Statement of profit or loss and other comprehensive income*** | | | | | |
| Other interest income | **461** | **2** | **3** | **208** | **674** |
| Other interest expense | **1,746** | **-** | **19** | **93** | **1,858** |
| Fee and commissions income | **1** | **-** | **3** | **-** | **4** |
| Fee and commissions expense | **592** | **2** | **268** | **21** | **883** |
| Other income | **348** | **-** | **-** | **-** | **348** |
| Other expenses | **8,135** | **67** | **-** | **2,120** | **10,322** |

* HSBC Hong Kong and HSBC Bank Plc includes their international branches

## 32. Related party transactions (continued)

| | 31-Dec-20 USD'000 HSBC Hong Kong* | HSBC Bank plc* | HSBC Bank USA | Other related parties | Total |
|---|---|---|---|---|---|
| *Statement of financial position* | | | | | |
| Assets | | | | | |
| Intercompany bank accounts | 18,081 | 8,674 | 188,928 | 9,429 | 225,112 |
| Balances and placements with banks | 835,590 | - | - | 5,707 | 841,297 |
| Liabilities | | | | | |
| Intercompany deposit | 3,684 | - | - | 257 | 3,941 |
| Intercompany bank loans | 661,803 | - | - | - | 661,803 |
| Other liabilities | 6,539 | - | - | - | 6,539 |
| *Statement of profit or loss and other comprehensive income* | | | | | |
| Other interest income | 3,773 | 427 | - | 660 | 4,860 |
| Other interest expense | 9,502 | - | - | 29 | 9,531 |
| Fee and commissions income | 9 | - | - | - | 9 |
| Fee and commissions expense | 564 | 2 | 238 | 3 | 807 |
| Other income | 410 | - | - | - | 410 |
| Other expenses | 9,295 | 165 | - | 1,224 | 10,684 |
| Dividends paid | 70,000 | - | - | - | 70,000 |

* HSBC Hong Kong and HSBC Bank Plc includes their international branches

| | 31-Dec-19 USD'000 HSBC Hong Kong* | HSBC Bank plc* | HSBC Bank USA | Other related parties | Total |
|---|---|---|---|---|---|
| *Statement of financial position* | | | | | |
| Assets | | | | | |
| Intercompany bank accounts | 24,833 | 4,186 | 393,762 | 8,252 | 431,033 |
| Balances and placements with banks | 714,242 | 92 | - | 225 | 714,559 |
| Liabilities | | | | | |
| Intercompany deposit | - | - | - | 413 | 413 |
| Intercompany bank loans | 884,848 | - | - | - | 884,848 |
| Other liabilities | 9,338 | - | - | - | 9,338 |
| *Statement of profit or loss and other comprehensive income* | | | | | |
| Other interest income | 9,299 | 299 | - | 3,098 | 12,696 |
| Other interest expense | 20,116 | - | - | 57 | 20,173 |
| Fee and commissions income | 7 | - | - | - | 7 |
| Fee and commissions expense | 374 | 4 | 230 | 5 | 613 |
| Other income | 358 | - | - | - | 358 |
| Other expenses | 11,730 | - | - | 123 | 11,853 |
| Dividends paid | 28,000 | - | - | - | 28,000 |

* HSBC Hong Kong and HSBC Bank Plc includes their international branches

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

## 33. Financial Risk Management

### *(a) Introduction and overview*

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

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

This note presents information about the Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risks, and the Bank's management of capital. The measurement of ECL under IFRS 9 uses the information and approaches that the Bank uses to manage credit risk, though certain adjustments are made in order to comply with the requirements of IFRS 9. The approach taken for IFRS 9 measurement purposes is discussed separately in note 33(b)(iii).

**Risk management framework**

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

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

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

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

## 33. Financial Risk Management (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 in corporate bonds. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure (such as individual obligor default risk, country and sector risk).

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

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

(i) Management of credit risk

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

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

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

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(i) Management of credit risk (continued)

For rating assignment at individually significant customer level, businesses adopt an Internal Credit Ratings-Based (IRB) approach and maintain risk rating methodologies incorporating the probability of default ('PD'), the attribution of the exposure at default ('EAD') and the loss given default ('LGD') values at facility level.

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

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

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

| | Debt securities and other bills | Wholesale lending | |
|---|---|---|---|
| | External credit rating | Internal credit rating | 12-month Basel probability of default % |
| **Credit quality classification** | | | |
| **Strong** | A- and above | CRR1 to CRR2 | 0.000–0.169 |
| **Good** | BBB+ to BBB- | CRR3 | 0.170–0.740 |
| **Satisfactory** | BB+ to B and unrated | CRR4 to CRR5 | 0.741–4.914 |
| **Sub-standard** | B- to C | CRR6 to CRR8 | 4.915–99.999 |
| **Credit-impaired** | Default | CRR9 to CRR10 | 100 |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(ii) Credit Quality of financial instruments

| **2021** | Gross carrying/nominal amount | | | | | Allowance for ECL | Net |
|---|---|---|---|---|---|---|---|
| | Strong USD'000 | Good USD'000 | Satisfactory USD'000 | Sub-standard USD'000 | Total USD'000 | USD'000 | USD'000 |
| Loans and advances to customers at amortised cost | **689,397** | **180,502** | **292,630** | **-** | **1,162,529** | **(8)** | **1,162,521** |
| – corporate and commercial | **359,379** | **175,900** | **252,520** | **-** | **787,799** | **(8)** | **787,791** |
| – non-bank financial institutions | **330,018** | **4,602** | **40,110** | **-** | **374,730** | **-** | **374,730** |
| Loans and advances to banks at amortised | **413,502** | **-** | **-** | **-** | **413,502** | **(30)** | **413,472** |
| Other financial assets measured at amortised cost | **1,030,277** | **77,940** | **29,245** | **-** | **1,137,462** | **(25)** | **1,137,437** |
| – cash and cash equivalents | **1,028,189** | **77,392** | **-** | **-** | **1,105,581** | **-** | **1,105,581** |
| – accrued income and other assets | **2,088** | **548** | **886** | **-** | **3,522** | **-** | **3,522** |
| – Other financial assets at amortised | **-** | **-** | **28,359** | **-** | **28,359** | **(25)** | **28,334** |
| Investment securities measured at FVOCI | **800,336** | **-** | **-** | **-** | **800,336** | **(2)** | **800,334** |
| Total gross carrying amount on balance | **2,933,512** | **258,442** | **321,875** | **-** | **3,513,829** | **(65)** | **3,513,764** |
| Loan and other credit related commitments | **98,909** | **62,538** | **11,345** | **-** | **172,792** | **-** | **172,792** |
| Financial guarantee and similar contracts | **126,088** | **6,630** | **18,093** | | **150,811** | **(2)** | **150,809** |
| Total nominal amount off–balance sheet | **224,997** | **69,168** | **29,438** | **-** | **323,603** | **(2)** | **323,601** |
| **At 31 December 2021** | | | | | **3,837,432** | **(67)** | **3,837,365** |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(ii) Credit Quality of financial instruments

| <u>2020</u> | Gross carrying/nominal amount | | | | | Allowance for ECL | Net |
|---|---|---|---|---|---|---|---|
| | Strong USD'000 | Good USD'000 | Satisfactory USD'000 | Sub-standard USD'000 | Total USD'000 | USD'000 | USD'000 |
| Loans and advances to customers at amortised cost | 519,328 | 311,245 | 332,433 | 2,389 | 1,165,395 | (65) | 1,165,330 |
| – corporate and commercial | 517,005 | 203,370 | 330,489 | 2,389 | 1,053,253 | (51) | 1,053,202 |
| – non-bank financial institutions | 2,323 | 107,875 | 1,944 | - | 112,142 | (14) | 112,128 |
| Loans and advances to banks at amortised | 378,394 | 107,105 | 5,507 | 7,458 | 498,464 | (411) | 498,053 |
| Other financial assets measured at amortised | 1,021,590 | 1,206 | 784 | 6 | 1,023,586 | - | 1,023,586 |
| – cash and cash equivalents | 1,005,270 | 510 | - | - | 1,005,780 | - | 1,005,780 |
| – accrued income and other assets | 16,320 | 696 | 784 | 6 | 17,806 | - | 17,806 |
| Investment securities measured at FVOCI | 504,067 | - | - | - | 504,067 | (10) | 504,057 |
| Total gross carrying amount on balance | 2,423,379 | 419,556 | 338,724 | 9,853 | 3,191,512 | (486) | 3,191,026 |
| Loan and other credit related commitments | 165,476 | 123,179 | 26,949 | 3,091 | 318,695 | 45 | 318,740 |
| Financial guarantee and similar contracts | 145,334 | 13,855 | 205,407 | - | 364,596 | (114) | 364,482 |
| Total nominal amount off–balance sheet | 310,810 | 137,034 | 232,356 | 3,091 | 683,291 | (69) | 683,222 |
| At 31 December 2020 | | | | | 3,874,803 | (555) | 3,874,248 |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(ii) Credit Quality of financial instruments

| **2019** | Gross carrying/nominal amount | | | | | Allowance for ECL | Net |
|---|---|---|---|---|---|---|---|
| | Strong USD'000 | Good USD'000 | Satisfactory USD'000 | Sub-standard USD'000 | Total USD'000 | USD'000 | USD'000 |
| Loans and advances to customers at amortised cost | 590,445 | 610,777 | 145,056 | 5,870 | 1,352,148 | (179) | 1,351,969 |
| – corporate and commercial | 586,834 | 429,455 | 145,056 | 5,870 | 1,167,215 | (152) | 1,167,063 |
| – non-bank financial institutions | 3,611 | 181,322 | - | - | 184,933 | (27) | 184,906 |
| Loans and advances to banks at amortised | 170,931 | 27,643 | 6,099 | - | 204,673 | (66) | 204,607 |
| Other financial assets measured at amortised | 1,185,587 | 2,358 | 1,415 | 25 | 1,189,385 | - | 1,189,385 |
| – cash and cash equivalents | 1,166,589 | 518 | - | - | 1,167,107 | - | 1,167,107 |
| – accrued income and other assets | 18,998 | 1,840 | 1,415 | 25 | 22,278 | - | 22,278 |
| Investment securities measured at FVOCI | 453,109 | - | - | - | 453,109 | (1) | 453,108 |
| Total gross carrying amount on balance | | | | | 3,199,315 | (246) | 3,199,069 |
| Loan and other credit related commitments | 154,699 | 321,579 | 30,305 | 4,136 | 510,719 | (1) | 510,718 |
| Financial guarantee and similar contracts | 23,898 | 2,717 | 22,506 | - | 49,121 | - | 49,121 |
| Total nominal amount off–balance sheet | 178,597 | 324,296 | 52,811 | 4,136 | 559,840 | (1) | 559,839 |
| At 31 December 2020 | | | | | 3,759,155 | (247) | 3,758,908 |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iii) <u>Credit risk measurement and analysis</u>

*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.

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

**Change in credit quality since initial recognition**

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

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

**33. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

(111) Credit risk measurement and analysis (continued)

*Significant increase in credit risk (SICR)*

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

*Quantitative criteria:*

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

*Wholesale*

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

| Origination CRR | Number notches in the band | Additional significance criteria – Number of CRR grade notches of deterioration required to identify as significant credit deterioration (stage 2) |
|---|---|---|
| 0.1 | 1 notch | 5 notches |
| 1.1 – 4.2 | 9 notches | 4 notches |
| 4.3 – 5.1 | 2 notches | 3 notches |
| 5.2 – 7.1 | 5 notches | 2 notches |
| 7.2 – 8.2 | 3 notches | 1 notch |
| 8.3 | 1 notch | 0 notch |

*Qualitative criteria:*

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

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

**33. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

(iii) Credit risk measurement and analysis (continued)

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

*Qualitative criteria: (continued)*

The assessment of SICR incorporates forward-looking information (refer to note 33(b)(vi) for further information). In relation to Wholesale and Treasury financial instruments, where a Watchlist is used to monitor credit risk, this assessment is performed at the customer level and on a periodic basis. The criteria used to identify SICR are monitored and reviewed periodically for appropriateness by the Credit Risk team.

*Definition of default and credit-impaired assets*

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

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

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

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

*Movement between stages*

Financial assets can be transferred between the different categories 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.

**34. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

(iii) Credit risk measurement and analysis (continued)

*Write-off policy*

Financial assets (and the related impairment allowances) are normally written off, either partially or in full, when there is no reasonable expectation of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security. In circumstances where the net realisable value of any collateral has been determined and there is no reasonable expectation of further recovery, write-off may be earlier.

*Collaterals*

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

The Bank holds collateral against loans and advances to customers in the form of mortgage on property, deposit and securities under lien and charge on plant and machinery. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and generally are updated every 3 years and every year when a loan is individually assessed as impaired. Collateral generally is not held over loans and advances to banks and investment securities, and no such collateral was held at 31 December 2021, 31 December 2020 and 31 December 2019.

*Measuring ECL – Explanation of inputs, assumptions and estimation techniques*

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

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

**33. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

(iii) Credit risk measurement and analysis (continued)

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

Stage 1 and 2

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

Stage 3

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

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

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

*Period over which ECL is measured*

Expected credit loss is measured from the initial recognition of the financial asset. The maximum period considered when measuring ECL (be it 12-month or lifetime ECL) is the maximum contractual period over which the Bank is exposed to credit risk. For wholesale overdrafts, credit risk management actions are taken no less frequently than on an annual basis and therefore this period is to the expected date of the next substantive credit review. The date of the substantive credit review also represents the initial recognition of the new facility. However, where the financial instrument includes both a drawn and undrawn commitment and the contractual ability to demand repayment and cancel the undrawn commitment does not serve to limit the Bank's exposure to credit risk to the contractual notice period, the contractual period does not determine the maximum period considered. Instead, ECL is measured over the period the Bank remains exposed to credit risk that is not mitigated by credit risk management actions.

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

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iii) Credit risk measurement and analysis (continued)

*Summary of credit risk*

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

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

| | **2021** | | 2020 | | 2019 | |
|---|---|---|---|---|---|---|
| | **Gross carrying/ nominal amount** | **Allowance for ECL** | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
| | **USD'000** | **USD'000** | USD'000 | USD'000 | USD'000 | USD'000 |
| Loans and advances to customers at amortised cost | **1,162,529** | **(8)** | 1,165,395 | 65 | 1,352,148 | 179 |
| – corporate and commercial | **787,799** | **(8)** | 1,053,253 | 51 | 1,167,215 | 152 |
| – non-bank financial institutions | **374,730** | **-** | 112,142 | 14 | 184,933 | 27 |
| Loans and advances to banks at amortised cost | **413,502** | **(30)** | 498,464 | 411 | 204,673 | 66 |
| Other financial assets measured at amortised cost | **1,137,462** | **(25)** | 1,023,586 | - | 1,189,385 | - |
| – cash and cash equivalents | **1,105,581** | **-** | 1,005,780 | - | 1,167,107 | - |
| – accrued income and other assets | **3,522** | **-** | 17,806 | - | 22,278 | - |
| – Other financial assets at amortised cost | **28,359** | **(25)** | - | - | - | - |
| Total gross carrying amount on balance sheet | **2,713,493** | **(63)** | 2,687,445 | 476 | 2,746,206 | 245 |
| Loan and other credit related commitments | **172,792** | **-** | 318,695 | (45) | 510,719 | 1 |
| Financial guarantee and similar | **150,811** | **(2)** | 364,596 | 114 | 49,121 | - |
| Total nominal amount off–balance | **323,603** | **(2)** | 683,291 | 69 | 559,840 | 1 |
| At 31 December | **3,037,096** | **(65)** | 3,370,736 | 545 | 3,306,046 | 246 |

| | **Gross carrying/ nominal amount** | **Allowance for ECL** | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
|---|---|---|---|---|---|---|
| | **USD'000** | **USD'000** | USD'000 | USD'000 | USD'000 | USD'000 |
| **At 31 December** | | | | | | |
| Investment securities measured at FVOCI | **800,336** | **(2)** | 504,067 | 10 | 453,109 | 1 |

## HSBC Bank (Mauritius) Limited

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

### 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iii) Credit risk measurement and analysis (continued)

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

| | Gross carrying/nominal amount | | | Allowance for ECL | | | ECL coverage % | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 12-month ECL USD'000 | Stage 2 Lifetime ECL USD'000 | Total USD'000 | Stage 1 12-month ECL USD'000 | Stage 2 Lifetime ECL USD'000 | Total USD'000 | Stage 1 % | Stage 2 % | Total % |
| Loans and advances to customers at amortised cost | 906,567 | 255,962 | 1,162,529 | (3) | (5) | (8) | (0) | (0) | (0) |
| - Corporate and commercial | 571,947 | 215,852 | 787,799 | (3) | (5) | (8) | (0) | (0) | (0) |
| - non-bank financial institutions | 334,620 | 40,110 | 374,730 | - | - | - | - | - | - |
| Loans and advances to banks at amortised cost | 405,496 | 8,006 | 413,502 | (19) | (11) | (30) | (0) | - | (0) |
| Other financial assets measured at amortised cost | 1,137,462 | - | 1,137,462 | (25) | - | (25) | - | - | (0) |
| Loan and credit other credit related commitments | 172,792 | - | 172,792 | - | - | - | - | - | - |
| - Corporate and commercial | 105,887 | - | 105,887 | - | - | - | - | - | - |
| - Financial | 66,905 | - | 66,905 | - | - | - | - | - | - |
| Financial guarantee and similar contracts | 150,811 | - | 150,811 | (2) | - | (2) | (0) | - | (0) |
| - Corporate and commercial | 9,912 | - | 9,912 | - | - | - | - | - | - |
| - Financial | 140,899 | - | 140,899 | (2) | - | (2) | (0) | - | (0) |
| **At 31 December 2021** | **2,773,128** | **263,968** | **3,037,096** | **(49)** | **(16)** | **(65)** | **(0)** | **(0)** | **(0)** |

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

*Stage 2 days past due analysis for loans and advances to customers at 31 December 2021*

| | Gross carrying amount | | | Allowance for ECL | | | ECL coverage % | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 2 USD'000 | Of which: 1 to 29 DPD USD'000 | Of which: 30 and > DPD USD'000 | Stage 2 USD'000 | Of which: 1 to 29 DPD USD'000 | Of which: 30 and > DPD USD'000 | Stage 2 % | Of which: 1 to 29 DPD % | Of which: 30 and > DPD % |
| Loans and advances to customers at amortised cost | | | | | | | | | |
| - Corporate and commercial | 215,852 | - | - | (5) | - | - | -% | -% | -% |
| - non-bank financial institutions | 40,110 | - | - | - | - | - | -% | -% | -% |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iii) Credit risk measurement and analysis (continued)

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

| | Gross carrying/nominal amount | | | Allowance for ECL | | | ECL coverage % | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 1 12-month ECL USD'000 | Stage 2 Lifetime ECL USD'000 | Total USD'000 | Stage 1 12-month ECL USD'000 | Stage 2 Lifetime ECL USD'000 | Total USD'000 | Stage 1 % | Stage 2 % | Total % |
| Loans and advances to customers at amortised cost | 1,110,526 | 54,869 | 1,165,395 | (66) | 1 | (65) | -% | -% | -% |
| - Corporate and commercial | 1,007,398 | 45,855 | 1,053,253 | (52) | 1 | (51) | -% | -% | -% |
| - non-bank financial institutions | 103,128 | 9,014 | 112,142 | (14) | - | (14) | -% | -% | -% |
| Loans and advances to banks at amortised cost | 335,791 | 162,673 | 498,464 | (471) | 60 | (411) | 0.1% | -% | 0.1% |
| Other financial assets measured at amortised cost | 1,023,586 | | 1,023,586 | - | - | - | -% | -% | -% |
| Loan and credit other credit related commitments | 318,695 | - | 318,695 | 45 | - | 45 | -% | -% | -% |
| - Corporate and commercial | 250,036 | - | 250,036 | 35 | - | 35 | -% | -% | -% |
| - Financial | 68,659 | - | 68,659 | 10 | - | 10 | -% | -% | -% |
| Financial guarantee and similar contracts | 364,596 | - | 364,596 | (114) | - | (114) | -% | -% | -% |
| - Corporate and commercial | 147,517 | - | 147,517 | (46) | - | (46) | -% | -% | -% |
| - Financial | 217,079 | - | 217,079 | (68) | | (68) | -% | -% | -% |
| **At 31 December 2020** | 3,153,194 | 217,542 | 3,370,736 | (606) | 61 | (545) | -% | -% | -% |

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

*Stage 2 days past due analysis for loans and advances to customers at 31 December 2020*

| | Gross carrying amount | | | Allowance for ECL | | | ECL coverage % | | |
|---|---|---|---|---|---|---|---|---|---|
| | Stage 2 USD'000 | Of which: 1 to 29 DPD USD'000 | Of which: 30 and > DPD USD'000 | Stage 2 USD'000 | Of which: 1 to 29 DPD USD'000 | Of which: 30 and > DPD USD'000 | Stage 2 % | Of which: 1 to 29 DPD % | Of which: 30 and > DPD % |
| Loans and advances to customers at amortised cost | | | | | | | | | |
| - Corporate and commercial | 45,855 | - | - | 1 | - | - | -% | -% | -% |
| - non-bank financial institutions | 9,014 | - | - | - | - | - | -% | -% | -% |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

### (iii) Credit risk measurement and analysis (continued)

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

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

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

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

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

**33. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

(iii) Credit risk measurement and analysis (continued)

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

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

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

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iii) Credit risk measurement and analysis (continued)

| 2021 | Non-credit impaired | | | | | |
|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Total | |
| | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
| | USD’000 | USD’000 | USD’000 | USD’000 | USD’000 | USD’000 |
| At 01 January 2021 | **2,129,607** | **(616)** | **217,541** | **61** | **2,347,148** | **(555)** |
| Transfers of financial instruments: | **64,480** | **(131)** | **(64,480)** | **131** | **-** | **-** |
| - transfers from stage 1 to stage 2 | **(564,086)** | **2** | **564,086** | **(2)** | **-** | **-** |
| - transfers from stage 2 to stage 1 | **628,566** | **(133)** | **(628,566)** | **133** | **-** | **-** |
| Net remeasurement of ECL arising from transfer of stage | **-** | **6** | **-** | **(2)** | **-** | **4** |
| Net new and further lending/repayments | **1,334,485** | **(18)** | **-** | **-** | **1,334,485** | **(18)** |
| Changes in risk parameters - credit quality | **453,797** | **687** | **115,370** | **(206)** | **569,167** | **481** |
| Asset derecognised (including final repayment) | **(1,200,533)** | **26** | **(13,171)** | **-** | **(1,213,704)** | **26** |
| **At 31 December 2021** | **2,781,836** | **(46)** | **255,260** | **(16)** | **3,037,096** | **(62)** |
| ECL release for the year | | **570** | | **(77)** | | **493** |
| **Total change in ECL for the year** | | | | | | **493** |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iii) Credit risk measurement and analysis (continued)

| **2020** | Non-credit impaired | | | | | |
|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Total | |
| | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
| | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| At 01 January 2020 | 2,091,696 | (246) | 24,965 | (18) | 2,116,661 | (264) |
| Transfers of financial instruments: | 175,460 | (351) | (175,460) | 351 | - | - |
| - transfers from stage 1 to stage 2 | (248,090) | 58 | 248,090 | (58) | - | - |
| - transfers from stage 2 to stage 1 | 423,550 | (409) | (423,550) | 409 | - | - |
| Net remeasurement of ECL arising from transfer of stage | - | 1 | - | (1) | - | - |
| Net new and further lending/repayments | 1,156,555 | (116) | - | - | 1,156,555 | (116) |
| Changes in risk parameters - credit quality | (41,604) | 67 | 466,973 | (293) | 425,369 | (226) |
| Asset derecognised (including final repayment) | (1,252,500) | 29 | (98,937) | 22 | (1,351,437) | 51 |
| At 31 December 2020 | 2,129,607 | (616) | 217,541 | 61 | 2,347,148 | (555) |
| ECL release for the year | | (370) | | 79 | | (291) |
| Total change in ECL for the year | | | | | | (291) |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iii) Credit risk measurement and analysis (continued)

| **2019** | Non-credit impaired | | | | | |
|---|---|---|---|---|---|---|
| | Stage 1 | | Stage 2 | | Total | |
| | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL | Gross carrying/ nominal amount | Allowance for ECL |
| | USD’000 | USD’000 | USD’000 | USD’000 | USD’000 | USD’000 |
| At 01 January 2019 | 2,416,259 | (323) | 68,899 | (99) | 2,485,158 | (422) |
| Transfers of financial instruments: | 37,460 | (26) | (37,460) | 26 | - | - |
| - transfers from stage 1 to stage 2 | (66,259) | 11 | 66,259 | (11) | - | - |
| - transfers from stage 2 to stage 1 | 103,719 | (37) | (103,719) | 37 | - | - |
| Net remeasurement of ECL arising from transfer of stage | - | 9 | - | (3) | - | 6 |
| Net new and further lending/repayments | 1,923,723 | (188) | - | - | 1,923,723 | (188) |
| Changes in risk parameters - credit quality | (359,161) | 44 | (881) | 58 | (360,042) | 102 |
| Asset derecognised (including final repayment) | (1,926,585) | 238 | (5,593) | - | (1,932,178) | 238 |
| At 31 December 2019 | 2,091,696 | (246) | 24,965 | (18) | 2,116,661 | (264) |
| ECL release for the year | | 77 | | 81 | | 158 |
| Total change in ECL for the year | | | | | | 158 |

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

### (iv) Credit exposure

*Maximum exposure*

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

| | Note | **2021 USD'000** | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| Cash and cash equivalents | (A) | **1,105,581** | 1,005,780 | 1,167,107 |
| Trading assets | (B) | **394** | 63 | 37 |
| Loans and advances to banks | (C) | **413,472** | 498,053 | 204,607 |
| Loans and advances to customers | (C) | **1,162,521** | 1,165,330 | 1,351,969 |
| Investment securities | (D) | **828,668** | 504,057 | 453,108 |
| Other assets | (E) | **3,522** | 17,806 | 22,278 |
| Financial guarantees and other credit-related contingent liabilities | (F) | **150,811** | 364,482 | 49,121 |
| Loan and other credit-related commitments | (G) | **172,792** | 318,695 | 510,719 |
| **At 31 December** | | **3,837,761** | 3,874,266 | 3,758,946 |

Total exposure to credit risk remained broadly unchanged in 2021 with loans and advances continuing to be the largest element.

*(A) Cash and cash equivalents*

The Bank held cash and cash equivalents of USD1.1bn at 31 December 2021 (2020: USD1.0bn, 2019: USD1.2bn) which represent its maximum credit exposure on these assets. The cash and cash equivalents are held mainly with the Bank of Mauritius and other HSBC Group companies.

*(B) Trading assets*

The Bank held trading assets of USD394,000 as at 31 December 2021 (2020: USD63,000, 2019: USD37,000). An analysis of the credit quality of the maximum credit exposure is as follows:

| | Note | **2021 USD'000** | 2020 USD'000 | 2019 USD'000 |
|---|---|---|---|---|
| Derivative assets: | 17 | | | |
| Bank counterparties | | **394** | 63 | 34 |
| Non - bank counterparties | | **-** | - | 3 |
| | | **394** | 63 | 37 |

The derivative assets are held mainly with other HSBC Group companies, with a strong credit rating.

**33. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

(iv) Credit exposure (continued)

*(C) Loans & advances neither past due nor impaired*

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

| | Loans and advances to customers | | | Loans and advances to banks | | |
|---|---|---|---|---|---|---|
| | **2021** | 2020 | 2019 | **2021** | 2020 | 2019 |
| | **USD'000** | USD'000 | USD'000 | **USD'000** | USD'000 | USD'000 |
| Neither past due nor impaired | **1,162,529** | 1,165,395 | 1,352,148 | **413,502** | 498,464 | 204,673 |
| **Gross** | **1,162,529** | 1,165,395 | 1,352,148 | **413,502** | 498,464 | 204,673 |
| Less: allowance for impairment | **(8)** | (65) | (179) | **(30)** | (411) | (66) |
| **Net** | **1,162,521** | 1,165,330 | 1,351,969 | **413,472** | 498,053 | 204,607 |

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 |
| | | **USD'000** | USD'000 | USD'000 | **USD'000** | USD'000 | USD'000 |
| Credit quality classification | IRB | | | | | | |
| Strong | CRR 1 | **404,943** | 173,416 | - | **-** | 100,000 | 15,000 |
| | CRR 2 | **284,454** | 345,913 | 590,446 | **413,502** | 278,394 | 155,931 |
| Good | CRR 3 | **180,502** | 311,245 | 610,777 | **-** | 107,105 | 27,643 |
| Satisfactory | CRR 4 | **243,168** | 304,922 | 29,925 | **-** | - | - |
| | CRR 5 | **49,462** | 27,510 | 115,130 | **-** | 5,507 | 6,099 |
| Sub-standard | CRR 6 | **-** | 2,389 | 5,870 | **-** | 7,458 | - |
| | CRR 7 | **-** | - | - | **-** | - | - |
| | Total | **1,162,529** | 1,165,395 | 1,352,148 | **413,502** | 498,464 | 204,673 |

*(D) Investment securities*

Investment securities of USD800m (2020: USD504m, 2019: USD453m) represents investment in US Government Treasury Bills and Government of Mauritius Treasury Bills which are held for liquidity purposes. Investment securities of USD28m represents investment in corporate bonds.

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

(iv) Credit exposure (continued)

*Maximum exposure (continued)*

*(E) Other assets*

The Bank held a mandatory balance of USD784,000 (2020: USD721,000, 2019: USD430,000) with the Bank of Mauritius.

*(F) Financial guarantees*

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

*(G) Loan commitments*

As at 31 December 2021, the Bank held USD172.8m (2020: USD318.7m, 2019: USD510.7m) as undrawn credit facilities with corporate customers CRR 6 or below.

(v) Concentration of exposure

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

| **2021** | | **Sovereign** | **Corporate*** | **Banks** | **Others** | **Total** |
|---|---|---|---|---|---|---|
| | Note | **USD'000** | **USD'000** | **USD'000** | **USD'000** | **USD'000** |
| Cash and cash equivalents | 16 | **77,357** | **-** | **1,028,224** | **-** | **1,105,581** |
| Trading assets | 17 | **-** | **-** | **394** | **-** | **394** |
| Loans and advances to banks | 18 | **-** | **-** | **413,472** | **-** | **413,472** |
| Loans and advances to customers | 19 | **-** | **1,162,521** | **-** | **-** | **1,162,521** |
| Investment securities | 20 | **828,668** | **-** | **-** | **-** | **828,668** |
| Other assets | | **3,174** | **-** | **-** | **348** | **3,522** |
| | | **909,199** | **1,162,521** | **1,442,090** | **348** | **3,514,158** |
| Financial guarantees and other credit-related contingent liabilities | 30 | **-** | **9,912** | **140,899** | **-** | **150,811** |
| Loan commitments | 31 | **-** | **172,792** | **-** | **-** | **172,792** |
| | | **-** | **182,704** | **140,899** | **-** | **323,603** |

** inclusive of non-bank financial institutions*

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

### (v) Concentration of exposure (continued)

| **2020** | Note | Sovereign USD'000 | Corporate* USD'000 | Banks USD'000 | Others USD'000 | Total USD'000 |
|---|---|---|---|---|---|---|
| Cash and cash equivalents | 16 | 59,522 | - | 946,258 | - | 1,005,780 |
| Trading assets | 17 | - | - | 63 | - | 63 |
| Loans and advances to banks | 18 | - | - | 498,053 | - | 498,053 |
| Loans and advances to customers | 19 | - | 1,165,330 | - | - | 1,165,330 |
| Investment securities | 20 | 504,057 | - | - | - | 504,057 |
| Other assets | | 12,769 | 2,766 | 166 | 2,105 | 17,806 |
| | | 576,348 | 1,168,096 | 1,444,540 | 2,105 | 3,191,089 |
| Financial guarantees and other credit-related contingent liabilities | | - | 157,354 | 207,242 | - | 364,596 |
| Loan commitments | 31 | - | 318,695 | - | - | 318,695 |
| | | - | 476,049 | 207,242 | - | 683,291 |

** inclusive of non-bank financial institutions*

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

** inclusive of non-bank financial institutions*

## 33. Financial Risk Management (continued)

### *(b) Credit risk (continued)*

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

| 2021 | Note | North America | Europe | India | Other Asia Pacific | Middle East and Africa | Others | Total |
|---|---|---|---|---|---|---|---|---|
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Cash and cash equivalents | 16 | 145,291 | 10,100 | 82 | 844,693 | 105,358 | 57 | 1,105,581 |
| Trading assets | 17 | - | 8 | - | 386 | - | - | 394 |
| Loans and advances to banks | 18 | - | - | 375,155 | 2,287 | 36,030 | - | 413,472 |
| Loans and advances to customers | 19 | - | 40,259 | 705,997 | 232,137 | 184,128 | - | 1,162,521 |
| Investment securities | 20 | 796,517 | - | - | - | 32,151 | - | 828,668 |
| Other assets | | - | - | 2,390 | - | 1,132 | - | 3,522 |
| | | 941,808 | 50,367 | 1,083,624 | 1,079,503 | 358,799 | 57 | 3,514,158 |
| Financial guarantees and other credit-related contingent liabilities | 30 | - | - | 125,836 | 21,381 | 3,594 | - | 150,811 |
| Loan commitments | 31 | - | 13,097 | 14,169 | 41,109 | 104,417 | - | 172,792 |
| | | - | 13,097 | 140,005 | 62,490 | 108,011 | - | 323,603 |

| 2020 | Note | North America | Europe | India | Other Asia Pacific | Middle East and Africa | Others | Total |
|---|---|---|---|---|---|---|---|---|
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| Cash and cash equivalents | 16 | 189,056 | 15,803 | 61 | 738,237 | 62,396 | 227 | 1,005,780 |
| Trading assets | 17 | - | - | - | 63 | - | - | 63 |
| Loans and advances to banks | 18 | - | - | 352,580 | 80,608 | 64,865 | - | 498,053 |
| Loans and advances to customers | 19 | - | 35,562 | 744,496 | 107,039 | 278,233 | | 1,165,330 |
| Investment securities | 20 | 499,879 | - | - | - | 4,178 | - | 504,057 |
| Other assets | | - | 85 | 13,815 | 384 | 3,522 | - | 17,806 |
| | | 688,935 | 51,450 | 1,110,952 | 926,331 | 413,194 | 227 | 3,191,089 |
| Financial guarantees and other credit-related contingent liabilities | 30 | - | - | 216,976 | 125,097 | 22,523 | - | 364,596 |
| Loan commitments | 31 | - | 22,158 | 133,894 | 68,008 | 94,635 | - | 318,695 |
| | | - | 22,158 | 350,870 | 193,105 | 117,158 | - | 683,291 |

## 33. Financial Risk Management (continued)

### (b) *Credit risk (continued)*

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

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

(vi) Measurement uncertainty and sensitivity analysis of ECL estimates

*Methodology for developing forward looking economic scenarios*

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, inflation, unemployment and policy rates are set using either the average of external forecasts (commonly referred to as consensus forecasts) for most economies or market prices. An external vendor's global macro model, which is conditioned to follow the consensus forecasts, projects the other paths required as inputs to credit models. This vendor model is subject to HSBC's risk governance framework with oversight by a specialist internal unit.

**33. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

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

*Methodology for developing forward looking economic scenarios (continued)*

The Upside and Downside scenarios are designed to be cyclical in that GDP growth, inflation and unemployment usually revert back to the Central scenario after the first three years for major economies. The HSBC Group determines the maximum divergence of GDP growth from the Central scenario using the $10^{th}$ 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. The Directors have incorporated the forward economic guidance "FEG" in the impairment model and as at 31 December 2021, the impact of the FEG resulted in an increase in ECLs.

*Critical accounting estimates and judgements*

The calculation of ECL involves significant judgements, assumptions and estimates. The level of estimation uncertainty and judgement has increased since 31 December 2019 as a result of the economic effects of the Covid-19 pandemic, 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 widening in the distribution of economic forecasts. The key judgement is whether the economic effects of the pandemic are more likely to be temporary or prolonged, and the shape of recovery;

- 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 Covid-19. 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

**33. Financial Risk Management (continued)**

***(b) Credit risk (continued)***

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

*Critical accounting estimates and judgements (continued)*

- 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, or have extended those deferrals, given limitations in the available credit information on these customers. The use of segmentation techniques for indicators of significant increases in credit risk involves significant estimation uncertainty.

- For wholesale, a global methodology is used for the estimation of the term structure of probability of default ('PD') and loss given default ('LGD'). For PDs, the Bank considers the correlation of forward economic guidance to default rates for a particular industry in a country. For LGD calculations, the Bank considers the correlation of forward economic guidance to collateral values and realisation rates for a particular country and industry. PDs and LGDs are estimated for the entire term structure of each instrument.

For impaired loans, LGD estimates take into account independent recovery valuations provided by external consultants where available or internal forecasts corresponding to anticipated economic conditions and individual company conditions. In estimating the ECL on impaired loans that are individually considered not to be significant, the Bank incorporates forward economic guidance proportionate to the probability-weighted outcome and the Central scenario outcome for non-stage 3 populations.

For retail, 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 the underlying asset or assets.

**33. Financial Risk Management (continued)**

***(c) Liquidity risk***

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations associated with its financial liabilities that are settled by delivering cash or another financial asset.

(i) <u>Management of liquidity risk</u>

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 liquidity requirements of business units and subsidiaries are met through short- term loans from Markets & Securities Services to cover any short-term fluctuations and longer term funding to address any structural liquidity requirements.

The daily liquidity position is monitored and regular liquidity stress testing is conducted under a variety of scenarios covering both normal and more severe market conditions. All liquidity policies and procedures are subject to review and approval by ALCO.

The Bank relies on deposits from customers and borrowings from banks as its primary sources of funding. Deposits from customers 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.

The Bank uses the Liquidity Coverage Ratio ("LCR") framework as the basis for its liquidity management and ensures that an adequate stock of unencumbered high-quality liquid assets ("HQLA"), that can be converted easily and immediately in private markets into cash to meet the liquidity needs for a 30 calendar day liquidity stress scenario, are maintained. The LCR is calculated as a percentage of the stock of HQLA over net cash outflows over a 30-day time period and is tracked and reported to senior management daily and to ALCO on a monthly basis. At 31 December 2021, the Bank maintained an LCR ratio of 258% (2020: 215%) against a set limit of 100% (2020: 100%).

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.

## 33. 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 assets and financial liabilities.

| | Note | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years | TOTAL |
|---|---|---|---|---|---|---|---|
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **2021** | | | | | | | |
| *Non -derivative liabilities* | | | | | | | |
| Deposits from customers | 24 | (2,794,776) | (54,784) | (56,706) | - | - | (2,906,266) |
| Other borrowed funds | 25 | (4,808) | (2,056) | - | (296,123) | - | (302,987) |
| Other liabilities | | (2,977) | (770) | (58) | (282) | | (4,087) |
| | | (2,802,561) | (57,610) | (56,764) | (296,405) | - | (3,213,340) |
| *Derivative liabilities* | | | | | | | |
| Trading: | 17 | | | | | | |
| Outflow | | (227) | - | (404) | - | - | (631) |
| Inflow | | 225 | - | 390 | - | - | 615 |
| | | (2) | - | (14) | - | - | (16) |
| Loan commitments | | (52,003) | (64,853) | (55,936) | - | - | (172,792) |
| *Non-derivative assets* | | | | | | | |
| Cash and cash equivalents | 16 | 1,080,581 | 25,000 | - | - | - | 1,105,581 |
| Loans and advances to banks | 18 | 263,328 | 111,402 | 1,597 | 1,148 | 35,997 | 413,472 |
| Loans and advances to customers | 19 | 289,445 | 145,382 | 73,550 | 210,239 | 443,905 | 1,162,521 |
| Investment securities | 20 | - | 596,950 | 203,384 | - | 28,334 | 828,668 |
| Other assets | | 1,257 | 15 | 2,251 | - | - | 3,523 |
| | | 1,634,611 | 878,749 | 280,782 | 211,387 | 508,236 | 3,513,765 |
| *Derivative assets* | | | | | | | |
| Trading: | 17 | | | | | | |
| Outflow | | (55,187) | - | - | - | - | (55,187) |
| Inflow | | 55,584 | - | - | - | - | 55,584 |
| | | 397 | - | - | - | - | 397 |
| Net liquidity gap | | (1,219,558) | 756,286 | 168,068 | (85,018) | 508,236 | 128,014 |

## 33. Financial Risk Management (continued)

### *(c) Liquidity risk (continued)*

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

| | Note | Less than 1 month | 1-3 months | 3 months to 1 year | 1-5 years | More than 5 years | TOTAL |
|---|---|---|---|---|---|---|---|
| | | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 | USD'000 |
| **2020** | | | | | | | |
| *Non -derivative liabilities* | | | | | | | |
| Deposits from customers | 24 | (1,948,693) | (138,723) | (143,266) | - | - | (2,230,682) |
| Other borrowed funds | 25 | (10,574) | (89,600) | (26,005) | (539,823) | - | (666,002) |
| Other liabilities | | (3,057) | (20) | (90) | (473) | - | (3,640) |
| | | (1,962,324) | (228,343) | (169,361) | (540,296) | - | (2,900,324) |
| *Derivative liabilities* | | | | | | | |
| Trading: | 17 | | | | | | |
| Outflow | | (112) | - | (6,726) | - | - | (6,838) |
| Inflow | | - | - | 6,535 | - | - | 6,535 |
| | | (112) | - | (191) | - | - | (303) |
| Loan commitments | | (33,136) | (100,546) | (185,013) | | | (318,695) |
| *Non-derivative assets* | | | | | | | |
| Cash and cash equivalents | 16 | 675,780 | 330,000 | - | - | - | 1,005,780 |
| Loans and advances to banks | 18 | 82,365 | 171,202 | 178,255 | 66,231 | - | 498,053 |
| Loans and advances to customers | 19 | 62,301 | 222,580 | 255,510 | 506,352 | 118,587 | 1,165,330 |
| Investment securities | 20 | 99,995 | 249,952 | 154,110 | - | - | 504,057 |
| Other assets | | 3,000 | 749 | 12,923 | 944 | 190 | 17,806 |
| | | 923,441 | 974,483 | 600,798 | 573,527 | 118,777 | 3,191,026 |
| *Derivative assets* | | | | | | | |
| Trading: | 17 | | | | | | |
| Outflow | | 63 | - | - | - | - | 63 |
| Inflow | | (63) | - | - | - | - | (63) |
| | | - | - | - | - | - | - |
| Net liquidity gap | | (1,072,131) | 645,594 | 246,233 | 33,231 | 118,777 | (28,296) |

## 33. Financial Risk Management (continued)

### *(c) Liquidity risk (continued)*

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

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

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

**33. Financial Risk Management (continued)**

***(d) Market risks***

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

(i) Management of market risks

The Bank separates its exposure to market risk between trading and non-trading portfolios. Trading portfolios are held by the Markets & Securities Services 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 Markets & Securities Services. Accordingly, the foreign exchange position is treated as part of the Bank's trading portfolios for risk

Overall authority for market risk is vested in RMM. HSBC Group Market Risk is responsible for the development of detailed risk management policies (subject to review and approval by ALCO) and for the day-to-day review of their implementation.

(ii) Exposure to market risks – trading portfolios

There are a range of tools used to monitor and limit market risk exposures including sensitivity analysis, Value at Risk ("VaR") and stress testing. The VaR of a trading portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model used by the Bank is based upon a 99 percent confidence level and assumes a 10-day holding period. The VaR model used is based mainly on historical simulation. Taking account of market data from the previous two years, and observed relationships between different markets and prices, the model generates a wide range of plausible future scenarios for market price movements.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- 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.

**33. Financial Risk Management (continued)**

***(d) Market risks***

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

The Bank uses VaR limits for total market risk and specific foreign exchange, interest rate, and equity and other price risks. The overall structure of VaR limits is subject to review and approval by HSBC Group ALCO. VaR limits are allocated to trading portfolios.

The Bank uses Present Value of Basis Point ("PVBP") which is one of the most widely used methods for quantifying outright interest rate risk. It expresses the impact on the present value of a position of a one basis point (1bp) rise in the interest rate used to calculate the present value.

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

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

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

A summary of the risk position of the Bank's trading portfolios at year end is as follows:

| USD'000 | 31-Dec | Average | Maximum | Minimum |
|---|---|---|---|---|
| **2021** | | | | |
| **Foreign currency risk** | **263** | **195** | **275** | **142** |
| **Interest rate risk (PVBP)** | **0.259** | **0.659** | **1.570** | **0.064** |
| 2020 | | | | |
| Foreign currency risk | **237** | **192** | **472** | **116** |
| Interest rate risk (PVBP) | **0.335** | **0.924** | **2.744** | **0.134** |
| 2019 | | | | |
| Foreign currency risk | 238 | 255 | 2102 | 74 |
| Interest rate risk (PVBP) | 0.443 | 0.572 | 1.119 | 0.101 |

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

The principal risk to which non-trading portfolios are exposed is the risk of loss from fluctuations in the future cash flows or fair values of financial instruments because of a change in market interest rates. Interest rate risk is managed principally through monitoring interest rate gaps and by having pre-approved limits for re-pricing bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Markets & Securities Services in its day-to-day monitoring activities. Aggregate non-trading interest rate risk positions are managed by Market Treasury, which uses investment securities, loans and advances to banks, deposits from customers and other borrowed funds to manage the positions.

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

## 33. Financial Risk Management (continued)

### *(d) Market risks*

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

| 2021 | Note | Carrying amount USD'000 | Less than 3 months USD'000 | 3 - 6 months USD'000 | 6 - 12 months USD'000 | 1 - 5 years USD'000 | More than 5 years USD'000 | Non-interest bearing USD'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 16 | **1,105,581** | **861,259** | **-** | **-** | **-** | **-** | **244,322** |
| Loans and advances to banks | 18 | **413,472** | **374,730** | **1,597** | **1,148** | **35,997** | **-** | **-** |
| Loans and advances to customers | 19 | **1,162,521** | **434,826** | **73,550** | **210,240** | **443,905** | **-** | **-** |
| Investment securities | 20 | **828,668** | **596,950** | **-** | **203,384** | **28,334** | **-** | **-** |
| Other assets | 23 | **3,523** | **-** | **-** | **-** | **-** | **-** | **3,523** |
| | | **3,513,765** | **2,267,765** | **75,147** | **414,772** | **508,236** | **-** | **247,845** |
| Deposits from customers | 24 | **(2,906,215)** | **(2,634,020)** | **(24,153)** | **(32,515)** | **-** | **-** | **(215,527)** |
| Other borrowed funds | 25 | **(302,693)** | **(6,855)** | **-** | **(3,834)** | **(292,004)** | **-** | **-** |
| Other liabilities | 26 | **(4,087)** | **(3,051)** | **-** | **(58)** | **(282)** | **-** | **(696)** |
| | | **(3,212,995)** | **(2,643,926)** | **(24,153)** | **(36,407)** | **(292,286)** | **-** | **(216,223)** |
| Interest sensitivity gap | | **300,770** | **(376,161)** | **50,994** | **378,365** | **215,950** | **-** | **31,622** |

| 2020 | Note | Carrying amount USD'000 | Less than 3 months USD'000 | 3 - 6 months USD'000 | 6 - 12 months USD'000 | 1 - 5 years USD'000 | More than 5 years USD'000 | Non-interest bearing USD'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 16 | 1,005,780 | 719,540 | - | - | - | - | 286,240 |
| Loans and advances to banks | 18 | 498,053 | 253,567 | 161,726 | 16,528 | 66,232 | - | - |
| Loans and advances to customers | 19 | 1,165,330 | 284,881 | 106,579 | 148,930 | 506,353 | 118,587 | - |
| Investment securities | 20 | 504,057 | 349,947 | 149,932 | 4,178 | - | - | - |
| Other assets | 23 | 17,806 | - | - | - | - | - | 17,806 |
| | | 3,191,026 | 1,607,935 | 418,237 | 169,636 | 572,585 | 118,587 | 304,046 |
| Deposits from customers | 24 | (2,230,515) | (1,799,408) | (142,650) | (515) | - | - | (287,942) |
| Other borrowed funds | 25 | (665,487) | (100,097) | (21,799) | (4,186) | (539,405) | - | - |
| Other liabilities | 26 | (3,640) | (30) | (30) | (60) | (473) | - | (3,047) |
| | | (2,899,642) | (1,899,535) | (164,479) | (4,761) | (539,878) | - | (290,989) |
| Interest sensitivity gap | | 291,384 | (291,600) | 253,758 | 164,875 | 32,707 | 118,587 | 13,057 |

| 2019 | Note | Carrying amount USD'000 | Less than 3 months USD'000 | 3 - 6 months USD'000 | 6 - 12 months USD'000 | 1 - 5 years USD'000 | More than 5 years USD'000 | Non-interest bearing USD'000 |
|---|---|---|---|---|---|---|---|---|
| Cash and cash equivalents | 16 | 1,167,107 | 1,142,228 | - | - | - | - | 24,879 |
| Loans and advances to banks | 18 | 204,607 | 120,496 | 57,368 | 11,716 | 15,027 | - | - |
| Loans and advances to customers | 19 | 1,351,969 | 264,465 | 50,880 | 125,453 | 776,889 | 134,282 | - |
| Investment securities | 20 | 453,108 | 204,082 | 249,026 | - | - | - | - |
| Other assets | 23 | 22,278 | - | - | - | - | - | 22,278 |
| | | 3,199,069 | 1,731,271 | 357,274 | 137,169 | 791,916 | 134,282 | 47,157 |
| Deposits from customers | 24 | (1,952,340) | (1,831,958) | - | (15) | - | - | (120,367) |
| Other borrowed funds | 25 | (884,985) | (30,294) | (7,473) | - | (847,218) | - | - |
| Other liabilities | 26 | (12,611) | (27) | (28) | (56) | (606) | - | (11,894) |
| | | (2,849,936) | (1,862,279) | (7,501) | (71) | (847,824) | - | (132,261) |
| Interest sensitivity gap | | 349,133 | (131,008) | 349,773 | 137,098 | (55,908) | 134,282 | (85,104) |

**33. Financial Risk Management (continued)**

***(d) Market risks***

(iv) Exposure to currency risks

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **USD'm** | USD'm | USD'm |
| Pound Sterling | **-** | (0.04) | - |
| Euro | **0.04** | 0.01 | - |
| Japanese yen | **0.01** | 0.03 | 0.01 |
| Indian rupee | **0.09** | 0.11 | 0.35 |
| Other foreign | **0.14** | 0.06 | (0.02) |
| | **0.28** | 0.17 | 0.34 |

(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 USD812,033,968 are yet to transition to alternative benchmarks. It is expected that SONIA (Sterling Overnight Index Average) will replace USD LIBOR.

## 33. 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 above named guideline that the instruments are required to meet before they are included in the relevant category. For the purpose of determining the capital adequacy ratio, the capital base is the sum of Tier 1 and Tier 2 capital net of regulatory adjustments applied.

The Bank's regulatory capital is analysed as follows:

- Tier 1 capital (all qualifies as CET1 capital), which includes ordinary stated capital, statutory reserve, reserves for own shares, fair value reserves and retained earnings reserves.

- Tier 2 capital, which includes general banking reserve.

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

## 33. Financial Risk Management (continued)

### *(e) Capital management (continued)*

### Regulatory capital (continued)

The Bank's regulatory capital adequacy position at 31 December 2021 was as follows:

| USD'000 | Reference | 2021 | 2020 | 2019 |
|---|---|---|---|---|
| <u>Tier 1 Capital</u> | | | | |
| **CET 1 capital** | | | | |
| Paid Up Capital | A | **72,957** | 72,957 | 72,957 |
| Other disclosed reserves | B | **72,749** | 72,957 | 72,957 |
| Retained Earnings | C | **138,899** | 122,557 | 175,444 |
| **CET 1 capital before regulatory adjustments** | | **284,605** | 268,471 | 321,358 |
| Regulatory adjustment: Deferred tax | D | **(129)** | (167) | (131) |
| **Tier 1 capital** | | **284,476** | 268,304 | 321,227 |
| <u>Tier 2 Capital</u> | | | | |
| Provisions | E | **12,274** | 15,711 | 13,915 |
| **Tier 2 Capital** | | **12,274** | 15,711 | 13,915 |
| **Total Capital** | | **296,750** | 284,015 | 335,142 |
| Total on-balance sheet risk-weighted credit exposures | | **951,917** | 1,143,665 | 1,090,501 |
| Total non-market-related off-balance sheet risk-weighted credit exposures | | **29,838** | 113,058 | 19,641 |
| Total market-related off-balance sheet risk-weighted credit exposures | | **191** | 119 | 279 |
| Risk weighted assets for operational risk | | **67,041** | 86,651 | 97,521 |
| Aggregate net open foreign exchange position | | **285** | 552 | 233 |
| **Total risk weighted assets** | | **1,049,272** | 1,344,045 | 1,208,175 |
| **Capital adequacy ratio** | | **28.3%** | 21.1% | 27.7% |

Each component of the capital base is mapped by cross reference to a full reconciliation of the Bank's statement of financial position as at 31 December 2021 as described in the following table:

| **USD'000** | **Statement of financial position as in published financial statements** | **Capital Base under Basel III** | **Reference** |
|---|---|---|---|
| Assets | | | |
| Cash and cash equivalents | 1,105,581 | | |
| Trading assets | 394 | | |
| Loans and advances to banks | 413,472 | | |
| Loans and advances to customers | 1,162,521 | | |
| Investment securities | 828,668 | | |
| Property, plant and equipment | 181 | | |
| Deferred tax assets | 129 | 129 | D |
| Other assets | 3,677 | | |
| Current tax assets | - | | |
| Total assets | 3,514,623 | | |
| Liabilities | | | |
| Deposits from customers | 2,906,215 | | |
| Trading liabilities | 8 | | |
| Other borrowed funds | 302,693 | | |
| Current tax liabilities | 145 | | |
| Other liabilities | 5,087 | | |
| Total liabilities | 3,214,148 | | |
| Shareholders' Equity | | | |
| Share capital and share premium | 72,957 | | |
| of which amount eligible for CET1 | 72,957 | 72,957 | A |
| Retained earnings | 138,899 | 138,899 | C |
| Other reserves | 88,619 | | |
| of which Other disclosed reserve | 72,749 | 72,749 | B |
| of which General Banking Reserve | 15,870 | 15,870 | E |
| Total equity and liabilities | 3,514,623 | | |

**33. Financial Risk Management (continued)**

***(e) Capital management (continued)***

**Regulatory capital (continued)**

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

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.

As of 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) 11.9% total capital/RWAs.

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

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

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

| | **2021** | 2020 | 2019 |
|---|---|---|---|
| | **%** | % | % |
| CET 1 capital adequacy ratio | **27.1** | 20.0 | 26.5 |
| *Regulatory Limit – Minimum CET 1 CAR* | ***6.5*** | *6.5* | *6.5* |
| Tier 1 capital adequacy ratio | **27.1** | 20.0 | 26.5 |
| *Regulatory Limit – Minimum Tier 1 CAR* | ***8.0*** | *8.0* | *8.0* |
| Total capital adequacy ratio | **28.3** | 21.1 | 27.7 |
| *Regulatory Limit – Minimum Total CAR* | ***11.9*** | *11.9* | *11.9* |

The Bank is a wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited and has an issued stated capital of USD72,956,783 as at 31 December 2021. The main features of the stated capital are that it is perpetual and there are no circumstances under which distributions are mandatory.

## 33. Financial Risk Management (continued)

### *(e) Capital management (continued)*

**Regulatory capital (continued)**

**Capital allocation**

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

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

## 34. Subsequent event

The directors approved a dividend of USD26m for the financial year 2021 on 10 March 2022 and the dividend is expected to be paid out in Q2 2022. The directors are not aware of any other 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.

## 35. Parent and ultimate parent company

The Bank is a wholly owned subsidiary of The Hongkong and Shanghai Banking Corporation Limited, a company incorporated in Hong Kong. HSBC Holdings plc, a company incorporated in the United Kingdom is the ultimate parent and controlling party.